

# Deepening the Single Market: why and how, esp. in services

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# **STRUCTURE**

- 1. The nature and functions of the single market in and for the EU**
- 2. Why deepening is a 'must' for the next two or three Commissions/E.P. s**
- 3. Elaborate the deepening of the Single Market for Services**

# **SINGLE MARKET : NATURE & FUNCTION**

- **Without the single market,**
  - >>> the EU would be a European OECD**
  - >>> or, at best a free-trade-area**
  - >>> EU regulation would have no legal basis**
  - >>> EU 'common' and other policies, idem**
  - >>> mutual recognition would hardly work**
  - >>> eurozone meaningless, w'out E of EMU**

## SINGLE MARKET : NATURE & FUNCTION (2)

- In the Rome treaty, the ‘common market’ is the central ‘means’ to pursue four economic objectives
- Essentially, growth (under conditionality)
- Still today (art. 3/3, TEU) ‘sustainable development ....based on balanced economic growth and price stability..’
- Economic idea, catalyst/amplifier : together, one can achieve higher productivity than a MS alone

## SINGLE MARKET : NATURE & FUNCTION (3)

- Ever since the Rome treaty, crucial design elements have been incorporated
  - >>> ‘establishment’ (i.e. free movements, but much farther [‘deeper’ & wider in scope] + right of est.) of the I.M.
  - >>> ‘proper functioning’ of the I.M. (i.e. via 5 aspects of competition policy ; general distortions caused by MS policies)
  - >>> considerable (overriding) EU enforcement + nat. Courts
  - >>> coherent and IM-supportive case law
  - >>> EU policies, regulation and single market amalgamated
- Deepening & widening of IM, over time, sustained by (a) treaty revisions, (b) targeted/prudent forms of centralisation

## SINGLE MARKET : NATURE & FUNCTION (4)

- This design has brought a lot,
- But it is running out of steam
- IM “strategies” (2 x under Bolkestein), reviews and Acts have been (too) incremental for 20 yrs
- Had there been no crisis, the prudential EU regime would have remained too little, too soft, many holes
- services directive works, but then again, it does not !
- Now, deepening not only: no barriers + EU regulation
- a single-market-strategy must imply a *better design*

## **SINGLE MARKET : NATURE & FUNCTION (5)**

- A ‘better design’ : address several ‘inconvenient truths’
- Failure will render ‘deepening’ ever more ‘shallow’  
>>> IM will no longer yield extra productivity
- **Inconvenient truths** include :
  - 1. MS must assume greater ‘ownership’ of EU’s ‘joint asset’
  - 2. where relevant, complement removing ‘barriers’ [hard enough] by more suitable design, requiring other joint action
  - 3. accept greater centralisation when targeted and justified
  - 4. “red lines” are often deeply ‘dysfunctional’ for the IM
  - 5. MS regulation may hinder the IM ( cumul ; heterogeneity)
  - 6. address intra-MS distribution conflicts w’out blaming IM

# Better design & inconvenient truths

## Better IM design

- More IM ownership M.S.
- Fitness for purpose of IM
- Accept justified centralisation
- ‘red lines’ highly dysfunctional
- M.S. Regulation w’out IM test
- Intra-MS distribution conflicts

## Inconvenient truths addressed

- Implementation/enforcement + mutual evaluations ; “**our IM**”
- Capital market union (away from bank finance) ; innovation incentives I.M. ( Uniform Patent)
- Independent regulatory Agencies in 4 network industries + finance
- Corporate tax base; ‘energy mix’
- Cumul REGn never market tested; regul.y heterogeneity unbound
- High/low skills, address at home ; aberrations (etc.) free m. at EU



- Deepening of the single market is a ‘must’ for (say) the next 15 yrs or so
- Why ? (see also slide 3)
- It is by far the most important source of growth that the EU as such can exploit (see slides 10, 11)
- Also enables other policies or common actions
- However, this additional growth (i.e. extra productivity increase) must imply **addressing the inconvenient truths convincingly**

## Economic Benefits of the Single Market

- Wave of recent surveys (e.g. Ilzkovitz et al, 2007; Pelkmans, 2011 ; EPRS, 2014 [Cost of Non Europe]; EP/ Civic Cons., 2014; Mariniello, Sapir & Terzi, 2015)
- Trend : gains in simulation studies (much) higher than before (e.g. Straathof et al, 2009) ; ex post studies used to give ‘low’ gains, but new ‘counterfactual’ method (Campos, Coricelli & Moretti, 2014) matches high-gains simulation work
- Due to RIAs and evidence-based policy-making, risk of ‘overkill’ of partial & sectorial studies (cf. Civic, ‘14)

## Economic Benefits Single Market (2)

- Usual caveats about models, methods, periods, countries, assumptions, data [all for given design]

But 'design' matters, too ; examples

- a 'capital market union' alters design
- So does infrastructure for network industries
- Uniform Patent alters IM innovation incentives
- IM rail freight: EU design 10 x benefits (of removal)
- Cross-cutting IM regimes (e.g. Digital, retail, logistics)
- addressing other 'inconvenient truths' ?

## Example : IM for services (our CEPS study)

- first identifying ‘integration deficits’ due to barriers
- Plus, other determinants of fragmentation
- Complemented by an attempt to define what exactly the IM for services comprises (see next slide)
- And at least some design issues
- **Conclusion:** EU leaders assert that **major gains** can be tapped from the services IM ; YES, but these very leaders have to address many ‘inconvenient truths’

# Holistic view of internal services market acquis

## Treaty 'chapeau'

- General TFEU obligations
- free movement & right of establishment
- EU competition policy
- EU regulation & European standards

## horizontal services regime

- horizontal services directive (2006/123)
- public procurement, works & concessions
- infrastructures for network industries
- appropriate, subsidiarity-driven EU powers in a two-tier Union (incl. Agencies)

## sectoral services regime

### financial markets

- banking
- insurance
- investment services
- asset mgt.
- financial stability

### transport modes

- road haulage
- river/maritime
- bus/coach
- air/rail (see network section)
- EU regulation
- Agencies (safety)

### network sectors

- broadcasting
- eCommunications
- gas (electra)
- postal
- air /rail transport

### regulated professions

- diploma recognition
- link services dir
- EU-wide codes

### temporary cross-border services & Dir 96/71

- posted workers
- no circumvention

### sensitive sectors

- private security
- cross-border health (patients)
- gambling

## cross-cutting regimes for single market activities

\* internal retail market    \* digital single market    \*Internal market for logistics    \*Horizontal aquis

# Nature and 'depth' of integration deficits

- The Horizontal Directives
  - The Services Directive
  - Public Procurement
- Sectorial regimes
  - ✓ Financial markets
  - ✓ Rail (Freight)
  - ✓ E-comms
  - ✓ Gas and Electricity
  - ✓ Professional Services
- Cross- cutting services
  - Retail Services [note : Digital I.M. assigned to other study ; Logistics High Level Group failed]

## Other determinants of I.M. fragmentation

- Acquis deficits do not fully explain fragmentation in the services market;
- Fragmentation is also explained by other determinants going beyond the EU competencies, namely:
  - *Regulatory heterogeneity (and the 'cumul' problem)*
  - *Private Law Issues;*
  - *Tax issues;*
  - *Languages (especially for Modes 1, 2 and 4)*
  - *Networking and trust*

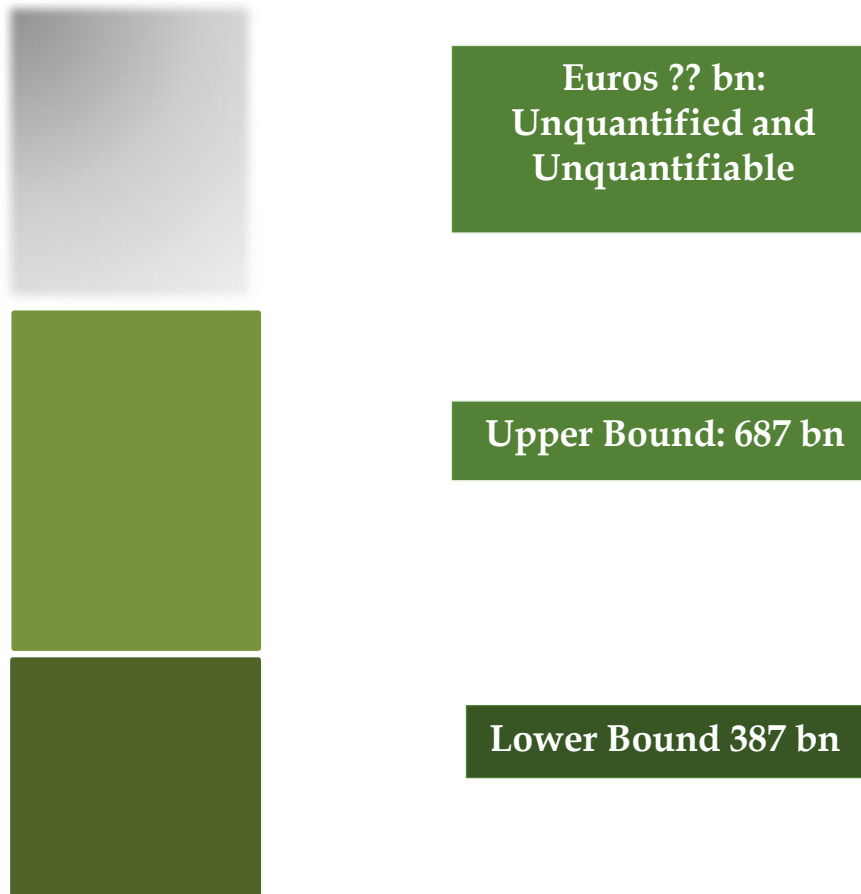
Of these, regulatory heterogeneity would seem to be by far the most costly. *Only Member States acting jointly can reduce these costs.*

## How to quantify the CoNE in Services\*\*?

Sector	Lower bound (bn)	Upper bound (bn)
Services directive	100	304
Financial markets	39.7	105.7
Rail freight	no estimation provided	
eComms	150	150
Gas and Electricity	47	77
Professionals Services	no estimation provided	
Retail	no estimation provided	
<b>TOTAL</b>	<b>336.7</b>	<b>636.7</b>

\*\* In rail freight, a new report estimates Euro 50 bn as lower bound and up to Euro 500 bn as upper bound. This would bring the lower bound total to Euro 386.7





## Towards a new Single Market Strategy

packages of incremental measures yield less & less  
redesigning the IM, where relevant, amplifies gains  
MS should begin by always thinking of “our IM”

‘red lines’ are often dysfunctional, if not damaging

Deepening IM requires e.g. more EU powers and  
money for infrastructure, more (justified) centralisation  
(incl. Agencies), IM tests for MS regulation, systemic  
approach of cross-cutting, social legitimacy ; **all of it**