

Brussels, 21st January 2004

Implementation Report on the Internal Market Strategy

Too many European industries still operate in fragmented markets due to trade obstacles and differences in standards and regulations, according to the European Commission's first report on the implementation of the Internal Market Strategy 2003-2006 (see [IP/03/645](#)). The report forms part of the "Guidelines Package", alongside the Broad Economic Policy Guidelines (BEPG) and the Employment Guidelines (EG). All three reports are presented as part of the Commission's Report to the 2004 Spring European Council (see [IP/04/74](#)).

Fragmented markets hamper innovation and productivity growth and keep prices in some parts of the Union at higher levels than they would be in a more integrated Internal Market. Since the abolition of EU internal frontiers ten years ago, the Internal Market has boosted EU economic growth by at least 1.8%, adding nearly 900 billion euro to the EU's collective prosperity and helping create 2.5 million extra jobs. But to build on that success, progress is urgently needed in creating a real Internal Market in services, integrating Europe's financial markets and in boosting innovation by adopting the Community Patent. Further delay could undermine the EU's competitiveness and prosperity and prevent it from reaping the full potential benefits of enlargement. Whilst over half the measures in the Internal Market Strategy that were due by the end of 2003 have been delivered on time, those delayed are often important legislative initiatives where Commission proposals have been on the table for some time. What is more, once EU laws are passed, they need to be written into national law on time and implemented in full.

Key indicators flashing red

By increasing levels of competition, the Internal Market can do much to ensure that firms are quick to adopt innovative technologies, increase quality and reduce prices for consumers, and as such the Internal Market is central to the EU's aim of enhancing its competitiveness vis-à-vis its main trading partners. However, some key economic indicators suggest that the Internal Market's impact on competition has recently slowed down. First, the growth of manufacturing trade inside the EU has begun to falter, which generally means less pressure on companies to improve their performance. This contributes to a second phenomenon which is that prices across the EU are no longer converging even though price differences between EU Member States far exceed those between different regions of the USA. Third, the EU is investing more in the rest of the world than the rest of the world is investing in the EU, a warning perhaps that it is more urgent than ever to reform the EU's general regulatory environment and kick-start its Internal Market once again.

Although definite conclusions are difficult to draw given that the Internal Market Strategy for 2003-2006 was only adopted eight months ago, there are signs that progress needs to be quickly speeded up to remove remaining obstacles to trade within the European Union and to get trade and investment going again. Of the 45 measures due before the end of 2003, only 27 have been delivered on time. Others are on the verge of being completed, but many of those which have been delayed are important legislative initiatives.

Enlargement: an opportunity that must be seized

Enlargement has the potential to stimulate the Internal Market over and above the benefits which removal of existing obstacles could deliver. Trade between current and future Member States has already been growing fast, increasing more than eight-fold between 1995 and 2000. However, economic models suggest that despite these increases, exports from future Member States could still almost double, even at current levels of development. For example, Poland's exports to the EU-15 in 2000 were 54% of what would normally be expected for a Member State of its size and geographical location. However, seizing the opportunity of a second harvest for the Internal Market after enlargement requires existing and new Member States to work closely together and avoid action that could put fresh obstacles in the way which would squander the benefits.

Making cross-border trade within the EU easier

The Commission presented on 13 January 2004 a proposal for a Directive on Services in the Internal Market (see [IP/04/37](#) and [MEMO/04/3](#)). By cutting bureaucracy, encouraging cross-border economic activity and boosting competition, the proposed Directive would increase choice, improve quality and bring down prices for consumers and also for businesses which use services. In the field of goods, key measures announced in the Strategy will come to fruition only over the next twelve months. Chief among them will be a Commission proposal for a new Regulation to improve the operation of mutual recognition – whereby goods authorised for sale in one Member State can be sold in all the others without further red tape.

Financial markets in the EU could and should be more integrated. If they were, the gains could be sizeable. Of the original 42 measures in the Financial Services Action Plan (FSAP), 36 have now been adopted. But if the FSAP is to deliver the maximum benefits - which are huge and include a potential increase in EU GDP of 1.1% over the next decade - it needs to be delivered in full as barriers in one area of activity have a knock-on effect elsewhere. That means adopting the remaining measures, especially the Investment Services Directive (see [IP/03/1352](#), [IP/02/1706](#) and [MEMO/02/257](#)), quickly and in a form which makes it easier for businesses to raise money, improves investor confidence and promotes growth.

The Commission has launched its Action Plan on "Modernising Company Law and Enhancing Corporate Governance in the EU" (see [IP/03/716](#) and [MEMO/03/112](#)). This is an important initiative which will help companies to operate efficiently in the Internal Market and boost confidence in capital markets following recent corporate scandals.

Network industries

The Internal Market Strategy stresses that market opening in the network industries (energy, transport, telecommunications and post) brings significant benefits for both businesses and consumers. The Commission is determined to pursue market opening in a way that fully respects universal and public service obligations – i.e. the provision of services of a specified quality to all consumers and users throughout the territory of a Member State at an affordable price. There has been good progress over the past six months. A final push is now needed on measures to open freight services in the railway sector.

In addition, the Commission is presently conducting an analysis of the legal and administrative arrangements relating to the provision of water services, including wastewater treatment, and the application of EU competition and Internal Market rules to these sectors. The aim is to assess whether there are gains to be made from further modernisation of the sector.

Public procurement

Many public administrations continue to award contracts without effective competition. Member States must urgently tackle this problem. A recent study shows that the difference between applying or not applying EU public procurement rules can be as high as 34% of total costs. To enhance competition in public procurement, the major target for 2003 was adoption of the procurement legislative package. This is now on track (see [IP/03/1649](#)).

Industrial and intellectual property

As regards the protection of industrial and intellectual property rights, the focus is on three important legislative proposals – the Community Patent (see [MEMO/03/47](#), [MEMO/02/255](#), [MEMO/01/451](#), [IP/00/714](#) and [MEMO/00/41](#)), the Directive on the patentability of computer-implemented inventions (see [IP/02/277](#), [MEMO/02/32](#)) and the Directive on the enforcement of intellectual property rights (see [IP/03/144](#), [MEMO/03/20](#)) - which aim in different ways to ensure that the system remains relevant to the needs of industry and consumers. Progress on these proposals has been slow. Without an up-to-date legal framework in this field, research investment, innovation and creativity, which underpin a strong knowledge-based EU economy, will suffer.

Taxation issues

Tax obstacles significantly hinder the functioning of the Internal Market and generate unnecessary compliance costs for business which are often passed on to consumers. The Commission has stuck to all its deadlines in this area. For example, it has presented proposals amending the Parent/Subsidiary Directive and the Merger Directive. However, for progress to be achieved, Member States will have to set aside positions of principle and work more pragmatically.

Improving regulation and implementation

To improve the EU's regulatory environment, including the Internal Market, the Commission has established a Better Regulation Action Plan. Good progress is being made towards meeting the Plan's goals, although there is still some way to go before significant results will begin to be felt on the ground. In particular, the Commission is subjecting an increasing share of its work programme to extended impact assessment and is systematically consulting stakeholders at an early stage.

The Internal Market can only work if its rules are correctly implemented by the Member States and effectively applied in practice. Figures recently issued by the Commission (see [IP/04/33](#)) on Directives which remain unimplemented at national level sometimes years after the deadline and on the continuing large number of infringement cases show that this is not yet the case.

The SOLVIT network for solving cross-border problems caused by the misapplication of EU law (see [IP/02/1110](#)) has made a good start. The Internal Market Strategy includes a number of further measures for improving the situation. Of the four actions due in 2003, only two have been delivered on time – the initiation of "preventive" dialogue between the Commission and Member States and the proposal for a Regulation on co-operation between national authorities responsible for the enforcement of consumer protection legislation.

The full text of the Commission's report is available at:

http://europa.eu.int/comm/internal_market/en/update/strategy/index.htm