



Easing legal and administrative obstacles in EU border regions

Case Study No. 14

Business

Complex rules hampering cross-border activities

(Greece – Bulgaria)



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Abstract

Complex rules hampering cross-border business activity

This case study focuses on 'complex rules' and other obstacles hampering cross-border business activity in the Bulgarian-Greek (BG-EL) border region. At European Union (EU) level, a series of European Single Market initiatives have been seeking to remove such obstacles. Since the momentous events of 1989 cross-border business activity has flourished across the BG-EL border. Cross-border cooperation between Greece and Bulgaria has received support from the EU from the beginning of the Interreg programmes, in the 1989-1993 period.

Although various obstacles have been eased or removed during the last 25 years, the general conditions in the BG-EL border region are not fully conducive for cross-border business activities. Several obstacles prevail, one of which concerns the complexity of rules on the Greek side of the border that hamper the cross-border business activities of Bulgarian Small and Medium-sized Enterprises (SMEs). It forms part of a tight cluster of inter-linked obstacles relating to regulatory complexity and business environment, public procurement, frontier workers mobility and transport bottlenecks. These obstacles have considerable adverse effects on businesses, notably, in terms of time delays and higher costs. Moreover, a lack of transparency or consistency and an array of other interconnected problems become an entry barrier mostly for SMEs and micro-businesses.

In seeking solutions, the national level in both Greece and Bulgaria can play a crucial role by improving the harmonisation of the legislative and administrative arrangements concerning business development. The existing good cooperation climate is a major asset and more can be done also at regional and local levels by establishing a cross-border business observatory and business advice service, providing project-based support to SMEs such as mentoring and cross-border clusters, and creating a regional cross-border forum that could also bring periodically together high-level government representatives from the two neighbouring countries

1 Outline of the obstacle (legal and administrative) and the policy context

1.1 Easing Border Obstacles: the European Single Market Process

Easing and removing border obstacles has been a key aim of the creation and evolution of the European Union. In the broadest sense, the European Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of people, goods, services and capital. A functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps reduce prices.

A major push to complete the creation of a Single Market was made by the European Commission in 1985 with the publication of a White Paper identifying 300 measures to be addressed. It led to the Single European Act and the launch of the Single Market in 1993. Nevertheless, imperfections and a not yet fully functioning Single Market have been accepted, as well as that its "large potential benefits for boosting economic growth and making the everyday life of businesses and consumers easier remain unrealised"¹.

Therefore, it has been argued that "the single market can never be complete"². The key problem areas include insufficient mutual recognition, a highly fragmented public procurement market, a highly fragmented services market, and barriers to the free movement of workers³.

This is underscored by the assessment of the state of play by the enterprises themselves. For instance, in the European Parliament of Enterprises 2014, 84% of SMEs stated that the Single Market was not sufficiently integrated and was not allowing their company to operate and compete freely⁴. Start-ups and SMEs find it difficult to identify and meet the regulatory requirements when operating across borders. In particular, they complain about: the complexity of Value-Added Taxes (VAT) regulations; uncertainties over company law; understanding and complying with regulatory requirements; a lack of access to finance; the fear of punitive bankruptcy laws; and barriers to innovation.

Company law obstacles are particularly significant. Differences persist between Member States' company laws and legal and administrative arrangement when setting up subsidiaries or new companies in another country. These differences result in costs for companies which are proportionately much heavier for SMEs who have smaller financial means and organisational resources than larger companies. For instance, costs of compliance with legislation and legal advice related to set-up have been mentioned by nearly two-thirds of respondents in a 2013 consultation as one of the biggest 'company law obstacles' preventing companies from expanding their activities abroad⁵.

Many of these obstacles are of a legal and administrative nature. For instance, the highest proportion (33%) of business respondents to the Commission's public consultation on overcoming obstacles in border regions mentioned legal and administrative barriers. Other types of obstacles mentioned were language barriers, socio-cultural differences and economic disparities (31%, 27% and 20% respectively)⁶.

¹ Canoy et al. (2006), *The Single Market: Yesterday and Tomorrow*, European Commission, Bureau of European Policy Advisers (BEPA), 2006.

² Ibid.

³ Terzi, A. et al. (2015), *The whys and hows of a single market for Europe*, Bruegel, March 2015.

⁴ European Commission (2015), *A Single Market Strategy for Europe – Analysis and Evidence*, SWD(2015)202 final, October 2015

⁵ Ibid.

⁶ European Commission (2016), *Overcoming Obstacles in Border Regions: Summary Report on the Online Public Consultation*, April 2016

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The EU remains committed to improving the functioning of the Single Market by:

- providing a regulatory framework fostering the free movement of goods and services, and enhances competitiveness;
- removing and preventing barriers to intra-EU trade;
- promoting a business and consumer-friendly environment based on transparent, simple, and consistent rules offering legal certainty and clarity⁷.

A further step in this process is the Commission communication "A deeper and fairer Single Market"⁸, which has put forward a number of practical actions for 2016 and 2017 targeted on: helping SMEs and start-ups to grow; making the market without borders for services a practical reality; and strengthening the Single Market for goods. This approach has the potential of making a significant impact on the prioritised areas but also implies the ongoing persistence of a multitude of often lesser obstacles whose cumulative effect on cross-border business activity can be significant.

There are also other relevant EU initiatives, notably under the Digital Single Market Strategy for Europe⁹, such as a new eGovernment Action Plan whose vision is that "By 2020, public administrations and public institutions in the European Union should be open, efficient and inclusive, providing borderless, personalised, user-friendly, end-to-end digital public services to all citizens and businesses in the EU"¹⁰.

1.2 Complex rules hampering cross-border business activity

A number of border obstacles identified in the EU-wide inventory relate to business development¹¹ and are summarised in Table 2, Annex 1. They include Obstacle N195, which has been described as 'Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs'. They also include 'Different regional-level rules for start-up support schemes in neighbouring countries hinder a cross-border development of entrepreneurship' in BE-NL-DE border areas and 'Different national social security legislations' imposing additional burdens on employers (DK-SE).

In terms of the typology followed by this study, all the above obstacles belong to the category of legal obstacles which are Member State related. They emanate from different national legal provisions in a policy field for which there is no EU competence.

These obstacles typically concern three topics: company law complexities and related issues; differences in rules regarding start-ups; differences in national social security legislations. However, there are also miscellaneous other obstacles concerning business development which are of relevance (see Sub-section 2.4).

The adverse effects of these obstacles, at business level, are commonly in terms of time delays and ultimately higher costs, as already mentioned above. In some cases these effects, compounded by uncertainties due to lack of transparency or regulatory inconsistencies, can amount to entry barriers and loss of market scope, as discussed in Section 3. However, perceptions tend to overstate the barriers to cross-border expansion. Recent surveys have found that the proportion of firms fearing barriers to operate in another Member State was almost twice as high compared to the firms that actually had tried operating in another Member State¹². Anyway, the challenges to cross-border business development have been taken seriously throughout the EU and

⁷ European Commission (2015), Quality of Public Administration, A Toolbox for Practitioners, February 2015

⁸ European Commission (2015), Upgrading the Single Market: more opportunities for people and business, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2015)550 final, October 2015

⁹ European Commission (2015), A Single Digital Market Strategy for Europe, COM(2015)192 final, May 2015

¹⁰ European Commission (2016), EU eGovernment Action Plan 2016-2020, COM(2016)179 final, April 2016

¹¹ Policy Area I (Industry and Trade), Field of Intervention 1.4 – Border-regional business activities and cross-border development of entrepreneurship (business incubators, start-ups centres, venture capital).

¹² European Commission (2015), A Single Market Strategy for Europe – Analysis and Evidence, SWD(2015)202 final, October 2015

have been addressed not only through the above mentioned Single Market legislative initiatives but also through support from the Interreg programmes (over 3,000 projects in four programming periods¹³).

The intensity of these adverse effects falls mostly in the 'high' category according to the ratings assigned in the Inventory of Obstacles (see Table 2, Annex 1). The broader impact of these effects on the socio-economic development and functional integration of the cross-border area is discussed in Section 3.

¹³ Interact KEEP database: <http://www.keep.eu/keep/search/#textmap-container>

2 Case Study Context

2.1 The BG-EL cross-border area

The cross-border region on the BG-EL border extends to 40,202 km² and has a total population of 2.7 million. As defined in the Interreg programmes¹⁴ it comprises four NUTS II units (the South-West and South-Central Regions in Bulgaria, and the Regions of Central Macedonia and Eastern Macedonia – Trace in Greece) and 11 corresponding NUTS III units. The territory is almost equally divided between Greece and Bulgaria (54% - 46%), while the majority of inhabitants (69%) live in the Greek part¹⁵.

The settlement structure of the cross-border area is characterised by a network of 25 towns of 10,000 to 50,000 inhabitants and nine medium-sized cities of 50,000 to 100,000 inhabitants. The only major city is Thessaloniki in Greece. Overall, two-thirds of the population live in urban areas of over 10,000 population¹⁶. The cross-border area includes the mountain ranges of Rila, Pirin and Rhodopi and several cross-border rivers: Strymon/Struma, Nestos/Mesta, Ardas/Arda, Evros/Maritsa; all of them springing from the aforementioned mountains and flowing south to the Aegean Sea.

2.2 Economic profile and cross-border business activity

The BG-EL cross-border area is one of the poorest in the EU, with a GDP per capita below 50% of the EU28 average. It is characterised by low competitiveness and low labour productivity. There is a pronounced disparity between the two sides, with the Bulgarian districts exhibiting a level of economic development at one-quarter of that of their Greek counterparts. After a period of rapid growth on both sides, the effects of the global recession resulted in a significant slowdown of growth in Bulgaria post-2009 and in a prolonged recession in Greece, affecting all districts in the cross-border area¹⁷.

The economic profile of the BG-EL cross-border area, compared to EU28, shows that it is more heavily agricultural, less industrial and more service-dependant. However, it is far from homogeneous. The Greek side is considerably less agricultural and less industrial than the Bulgarian side, and much more service oriented¹⁸.

This heterogeneity is even more pronounced at district and sub-sector level, as shown in the following table:

Table 1. Sub-sectors with the highest percentage of GVA¹⁹

District	1st sub-sector	2nd sub-sector	3rd sub-sector
Blagoevgrad, Haskovo	Industry	Trade	Public Admin.
Smolyan, Kardzhali	Industry	Agriculture	Public Admin.
Evros, Drama, Thessaloniki	Public Admin.	Industry	Agriculture
Xanthi, Rodopi	Public Admin.	Agriculture	Industry
Kavala, Serres	Industry	Public Admin.	Agriculture

Source: Ministry of Development etc., Diagnostic Report (2014)

There are no statistical data available concerning cross-border business activities within the BG-EL border area²⁰. However, the consultations with local stakeholders have established a qualitative profile, which is summarised below.

¹⁴ The BG-EL cross-border cooperation area as defined in Interreg V-A is identical to that for Interreg IV-A. It covers NUTS regions BG413, 422, 424, 425 (Blagoevgrad, Haskovo, Smolyan, Kardzhali) and EL111-115, 122, 126 (Evros, Xanthi, Rodopi, Drama, Kavala, Thessaloniki, Serres)

¹⁵ Ministry of Development & Competitiveness – Managing Authority of European Territorial Cooperation Programmes (2014), Diagnostic Report, Thessaloniki, April 2014

¹⁶ Interreg V-A Programme Greece – Bulgaria 2014-2020

¹⁷ Ministry of Development & Competitiveness – Managing Authority of European Territorial Cooperation Programmes (2014), Diagnostic Report, Thessaloniki, April 2014

¹⁸ Ibid.

¹⁹ Gross value added

Businesses currently engaged in cross-border activity are mainly SMEs and to a lesser extent micro-enterprises. They are located throughout the border regions. On the Bulgarian side there are strong concentrations in the areas of Gotse Delchev, Sandanski, Smolyan and Kardzali which are close to the border. On the Greek side the main concentrations are in Drama and Thessaloniki. These enterprises operate mainly in three branches of the economy: textiles and clothing, agri-food, and tourism. Other branches include construction materials, trade, marble, wine, health, education, informatics and consultancy services.

The overall pattern of cross-border activity shows:

- mainly businesses belonging to Greek interests establishing and producing in Bulgaria and much less the reverse (i.e. Bulgarian interest businesses establishing and operating in Greece);
- Greece-based enterprises employing labour from Bulgaria more than vice versa;
- a broadly symmetrical pattern concerning exporting/selling to Greece by Bulgaria-based companies and to Bulgaria by Greece-based ones;
- similarly, a symmetrical pattern in obtaining raw materials, etc.

2.3 Cross-border and other structures

There are no cross-border structures established in the BG-EL cross-border area, with one exception: the 'Euroregion Nestos-Mesta'²¹. This Euroregion covers the area of the River Mesta Valley in Bulgaria and that of the district of Drama in Greece, an area of 5,651 km² with 230,000 inhabitants – see Figure 1.

Figure 1. Euroregion Nestos-Mesta



Established in 1992, the 'Euroregion Nestos-Mesta' comprises two entities registered in the two countries as non-profit non-governmental organisations, with their membership drawn from municipalities and local chambers of commerce and industry. The secretariat is located in Drama. The organisation is funded through annual contributions of its members, while EU funds, especially from Cross-Border-Cooperation (CBC)-related programmes play a significant role in providing support and in funding various activities of the Euroregion.

²⁰ This was confirmed by the local stakeholders at the consultation workshop held on 10 May 2016 in the BG-EL border region, and is reflected in the proposal for the creation of a cross-border business observatory described in Section 4.

²¹ EUROREGION NESTOSMESTA (GR/BG) Fact sheet:

http://www.aebr.eu/files/filemanager_files/Regionen/N/Nestos-Mesta/Fact_sheet_Nesto-Mesta.pdf

The main goal of the Euroregion is to encourage and promote regional partnerships and to support the exchange of experience between institutions, economic entities and cultural associations. The two sides have elaborated a common action strategy and they have been pursuing its realisation through a number of projects, some of which have been supported by the Interreg programmes.

Most CBC activities are undertaken by local and regional authorities and business organisations, such as the local chambers of commerce and industry, business associations and business incubators. They take the form of cultural exhibitions and trade fairs, visits by delegations, and a whole host of other formal and informal but ad hoc contacts. Business-to-business activities are also widespread. All these public and private sector activities, often undertaken jointly, have in the last 25 years led to the creation of an extensive network of contacts with an economic and business development orientation.

2.4 Border obstacles on the BG-EL border

The timeline of the obstacles on the BG-EL border starts with the new epoch following the political changes in Central and Eastern Europe in 1989. Prior to that Greece and Bulgaria belonged to opposing political systems and there was no cooperation or contact at local and regional level across the border.

A very fast reversal happened almost overnight with a climate of friendship and cooperation replacing the old historical differences between the two countries. Cross-border cooperation was off the ground already in the early 1990s, supported by the Community Initiative Interreg I. The business sector was at the forefront, and the large-scale relocation of enterprises, especially in the textiles and clothing sector, from the Greek to the Bulgarian side of the border was an important early impulse. Bulgaria's EU perspective and eventual accession in 2007 has been an important factor in sustaining ever closer links.

There are now six road border crossings and an unrestricted flow of customs-free traffic, compared to only two strictly-controlled crossings in 1989 that were some 200 kilometres apart and allowed a trickle of traffic between the two sides of the border.

In spite these positive trends and a good cooperation climate that throughout the post 1989 period, the general conditions are not fully conducive for cross-border business activities due to language differences, dissimilar institutional traditions, different currencies (Greece uses the Euro, Bulgaria the Lev) and the fact that passport/ID checks are still required (Greece is in the Schengen zone but Bulgaria has not yet joined). Moreover, although many business development related obstacles have been eased over the last 25 years, new ones still arise, notably, due to the post-2009 economic downturn and related policy measures such as taxation and capital controls in Greece.

Hence, a wide range of obstacles remain in the field of business development and other related fields and several have been included in the Inventory of Obstacles of this study. They are listed in Table 2 of Annex 1 and are summarised below.

The complexity of rules in Greece and the way it affects the cross-border activities of Bulgarian businesses has been identified as one of these obstacles and is outlined in the following box and in the 'problem tree' of Annex 2.

Box 1. Obstacle N195 – Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs

The Bulgarian companies perceive the registration and operation of a business in Greece as very cumbersome processes.

For the establishment of a company they require, inter alia, the hiring of a lawyer and compulsory registration with a business organisation.

In operating the business they have to follow many specific provisions in order to comply with the local legislation, e.g. the need to register individual contracts with the national revenue authorities, shortly after signing them.

There are specific challenges regarding public procurement, for instance, in proving the existence of an applicant company and its main identification data, such as names of company representatives, tax or VAT registration number, address of registration, etc.

The complexity of the requirements is considerable, many different documents are required often involving official translations while, there is a lack of information material in Bulgarian and no information and advice points in the border region.

This obstacle concerning the complexity of rules in Greece that hamper cross-border business activities is in Policy Area I (Industry Trade), Field of Intervention 1.4 – Border-regional business activities and cross-border development of entrepreneurship (business incubators, start-ups, centres, venture capital). It forms part of a tight cluster of obstacles in the BG-EL border region in the same and in other policy areas and fields of intervention. Thus, a whole host of other related obstacles need to be taken into account in examining it. Key examples are as follows:

- Legal differences in the field of public procurement hamper the participation of companies in tendering procedures on the other side of the border, as already mentioned above (Policy Area I – Industry Trade).
- Regarding frontier workers: the national legislation of both countries contain inadequate and even discriminatory provisions which hinder considerably the cross-border mobility of workers; also, a lack of mutual information and cooperation hinders cross-border job search and job placement (Policy Area II – Labour Market and Education).
- Cross-border provision of health care services is hindered by restrictive national legislation (Policy Area III – Social Security System).
- There are bottlenecks in cross-border transport (Policy Area IV – Transport).

All such obstacles, as listed in Table 3 of Annex 1, are firmly attributed to the Member State level. They arise mostly from different national legal provisions in a policy field for which there is only a supporting EU competence. In the case of public procurement the application of EU legislation in the two Member States is not coherent. The case of lack of mutual information and cooperation is considered to be an obstacle of an administrative nature.

There are also other relevant obstacles, not always of a legal or administrative nature, that have been highlighted by the local stakeholders: language barriers; taxation; financial transfers; knowledge of cross-border market; and support for start-ups.

The 'palette' of border obstacles impinging on business and economic activities is very broad. An inventory compiled by the Drama Chamber of Commerce and Industry goes into a more detailed level such as farming ("cross-border grazing impossible; lack of agreements"), illegal hiring of labour and slow mail delivery, and lists more than 100

obstacles²² under the main headings of economy; labour market; infrastructure; and social, cultural and administrative level.

The intensity of all these obstacles has been rated 'high' (see Table 3, Annex 1) based both on the Inventory of Obstacles and 20 different assessments by local stakeholders. The latter accorded the highest intensity rating to public procurement.

The stakeholder consultations have highlighted that information and advice support to help businesses overcome these obstacles is not available in a systematic way. Interreg has tended to fund infrastructure projects or 'soft' projects of indirect relevance to cross-border business development, rather than providing direct support to start-ups and SMEs. An analysis of the 32 projects supported by Interreg IV-A under 'Competitiveness' has confirmed this assessment, as illustrated in the following project examples²³:

Box 2. Business development projects

Examples of business development projects supported by Interreg IV-A Greece-Bulgaria:

- IG-BTP, Integrating the Greek - Bulgarian Tourism product: "The project aims to increase the local tourist product competitiveness through research of the 'tourism' product in the area. Publicity actions will disseminate the deliverables produced within the project as well as the proposed methodology to increase [the number of] tourist visitors in the area".
- BIO BRAND, Development of a common branding scheme for the promotion of organic local products of the cross-border region: "The aim is to support farmers, in order to improve their trading practices and produce local and quality products, with the most limited environment negative impacts ... through the establishment of a cross-border partnership ... for the promotion and diffusion of innovative knowledge, to safeguard organic business actors and competitiveness ... by improving their trading capacity, the establishment of a commonly applicable strategy and branding scheme ...".
- GREEN SPOTS, Innovative & Environmentally friendly NETWORK for the Development & Promotion of Entrepreneurship: "The overall objective of the project is achieving cooperation between partners to jointly act to (re)designing the common tourism product of the area, placing sustainability in the core of their policy, so as for all local economic sectors and the entire region to benefit from, and to applying an offensive and destination based marketing for the proper product".

²² Drama Chamber of Commerce and Industry, Border problems at the border area between Bulgaria and Greece (2016)

²³ Greece-Bulgaria ETC 2007-2013 Operational Programme, List of projects, official website: http://www.greece-bulgaria.eu/index.php?option=com_projects&view=items&Itemid=8 (accessed in Fall 2016)

3 Impact analysis

3.1 Adverse effects of obstacles on businesses/companies

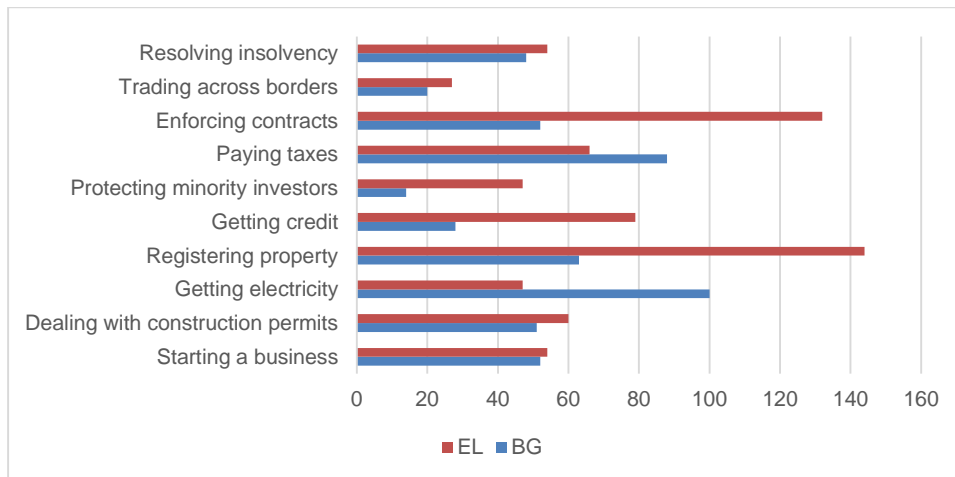
We consider below the principal effects of the main obstacles identified in connection with the BG-EL border, starting with those concerning regulatory complexity and the business environment, and followed by other types of associated obstacles which hamper cross-border business development.

- Regulatory complexity / business environment

With regard to regulatory complexity and generally the business environment, the Obstacle N195, 'Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs' takes centre stage.

This issue reflects the broad differences in the business environment between Greece and Bulgaria. World Bank's 'Doing Business' rankings show Bulgaria in a better position than Greece (in 38th and 60th place respectively)²⁴. As shown in Figure 2, Greece underperforms Bulgaria in eight out of 10 specific indicators.

Figure 2. 'Doing Business' rankings of Bulgaria and Greece



Source: World Bank, Measuring Business Regulations, 2016

The reality behind these indicators is more nuanced. From an EU perspective the business and administrative environments in Bulgaria are far from perfect. The business environment has not improved significantly in recent years, public administration is less supportive of SMEs compared to the rest of the EU, and there is a high level of corruption²⁵.

Nevertheless, local stakeholders report that due to the complex procedures for the establishment of a company in Greece and the specific requirements for its operation, Bulgarian SMEs are discouraged from entering the Greek market through a locally-established company. The same applies for the small producers of fruit and vegetables in the border region, who can sell their produce in open markets in Greece but the registration costs for such an activity make this operation unprofitable. These obstacles encourage the 'grey' economy as the consumers prefer to buy products and receive services at a lower price even though they are not registered or regulated.

²⁴ World Bank Group (2016), Doing Business 2016. Measuring Regulatory Quality and Efficiency, A World Bank Group Flagship Report, 13th Edition, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

²⁵ European Commission (2016), Country Report Bulgaria 2016, SWD(2016) 72 final, Brussels, February 2016

However, local stakeholders have also mentioned examples of Bulgarian firms setting up recently in Greece in the tourism sector in the Kavala/Thassos area, and in banking in Thessaloniki. This highlights that perceptions matter and can affect the opportunities' visibility and markets' accessibility. As reported by the European Commission²⁶, the proportion of firms fearing barriers to operate in another Member State is almost twice as high compared to the firms that actually have tried operating in another Member State.

As already mentioned, there are no statistical data available concerning cross-border business activities within the BG-EL border area. It is, therefore, impossible to quantify the extent to which Bulgarian businesses are affected by this particular obstacle. In the light of the available evidence it should be assumed that it affects mainly smaller Bulgarian businesses and that general perceptions tend to overstate its extent.

It should be noted that the regulatory environment issues apply beyond the cross-border area. A simpler regulatory environment and other pull factors, like lower labour costs, together with push factors such as tax increases and the imposition of capital controls in Greece, have combined to make relocation to Bulgaria an attractive proposition for Greek firms and this does not apply only to those in the border region. The so-called 'exodus' of Greek businesses, with Bulgaria a primary destination, is well publicised and has been reported in the international press (e.g. 'An actual Grexit'²⁷) as well as in the national press in Greece (e.g. 'Seven companies leave Greece every day for Bulgaria'²⁸).

As already stated, the complexity of rules and other obstacles affecting the business environment form part of a tight cluster of obstacles in the BG-EL border region. Other types of obstacles have also a negative effect on cross-border business activity, as noted in the following cases:

Transport / border crossings

Although there are six operational border checkpoints along the BG-EL border there are still various constraints. One of the new checkpoints (Makaza-Nimfea, opened in September 2013) does not permit the crossing of vehicles over 3.5 t. Another checkpoint (Zlatograd-Thermes Xanthi, opened in January 2010) does not allow the movement of mini-buses with tourists. The organised tourist flows are adversely affected by this situation, which constrains the tourism potential of the region and the development of cross-border tourism products.

Goods and passenger car traffic is even more significantly affected by channelling vehicles through certain transport routes, which results in heavier traffic through a couple of the border crossings. This leads to truck queues in specific weather conditions or in cases of malfunctioning of the computer systems of the checkpoints (which is not uncommon). The increased traffic of heavy goods vehicles creates bottlenecks and makes certain road sections in the border area very dangerous.

Frontier workers mobility / Advice services for job-seekers and unemployed

Although there are support systems on either side of the border for searching for employment in the respective domestic contexts, there is a lack of cross-border coordination and cooperation between actors operating these domestic employment search systems. There is no EURES-type cross-border partnership in place and no specific initiatives on a coordinated management of information on job vacancies and

²⁶ European Commission (2015), A Single Market Strategy for Europe – Analysis and Evidence, SWD(2015)202 final, October 2015

²⁷ The Economist (2016), Greek businesses: An actual Grexit, 20 February 2016, <http://www.economist.com/news/business/21693213-big-tax-rises-are-driving-companies-out-country-actual-grexit>

²⁸ Naftemporiki (21.04.2016)

on cross-border assistance for the placement of job seekers. As a number of Bulgarians are hired in Greece as seasonal workers, they find those opportunities mainly through personal contacts.

Public procurement

As indicated in Section 2, this is a weighty obstacle. The participation of companies in public procurement procedures of the other country is particularly hampered by the documentation requirements, such as for proving the current legal status of a company. This leads to delays and higher costs in preparing a tender submission, and prevents smaller companies from applying under such procedures. The net effect is that so far there are practically no Bulgarian businesses engaged in public procurement in Greece. However, Greek companies are well established in certain fields in Bulgaria, such as in highway construction. They tend to be larger companies with a strong track record.

There are three key qualifications applying to these findings.

First, the effects of individual obstacles are not symmetrical and tend to affect businesses only (or mostly) on the one or the other side of the border.

Second, the impact is felt mainly by smaller companies, while larger companies have the competencies and resources to overcome the obstacles. The above mentioned recent example of a Bulgarian bank opening three branches in Thessaloniki and employing 50% Bulgarian staff underlines this point.

Third, border obstacles are not the only reasons for companies not engaging in cross-border business development. Data from the Republic of Ireland / Northern Ireland (UK) border²⁹, shows that although some of the reasons are related to border obstacles, like the cost associated with entry to new markets and knowledge on 'how to go about it', other significant factors are business specific, e.g. location too far away, don't want to expand, unstable economy/sector. In the case of the BG-EL border area the ongoing economic problems in Greece and related policy measures (especially higher taxation and capital controls) have become important factors, propelling some Greek companies to establish in Bulgaria and offering fewer opportunities for Bulgarian companies to expand into Greece.

To sum up, at a first level the adverse effects of the business development related obstacles concern time delays and, ultimately, higher costs for enterprises operating on the other side of the border. This point has been strongly supported by the local stakeholders and is in line with EU-wide experience (see Section 1). Similarly, there are problems with a lack of transparency, including uncertainties or inconsistencies. The aggregate effect on businesses of these and an array of other, often small, problems can amount to an entry barrier and loss of market scope, especially for SMEs and micro-businesses with limited capacity and capabilities.

3.2 Impact on the functional integration and socio-economic development of the cross-border area

The above obstacles and their effects combine major restrictions to physical connectivity with serious legal and administrative constraints in the field of business development and in other related fields, notably, in frontier workers' mobility. They, thus, result in a very low degree of functional integration in the cross-border area.

This is fully acknowledged the Interreg V-A programme for Greece-Bulgaria which states that the cross-border area is "plagued by many and serious weaknesses" including in transport (low cross-border and multi-modal accessibility which "leads to low goods transport potential and low commuting potential")³⁰. There are, nevertheless, some 'islands' where the functional integration is not that low, such as

²⁹ InterTradeIreland (2016), Perceptive insight: Review of all-island Business Monitor, January 2016

³⁰ Interreg V-A Programme Greece – Bulgaria 2014-2020

between Drama and Gotse Delchev, which benefit from good connectivity and strong business links.

The general impact of business development related obstacles on the socio-economic development of the cross-border area depends on many other reinforcing and/or mitigating factors. In the case of BG-EL their impact is strongly reinforced by the existence of several other legal and administrative obstacles in related policy areas, such as labour market and health care, transport, etc. or other types of obstacles, e.g. language.

Potential mitigating factors include the availability of information and effective business advice services. However, the consultations with local stakeholders clearly showed that there is no systematic provision of such services in this cross-border area.

There are also other factors that can stimulate cooperation, such as personal relations and shared interests³¹. As already pointed out, there are good and extensive business-to-business links that have developed in the last 25 years in this cross-border area and they help ease business-related obstacles.

Nevertheless, the 'high' ratings of the intensity of the individual obstacles (presented in Section 2 and in Table 2 of Annex 1) mean that their combined impact on the socio-economic development of the cross-border area is 'high'. Although a quantitative assessment is lacking, there is a consensus among local stakeholders that these obstacles hinder the socio-economic development of the cross-border area. For instance, different stakeholders have spoken of worse competitiveness, lower revenues, lower growth, fewer jobs, higher unemployment, less skilled workforce.

Conversely, it can be argued that the impact of the obstacles can be seen in the nature and extent of the joint potential in the cross-border area that can be released by easing and removing them. Four such areas of unexploited potential are noteworthy:

- the potential for diversification of the regional economies through cooperation in particular sectors, such as furniture, tourism and transport, as highlighted by local stakeholders;
- the scope for exploring and promoting smart specialisation, as researched and documented in a recent Interreg project³²;
- a number of concrete proposals either in preparation or recently submitted for funding regarding cross-border clusters in fields such as wine and tourism.
- cross-border environmental issues, such as toxic waste or waste management.

However, it should be acknowledged that in reporting such assessments of the impact on the socio-economic development of the area, it is extremely difficult to distinguish the effects of the border-related obstacles from other causes. This particularly applies to factors linked to peripherality and low levels of economic development, as well as impediments emanating from the specific geographic and other characteristics, such as the mountainous terrain and the language differences in the BG-EL cross-border area.

³¹ Setnikar Cankar, Seljak, Pekovsek (2015), Factors that influence cross-border cooperation between business in the Alps-Adriatic region, Economic Research-Ekonomska Istrazivanja, 25/09/2014, <http://www.tandfonline.com/doi/full/10.1080/1331677X.2014.952091>

³² Hellenic Consulting Ltd et al (2015), Study on the effects of on-going policies to improve competitiveness in the Regions of Central Macedonia and East Macedonia & Thrace, in the framework of "Smart Specialization" of the European Territorial Cooperation Programme "Greece – Bulgaria 2007 – 2013", March 2015

4 Solutions and good practice

The business development related obstacles analysed in Sections 1 and 2, including Obstacle N195, 'Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs', have a clear focus on the national level and are of a legal and administrative nature. Thus, this is prima facie the framework within which potential solutions will need to be considered. The EU level is only tangentially covered.

The practical experience in the BG-EL cross-border area includes a good deal of initiatives at local and regional and these could be a springboard for pursuing or facilitating solutions. Accordingly, this section focuses on good practice and solutions at regional and national levels.

4.1 Practical experience

There is considerable experience in the case of BG-EL over 25 years of border obstacles being eased or removed, as well as of new ones arising, and this is relevant in exploring solutions. It flags up significant weaknesses, notably a weak cross-border institutionalisation undermining sustainability and an absence of systematic business information and advice services, but it also includes potential building blocks, such as those outlined below.

Although inadequate border crossings and lack of highway connections across the border stand out as an obstacle to business development, there has been a significant improvement, as stated in Section 2, and under normal conditions same-day business trips are easy to undertake and large numbers of tourists cross the border. These improvements were the result of Member State level decisions over a period of time and reflected similar commitments to improve the national and regional road networks, as well as the cross-border connections between the two countries.

The remaining constraints are linked more to levels of investment in the two neighbouring countries and less to legal or administrative issues. The former is, of course, dependent on national investment potential and priorities and these in turn relate to the peripherality of the border regions, the mountainous terrain, etc.

A particularly significant element in the BG-EL cross-border area has been the leading role played by the business sector. Both individual enterprises, through business-to-business cooperation, and intermediary business bodies through many ad hoc business development initiatives in the information and advice sphere, have actively promoted cross-border cooperation. Networking, sharing of information and much more have emanated from these activities and have inter alia helped businesses overcome border obstacles and pursue business development across the border.

The existence of a climate conducive to cross-border cooperation is a precondition. Such a cooperation climate has existed for 25 years but for most of this period it was strongly asymmetrical in the field of business development, involving mostly businesses of Greek interests establishing operations in Bulgaria. Economic conditions have changed in the last six years and a more symmetrical pattern is emerging, with Bulgarian companies increasingly active in Greece while Greek companies are still attracted to Bulgaria.

4.2 Towards easing obstacles

The above analysis of strengths and weaknesses in the BG-EL experience and the many contributions from stakeholders in the cross-border area are pointing towards a minimum package of practical steps towards addressing the core obstacles on business development.

The lack of basic data on cross-border business activities is a fundamental weakness in this cross-border area and a major constraint in addressing obstacles and other issues. The creation of some sort of 'cross-border business observatory' is generally

considered by local stakeholders to be an essential first step in compiling relevant data for the cross-border area and in identifying, researching and documenting key issues.

The observatory could take the form of a platform that can be used, inter alia, for supporting local and regional actors in documenting and presenting to the national-level authorities solutions to border obstacles. There are well qualified organisations in the cross-border area, such as universities and chambers, to set up and operate this type of observatory, and in view of the valuable information it can generate, it could be considered for technical assistance from the Interreg V-A programme for Greece-Bulgaria.

The creation of a cross-border business advice service would be a second step. It could be built on the observatory platform and could include a 'helpdesk' function. Alternatively, it could be established as a network of chambers and business associations or as a EURES-type cross-border partnership of a range of organisations. This step will go some way in addressing the shortcomings in the field of 'availability and quality of cross-border economic advice services' where, as discussed above, there is only limited ad hoc support that falls far short from covering the spectrum of challenges facing business venturing to the other side of the border.

While the above steps can offer 'universal' support to overcoming obstacles, there could also be project-based solutions addressed to particular groups of enterprises, with funding from the Interreg V-A programme, e.g. under its Specific Priority 2 'To improve SME capacity to expand beyond local markets'³³:

- support to specific cross-border clusters, in 'champion sectors'³⁴: agri-food (e.g. wine), manufacturing (e.g. building materials, textiles and clothing), and tourism;
- practical support to SMEs through intermediaries, for instance, helping them to develop a cross-border business development strategy through mentoring and to implement it by recruiting a suitably qualified graduate, on the lines of the ASPIRE project³⁵.

Local stakeholders realise that the absence of permanent mechanisms undermines the sustainability of the results of the Interreg projects and their own ad hoc efforts, and moreover makes it next to impossible to articulate common issues and make representations to the relevant decision makers at Member State level. Therefore, two further steps are also considered essential to address the weak cross-border institutionalisation on the BG-EL border:

- a regional cross-border forum, possibly by strengthening and using the Euroregion Nestos-Mesta, explore common issues and present concrete proposals to the two Member States;
- an inter-governmental forum bringing periodically together high-level government representatives from Greece and Bulgaria, either specifically on business-related matters or on a multi-sector basis, to review the state of affairs and consider new issues.

Although there are no suggestions for a direct involvement from the EU level in the above steps, they can all benefit from such support, at least in the form of technical assistance and sharing of experience and good practices. EU initiatives such as the eGovernment Action Plan 2016-2020 and specific actions concerning eProcurement and a Single Digital Gateway could also contribute.

³³ Interreg V-A Programme Greece – Bulgaria 2014-2020

³⁴ Hellenic Consulting Ltd et al (2015), Study on the effects of on-going policies to improve competitiveness in the Regions of Central Macedonia and East Macedonia & Thrace, in the framework of "Smart Specialization" of the European Territorial Cooperation Programme "Greece – Bulgaria 2007 – 2013", March 2015

³⁵ ASPIRE project supported by the Interreg IV-A Programme for Ireland – UK (Northern Ireland): http://www.eastborderregion.com/pages/index.asp?title=Aspire_Enterprise_-_East_Border_Region

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Box 3. Easing cross-border obstacles in BG-EL: Key steps

- Establishing a cross-border business observatory
- Setting up a cross-border business advice service, possibly using the observatory platform
- Providing project-based support to SMEs, e.g. mentoring and cross-border clusters, through intermediary business support organisations
- Creating a regional cross-border forum, for instance, by strengthening and using the Euroregion Nestos-Mesta
- Establishing an inter-governmental forum bringing periodically together high-level government representatives from Greece and Bulgaria

4.3 Conclusions

What stands out from the above practical experience and potential solutions in the BG-EL context is that even when a very good cooperation climate prevails this cannot per se overcome the obstacles. In the case of Obstacle N195, 'Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs' and the other obstacles to business development, the absence of relevant cross-border structures and processes needs to be remedied in order to be able to overcome obstacles and effectively support cross-border cooperation.

'Better harmonisation' type solutions will be needed at the level of the Member States but the wide range of obstacles to business development suggest that this is inevitably a long-term process. Anyway, it is realistic to expect that legal and administrative obstacles emanating from Member State level cannot be fully eradicated and conditions will persist for differences in the regulatory regimes to remain and new ones to emerge, making a perfect harmonisation impractical. Therefore, the overall effort needs to be complemented with 'better information and support' type of solutions at regional or even local level, delivering practical support directly to companies engaging or seeking to engage in cross-border business activity.

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Annexes

Lists of obstacles

Table 2. *Obstacles in various EU borders related to Field of Intervention 1.4 – Border-regional business activities and cross-border development of entrepreneurship (business incubators, start-ups centres, venture capital)*

Obstacle No.	Border	Main feature	Problems caused by obstacle	Intensity
30	DK-SE	Different national social security legislations	A resident of Sweden who works in Denmark is usually affiliated to the Danish social insurance system. If, however, this person also takes on a second job in Sweden, then social insurance affiliation and cover reverts to Sweden. In such instances, the Danish employer must pay Swedish social security contributions.	High
134	BE-NL-DE (Euregio Maas-Rhein), esp. BE-DE	Different regional support schemes for start-ups	Different regional-level rules for start-up support schemes in neighbouring countries hinder a cross-border development of entrepreneurship.	Medium
195	BG-EL	Complex rules in Greece	Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs.	High

Source: Inventory of Obstacles

Table 3. *Main obstacles in the BG-EL border region (by Field of Intervention)*

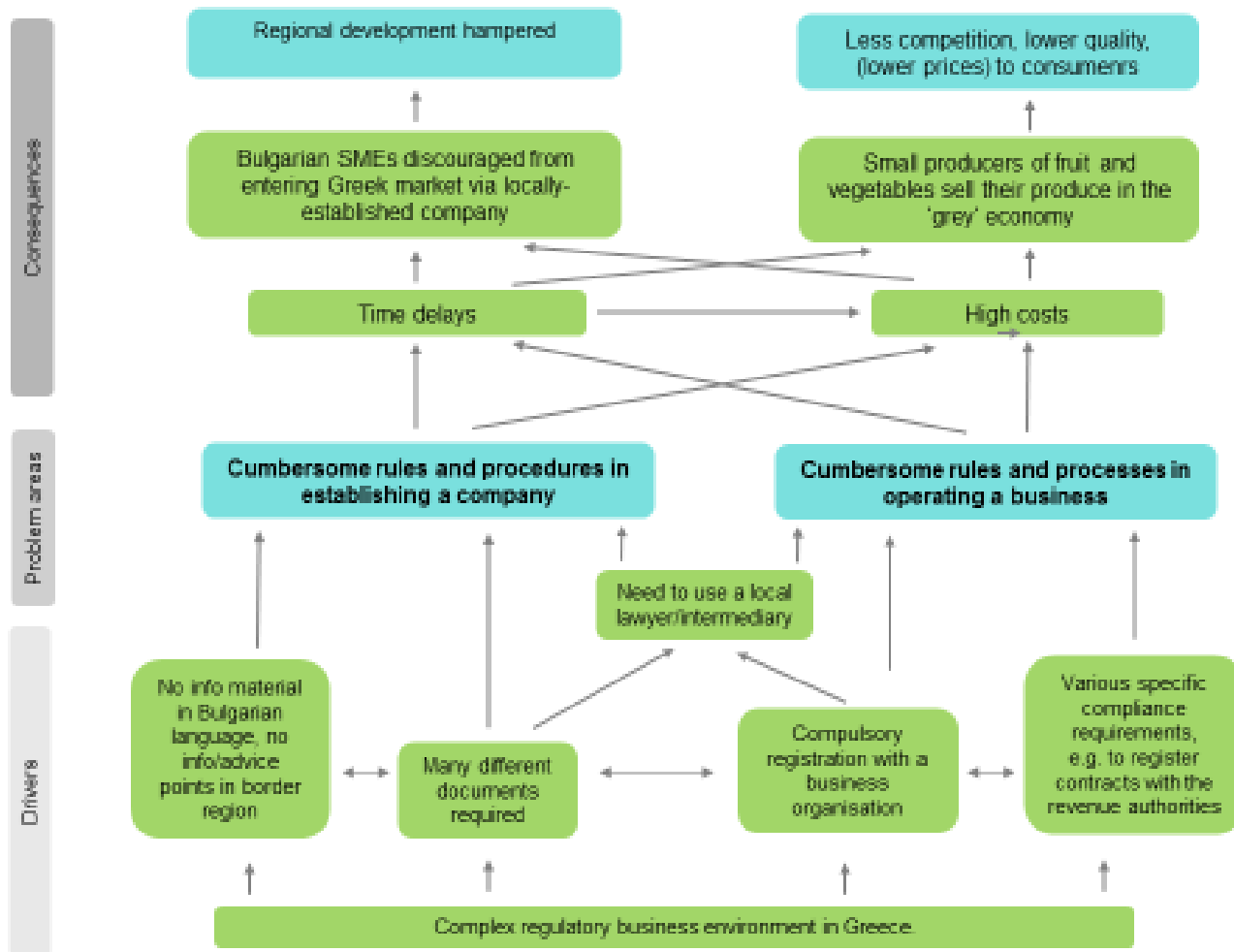
Obstacle No.	Main feature	Problems caused by obstacle	Intensity
(1.1) Exportation of goods and cross-border provision of commercial services, including e-commerce			
196	Different national rules on public procurement	Legal differences in the field of public procurement hamper a participation of companies in tendering procedures on the other side of the border.	High
(1.4) Border-regional business activities and cross-border development of entrepreneurship (business incubators, start-ups centres, venture capital)			
195	Complex rules in Greece	Complex rules in Greece hamper cross-border business activities of Bulgarian SMEs.	High
(2.2) Mobility of cross-border workers (commuter flows)			
199	Inadequate national legal provisions	National legislations of both countries contain inadequate and even discriminatory provisions which considerably hinder a cross-border mobility of workers	High
(2.4) Advice services for job-seekers and unemployed persons			
198	Lack of mutual information and cooperation	Lack of mutual information and cooperation hinders cross-border job search and job placements.	High
(3.2) Access to health care services (i.e. primary, secondary and tertiary care) and medical treatment			
197	Restrictive national health care legislation	Restrictive national legislation hinders a cross-border provision of health care services	High

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Obstacle No.	Main feature	Problems caused by obstacle	Intensity
(4.6) Border crossing points, efficiency of customs clearance processes or of other cross-border administrative and technical procedures (e.g. train handover, control)			
194	Bottlenecks for cross-border transport	Insufficient border-crossing possibilities and incomplete highway connections hamper cross-border freight and passenger transport	High

Source: Inventory of Obstacles adapted to reflect local stakeholders' contributions on the intensity of obstacles

Figure 3. Problem tree



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