Senior European Experts

Where Next for the Single Market?

Where Next for the Single Market?

Introduction

The on-going problems of the European economy have prompted a debate about ways in which the EU can contribute to growth in its Member States. With 23 million people unemployed in the EU – almost 10 per cent of the potential workforce – the need to revive growth is clear. At the same time the competition from other economies is increasing; the European Commission estimates that without reform the EU economy could grow at 1.5 per cent annually for the next decade compared to 2011 growth levels of 9.2 per cent in China, 7.2 per cent in India and 2.73 per cent in Brazil.[1] It is feared that without action now, no EU single country would be among the world's top 10 economies by 2050, although the EU as a whole would be amongst the top three global economies.

As part of the debate about ways of boosting growth, a number of ideas have been put forward which would expand the Single Market, for example in the fields of energy and digital communications. But there are also pressures in the opposite direction, calls for Member States to be able to protect their companies from competition, because of fears of further job losses.

This paper examines the various propositions for expanding and improving the Single Market and assesses whether the demands for protectionism will make headway within the EU.

The Single Market Act

The European Commission consulted Member States, the business community and others in 2010 on proposals to modernise the Single Market with the aim of boosting growth and competitiveness in the European economy. The result of this exercise was the publication of the Commission's proposed "Single Market Act" in April 2011, a set of 12 measures for improving the Single Market.

The Commission's proposals had their origins in a report prepared by Mario Monti, the former EU Competition Commissioner (and now Prime Minister of Italy), *A New Strategy for the Single Market,* in 2010 and the subsequent green paper from the Commission that autumn. The term "Single Market Act" came from the European Parliament's Internal Market & Consumer Protection Committee, which reported on the subject in parallel to the Monti review.

The Commission published the necessary draft legislation in 2011 and wants the various measures passed by the end of 2012; those requiring legislation have to go through the normal legislative procedures involving the Council and the Parliament. There are plans for a Single

[1] Figures from the IMF who have published predictions up to 2016 at the time of writing

Market week in October 2012 as part of events to promote this initiative and to highlight the twentieth anniversary of the Single Market coming into being on 1 January 1993.

There are two aspects to the Commission's proposals, those designed to improve the performance of the Single Market to make it more effective, for example through better implementation and enforcement; and secondly the 12 specific proposals designed to improve and expand the Single Market.

What the Commission refers to as "the twelve key actions" are:

1) Improving access to finance for small and medium-sized enterprises (SMEs) by making it easier for venture capital funds established in one Member State to invest freely in any other Member State.
2) Improving labour mobility by modernising legislation on the mutual recognition of professional qualifications.
3) Supporting research and innovation through the establishment of a European-wide patent to reduce the cost of getting a patent registered in all EU countries from €32,000 today to around €2,500 in future.
4) Facilitating alternative dispute resolution in the Single Market in order to improve consumer confidence – for example in e-commerce.
5) Boosting the free movement of services by facilitating the definition of services standards at European level. Growth in EU services averaged 2.8% a year between 1998 and 2008 compared to general growth which averaged 2.1% per year.
6) Improving transport and energy infrastructures by identifying and implementing strategic European projects creating jobs and improving networks at the same time.
7) Developing the digital Single Market through the pan-European operation of electronic identification and signatures, through guidelines on non-discrimination for e-commerce and through modernising copyright laws so that a unified market in digital content can be created.
8) Legislation on a European framework for the development of ethical investment funds to encourage investment by those who seek social as well as financial returns from investment.
9) Reforming the Energy Taxation Directive to ensure consistent tax treatment of different energy sources; fossil fuels are currently favoured over renewables making this legislation inconsistent with the EU's climate change policies.
10) Reform of the Posted Workers Directive to ensure more consistent implementation of this legislation which ensures that SMEs can post workers to another Member State on the terms and conditions of their home state.
11) Reducing regulatory and administrative burdens on business, particularly SMEs. One example is that simplification of accounting rules with a potential saving of €1.5 billion per year for 1.1 million small companies and of €5.2 billion per year for 5.9 million micro-enterprises.

12) New rules on public procurement (it represents 18 per cent of EU GDP) to make them simpler and more flexible and to foster demand for environmentally sustainable, socially responsible and innovative goods and, services.

The Franco-German Plan for Growth

In January 2012 the leaders of France and Germany set out their joint view of how growth could be encouraged in Europe. They called for reform of labour markets, greater support for apprenticeships, a review of the efficiency of public administrations in the eurozone, greater emphasis on innovation and a reduction of tax on labour.

President Sarkozy and Chancellor Merkel wanted to see swift agreement on three of the measures in the Single Market Act – those on venture capital rules, simplifying accounting and reform of public procurement. But they also warned of the dangers of social dumping and called for a fund to be established using unspent Cohesion Funds to support structural reform and growth in countries with austerity programmes. They wanted a common corporate tax base agreed at EU level, a financial transactions tax and a delay in implementing the new banking capital rules.

Letter from 12 Member States: A Plan for Growth in Europe

David Cameron was one of 12 EU prime ministers to put their name to a letter sent in February 2012 to the President of the European Council and the President of the European Commission proposing a wide range of EU policies that would stimulate economic growth.[2] There were inevitably similarities between the letter sent by Chancellor Merkel and President Sarkozy but there were clear differences too.

Claiming that this was a "perilous moment for economies across Europe" with stalled growth, rising unemployment and financial market turbulence, the 12 prime ministers put developing the Single Market as their first objective in generating increased growth in Europe. They highlighted the need for improved governance and higher standards of implementation in the Single Market, particularly in the service sector where they called upon the Commission to do more to report on the efforts to open up the services sector.

The prime ministers supported the Commission on the need to achieve a digital single market and also called for completing the energy single market, already on the EU's agenda, to be made a priority. They also highlighted trade agreements with other major economies, notably India, Canada and eastern neighbours of the EU, as an urgent area for action.

Like Merkel and Sarkozy they sought reform of labour laws but they also called for a reduction in the EU regulatory burden. Finally, they called for steps to create "a robust, dynamic and competitive financial services sector" in which the new international capital rules would be incorporated in EU legislation.

[2] The other 11 were: Mark Rutte (Netherlands), Mario Monti (Italy), Andrus Ansip (Estonia), Valdis Dombrovskis (Latvia), Jyrki Katainen (Finland), Enda Kenny (Ireland), Petr Nečas (Czech Republic), Iveta Radičová (Slovakia), Mariano Rajoy (Spain), Fredrik Reinfeldt (Sweden), and Donald Tusk (Poland)

Much of this agenda reflected long-held British objectives as expressed in the UK Government's March 2011 paper *Let's Choose Growth* which set out the need for reforms to unlock Europe's potential. It differed from the Merkel/Sarkozy view on bank capital requirements and the 12 prime ministers did not endorse the German and French leaders call for a financial transaction tax or for a common EU corporate tax base.

Responding to Protectionism

The history of governments supporting "national champions", nationalised industries and corporate monopolies is not purely a European phenomenon but the EU has been unique in creating a competitive area in which many such practices have been outlawed. It is not surprising that in a time of economic difficulty these rules are under attack.

All the main candidates in the French presidential election in 2012 took a broadly protectionist view. This reflects the lack of competitiveness in France when compared to other eurozone states, notably Germany, and the resulting pressure from public opinion to protect jobs in France as companies relocate or outsource to lower-cost countries than. Local protectionist measures have already been adopted in some Eastern European Member States. The Internal Market Commissioner has suggested that the EU could adopt a policy of reciprocal opening for public procurement with third countries which open up their public procurement markets.

Whilst these pressures unquestionably exist, the EU's fundamental commitment to open markets is part of the treaties and cannot be reversed without unanimously agreed treaty change. The political reality is that while it is easy to call for protectionist measures in the EU it is in practice hard to reach agreement with other Member States to achieve them. The letter of the 12 prime ministers indicated strong support for policy to go in the opposite direction.

Implications for the Single Market of Eurozone Structural Reform

The austerity programmes for eurozone countries receiving EU and IMF support reinforce the EU's wider economic reform agenda because these programmes require them to carry out the kind of restructuring that supports the Single Market. Greece had the highest number of Single Market infringement cases in 2011, Belgium was second, Italy third and Spain fourth.

Labour market reforms are already underway in Italy as a result of the appointment of the Monti Government and follow significant reforms to pensions there. Further developments of this kind in the other eurozone countries will help to make those countries more competitive and thus to revive growth. Importantly, this work does not involve any new EU legislation but the enforcement of existing rules.

Future Developments

The March 2012 European Council endorsed the Commission's aim of completing the Single Market. The communiqué placed particular emphasis on improving implementation and enforcement in the Single Market, on the need to create a digital Single Market by 2015, on removing administrative and regulatory burdens and on deepening trade ties with third

countries. Completing the energy Single Market and pursuing to a successful conclusion the EU's ambition to establish a European research area by 2014 were also mentioned.

The right response to the economic crisis has to be more Single Market rather than "more Europe". The difficulty in getting further Single Market measures lies in the competitiveness problems within the EU which generate protectionist pressures from time to time. But the EU is constituted as a free market grouping and its history has shown that despite differences of opinion within it about how far to go, the trend has been towards liberalisation within an expanding Single Market because of the overwhelming benefits to all Member States.

April 2012

Senior European Experts

The Senior European Experts Group is an independent body consisting of former high-ranking British diplomats and civil servants, including several former UK ambassadors to the EU, and former officials of the institutions of the EU.

The group provides high-quality, fact based briefing materials on EU issues.

senioreuropeanexperts.org

info@senioreuropeanexperts.org

@SEE_Group