UNION OF ENTREPRENEURS
AND EMPLOYERS

THE DIGITAL SINGLE MARKET AND ITS FUTURE

IN THE CONTEXT OF DEVELOPMENT OPPORTUNITIES FOR THE POLISH SME SECTOR

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CONTENTS

INTRODUCTION

In a dynamically evolving world with technology being an integral part of our lives, the Digital Single Market is the foundation of the future of the European economy. Each of the technological breakthroughs observed over the past few years – from the introduction of fifth-generation networks to the development of artificial intelligence – has caused significant changes in the economy and, above all, changed the way that businesses operate. Today, it is the technological innovation that shapes the business landscape and determines the competitive edge of companies. The development of digital transformation is particularly important for small and medium-sized enterprises (SMEs), which are the backbone of the Polish economy. Of the 2.3 million enterprises operating in this country, as many as 99.8 percent of the entities are classified as SMEs. These companies account for half of Poland's GDP and provide employment for nearly seven million people. The Digital Single Market plays an important role in their development, facilitates foreign expansion and consequently affects the level of innovation in the European economy.

Regulation of the digital aspects of the economy has become one of the priority actions on the European Union's agenda. As a result, in May 2015, the Digital Single Market Strategy for Europe was announced with a view to enabling the free movement of people, goods, services and capital in Europe's digital environment. It is based on the concept of a common market and the elimination of trade barriers between Member States to increase economic prosperity and create "even closer ties between the peoples of Europe." The strategy is expected to help accelerate the development of digital services, thereby building the competitiveness of European companies and strengthening the global significance of Europe in the field of new technologies. The COVID-19 pandemic proved the importance of the Digital Single Market in sustaining the EU's economy and trade relations, as it made it possible to successfully combat the crisis and subsequently, to carry out economic recovery.

Although the implementation of the Digital Single Market principles in their current version brings about tangible economic benefits and stimulates GDP growth within the EU, its full potential for SME development remains untapped. Digital over-regulation, impediments to the exchange of goods and services, uneven implementation of common regulations –this report outlines the main barriers that stand in the way of Polish SMEs planning to expand abroad, especially through digital sales channels. Eliminating these barriers will not increase only the level of development of economies of individual Member States, but most importantly, will boost the economy of the European Union as a whole. Our publication also aims to inspire EU institutions and bodies to take new initiatives that can contribute to the effective functioning of the Digital Single Market. We wish you an interesting and inspiring read.

1. ORIGINS AND OBJECTIVES OF THE DIGITAL SINGLE MARKET

Since its creation, the European single market has become a major driver of integration among European Union Member States. It supports their prosperity, and, more importantly, eliminates obstacles to intra-Union trade, attracts foreign investment and stimulates the labor market. The concept was created in the European Economic Community and in one of the two 1957 Treaties of Rome. From the beginning of the EEC, the key objectives of the Community, as set forth in Article 2 of the Treaty, included the establishment of a common market, the gradual approximation of the economic policies of the Member States and, as a result, the promotion of harmonious development of economic activity and accelerated growth in living standards. On the other hand, Article 3 of the treaty identified specific areas requiring action by signatories to unify the market. Among other things, it provided for the elimination of customs duties between Member States, the development of a common customs policy toward third countries, the removal of barriers that prevent the free movement of people, services and capital, and the adoption of common policies in such areas as agriculture and transportation.

The adoption of the Single European Act[1] thirty years later, in 1987, was another milestone for the development of the single market. Under the treaty, the signatory States not only regulated further areas for cooperation and clarified the provisions of the Treaty of Rome, but explicitly pledged to adopt the measures necessary for the establishment of the intra-Community market. According to the treaty, the market should be an area without any internal barriers to the free movement of goods, people, services and capital. At the same time, the SEA established a specific cut-off date for the full establishment of the single market – December 31, 1992. The deadline was met, and we recently celebrated its 30th anniversary.

The indicated treaties are only a formal framework for implementing the single European market. Its implementation and subsequent enforcement were the result of expert and analytical work pushing for the approximation of the economic policies of the Community's Member States and the opening of a borderless internal market for people, goods, services and capital. The goal was clear – to renew and accelerate the development of the European economy, which was weakening in the last "quarter" of the 20th century.[2] After two major wars, the Community Member States have concluded that the only development path to be taken in the near future is the cooperative model for a change.

An additional factor accelerating their actions was the development of world economic powers, led by the United States, on a scale larger than any European country. In the face of this, two possibilities loomed before the Old Continent. One of them was to choose the decentralized development of unrelated states,

1 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:11986U/TXT.

2 https://www.coleurope.eu/sites/default/files/research-paper/beep41_0.pdf.

possibly leading to the emergence of a continental hegemon capable of challenging the said powers, which likely could result in a return to old historical tensions. The second concept, the one that was championed, was a move toward seeking space for a community of European interests, including economic ones. The European Single Market has thus become, on the one hand, a response to the challenges of a globalized world in which economies of scale play an increasingly important role and, on the other hand, an expression of the spirit of the 20th century and the unifying ideas that appeared in the aftermath of the wars waged on the continent.

Today, the Single Market is regarded as one of the greatest achievements of the European Union and its institutional predecessors. Thanks to it, companies from different European countries can freely compete and offer their products and services not only in the home market, while job seekers are not territorially limited only to the country of their permanent residence. As the European Commission points out, the Single Market nowadays consists of nearly 450 million consumers and accounts for 18 percent of global GDP, and intra-EU trade (as well as EU trade with the rest of the world) accounts for 1/3 of total world trade.[3] The Polish market is also among the significant beneficiaries of this system. According to a report by the Polish Economic Institute, the Single European Market has been one of the main drivers of our country's socio-economic development over the past 18 years. Poland's GDP PPP per capita has nearly doubled during the period of EU membership and is 31 percent higher today than it would have been had we not decided to join the EU in 2004.[4]

Despite these undoubtedly impressive achievements, however, the way the Single Market operates remains imperfect. At the level of individual Member States, there are often barriers of a protectionist nature, making it difficult for businesses outside of a particular country to access a particular market. This problem is known to EU institutions and has been repeatedly addressed in expert studies – including those of the Union of Entrepreneurs and Employers.

Of course, the historical outline as described above does not cover the digital policy. When the foundations of the European Single Market were being shaped, the digital economy did not yet exist in the form we know today. Much has changed in the meantime – according to experts, by 2025, 24.3 percent of global economic activity will take place in the digital sector, and the value of the digital economy will grow to $23 trillion.[5] The dynamic development of new technologies and, consequently, of e-commerce and new business models has put the regulation of the digital aspects of the economy at the top of the European Union's agenda. As a result, 22 years after the official creation of the Single Market, the Digital Single Market Strategy for Europe was announced in May 2015.[6]

3 *https://single-market-economy.ec.europa.eu/system/files/2023-01/ASMR%202023.pdf.*

4 *https://pie.net.pl/wp-content/uploads/2023/07/PIE-Raport_Jednolity_rynek_UE.pdf.*

5 *https://www.oxfordeconomics.com/resource/digital-spillover/.*

6 *https://eur-lex.europa.eu/legal-content/PL/TXT/HTML/?uri=CELEX:52015DC0192.*

It took the form of a communication of the European Commission and reflected the political guidelines for the new EC term presented by Jean-Claude Juncker a year earlier. These guidelines pointed out that ”we must make much better use of the great opportunities offered by digital technologies, which know no borders”. Specific reference was made to, among other things, the telecommunications market (especially in the context of roaming charges, which were later actually successfully abolished), the need for uniform data and consumer protection rules for companies operating within the EU or the need to improve digital skills and their acquisition throughout society. The European Commission's guidelines included a forecast by economists that the creation of an interconnected Digital Single Market could generate as much as €415 billion in annual economic growth and 1.5 million new jobs.

The Digital Single Market Strategy was based on three key pillars:

1. **better access for consumers and businesses to goods and services** online across Europe by removing barriers to cross-border online activity;
2. **creating the right conditions for the development of digital networks and services**;
3. **maximizing the economic growth generated by Europe's digital economy** by investing in infrastructure and technology, as well as expanding the populations that use digital solutions and supporting the development of their skills.

In addition, the strategy included a number of statistics, well illustrating the starting point of 2015, when:

- only 38 percent of consumers trusted online retailers from EU Member States other than their country of residence,
- only 7 percent of SMEs in the EU had cross-border sales,
- 45 percent of companies considering selling digital services online to individuals felt that copyright restrictions prevented them from selling abroad,
- annual VAT compliance costs for an EU company with foreign sales were at least €5,000 for each Member State in which the company sold.

Analysis of these statistics leads to two key conclusions. In some respects, a relatively large number of measures have been taken to increase business and consumer benefits. One example is the simplification of VAT settlement implemented in recent years. As the study commissioned by the Committee on the Internal Market and Consumer Protection (IMCO), “European Digital Single Market. Delivering economic benefits to citizens and businesses” of 2019, the European Council Regulation and the 2018 VAT Directive for e-commerce could reduce compliance costs for businesses by €2.3 billion per year starting in 2021, while increasing Member States' VAT revenues by €7 billion.[7] In addition, it was estimated that greater savings could be achieved by SMEs – on the scale of annual VAT compliance costs of 14 percent to 18 percent, for a total of €68 billion.[8] Since the release of the IMCO study, other regulations such as: one stop shops and the VAT in the digital age plan have also been created, which have implemented additional simplifications.

On the other hand, the opportunities of the single market in cross-border trade are still untapped. According to the latest data, while nearly 20 percent of companies in the EU sell services and goods online within their own country, only 8.1 percent also offer them in other EU Member States.[9]

The fact that the adopted strategy has not translated to any significant extent into the way companies operate, and their digitization in particular, is also evidenced by an analysis of data provided by Eurostat. In 2015, 16.2 percent of companies in the European

7 *https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631044/IPOL_STU(2019)631044_PL.pdf.*

8 *Ibidem.*

9 *https://ec.europa.eu/eurostat/statistics-explained/index.php?title=E-commerce_statistics#Cross-border_web_sales_within_the_EU_not_fully_exploited_by_enterprises.*

Union were accepting online orders, and by 2022 this figure was 19.7 percent.[10] In the seven-year period dividing those two figures, we experienced rapid growth in the e-commerce sector and the COVID-19 pandemic, which caused an even more intense increase in the share of online purchases in consumers' shopping carts. In the light of these developments, an increase of just 3.5 percentage points is disappointing. It is also not surprising that expert studies claim that European companies "are lagging behind" in the context of implementation of digital solutions.

Moreover, due to the nature and dynamics of the EU legislative process, as well as the Commission's growing ambitions, the regulatory landscape for the digital economy in the EU is becoming increasingly less transparent. More and more proposals and acts overlap, often duplicate each other, and additionally change their shape and scope many times during the legislative process. As a result, it is becoming increasingly difficult for companies to grasp the legal reality. The problem is particularly acute for smaller entities without professional assistance.

One mechanism that could affect the barriers described above is the Regulation of the European Parliament and of the Council (EU) of 28 April 2021 establishing a programme for the internal market, competitiveness of enterprises, including small and medium-sized enterprises, the area of plants, animals, food and feed, and European statistics (Single Market Programme).[11] The Regulation establishes the objectives, budget, management system and financing rules related to the first integrated program for the single internal market. Its important feature is that it combines activities

10 https://ec.europa.eu/eurostat/databrowser/view/TIN00111/default/table?lang=en.

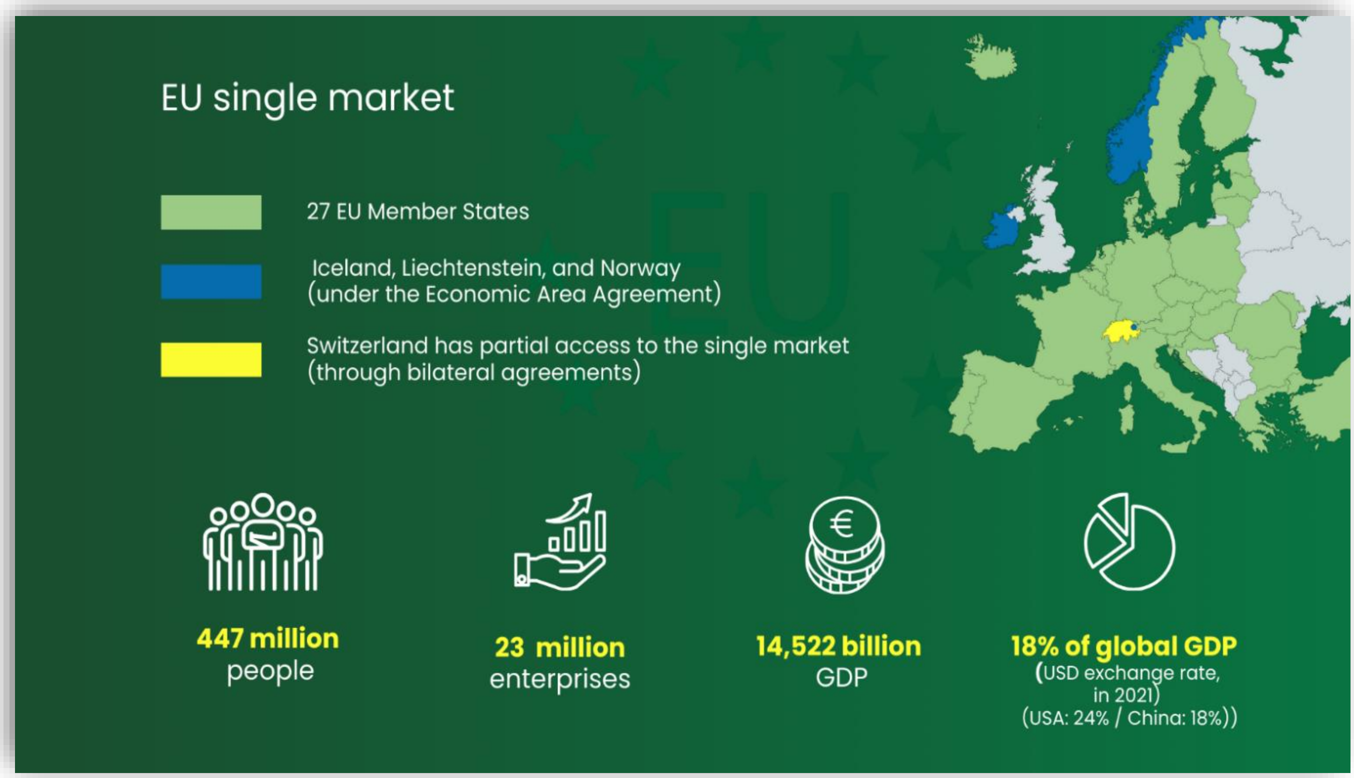
11 https://eur-lex.europa.eu/PL/legal-content/summary/single-market-programme.html.

previously funded under six separate programs, including the COSME program. The program implementation is scheduled for 2021-2027, with a total budget of €4.2 billion for the goals contained therein.

Funding under the Single Market Programme is intended to be used, among other things, to increase the efficiency of the internal market, particularly through digital transformation, to promote consumer interests and to produce high-quality European statistics. On the other hand, one of the most important objectives from the point of view of small and medium-sized enterprises' development is the one related to the existing COSME program, and it involves strengthening the competitiveness and sustainability of SMEs.[12] The program is expected to provide effective support to SMEs by providing assistance to them – from finding partners for joint projects to commercialization and market access, capacity building, and encouraging cooperation within clusters and business network organizations.[13] SME funding under the Single Market Programme will include, among other things, support for cross-border trade, innovation consulting and collecting SME opinions on legislative proposals.

Much work lies ahead, but the overall contribution of the Digital Single Market to the EU economy is undeniable and measurable. It is estimated to generate nearly 177 billion euros in additional growth each year.[14] How the integration of EU Member States' markets affects the prosperity of the economy is perfectly illustrated by the results summarizing the 30th anniversary of the European Single Market.

INFOGRAPHY 1. 30 years of the single market: a European success story



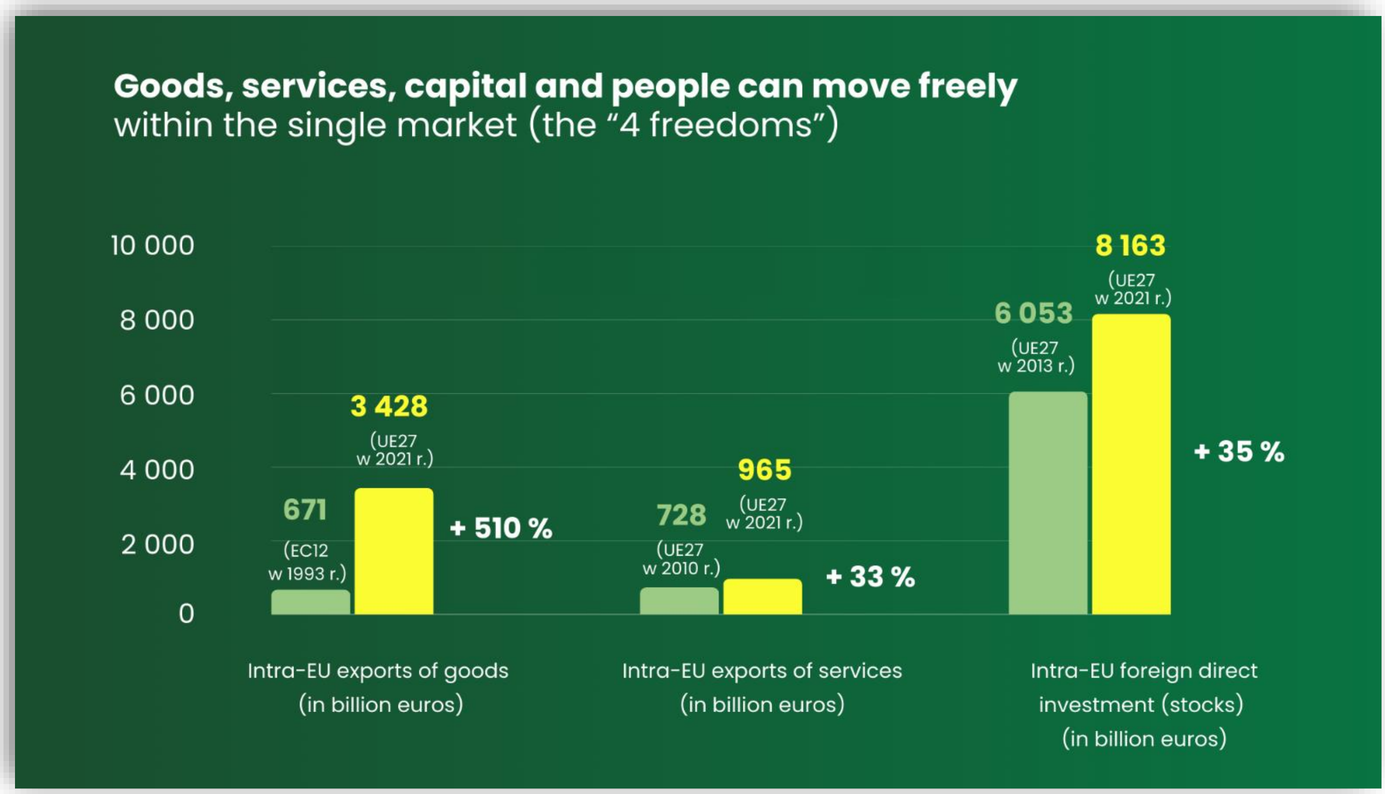
Source: Council of the European Union

12 https://isap.sejm.gov.pl/isap.nsf/download.xsp/WMP20210001206/O/M20211206.pdf.

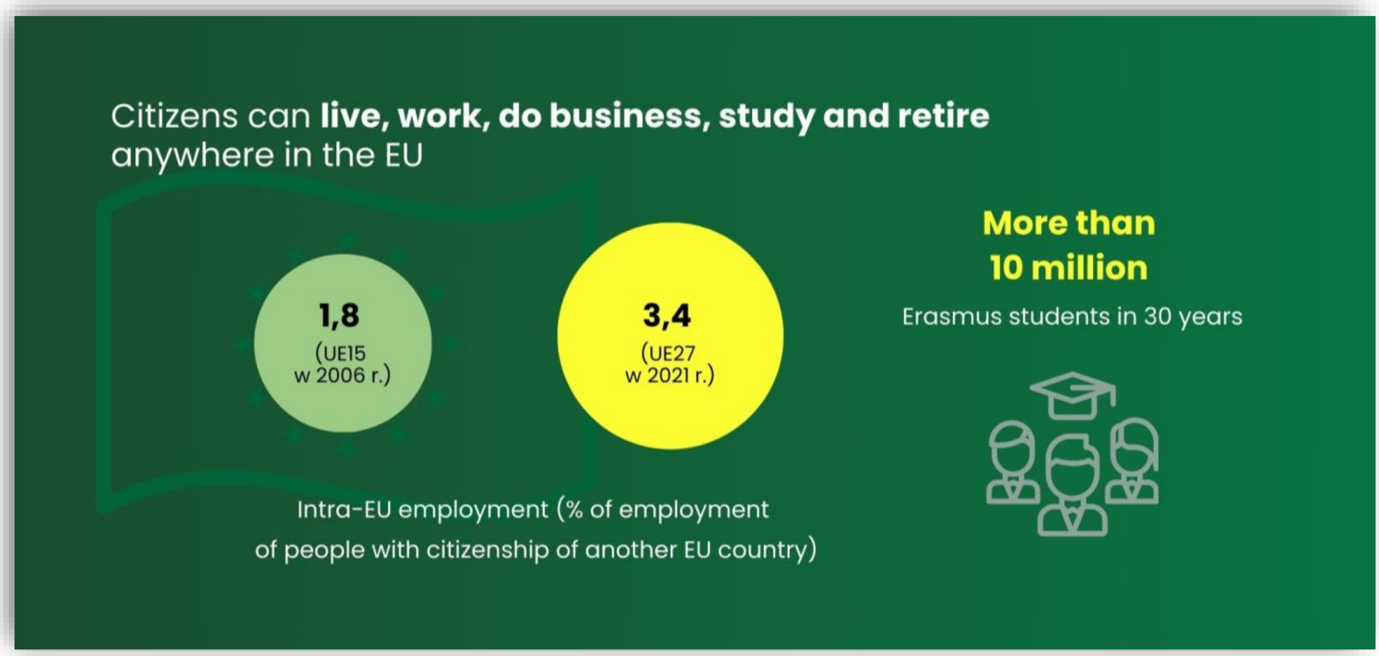
13 https://eur-lex.europa.eu/legal-content/PL/TXT/?uri=celex%3A32021R0690.

14 https://www.europarl.europa.eu/factsheets/en/sheet/43/the-ubiquitous-digital-single-market.

INFOGRAPHY 2 and 3. General principles of the single market



Source: Council of the European Union



Source: Council of the European Union

While appreciating what has been achieved so far, it is important not to forget areas where further improvement could significantly multiply the impact of the Digital Single Market on European development and prosperity. It is these aspects that will be analyzed later in the report.

2. CHARACTERISTICS OF THE POLISH SME SECTOR

Undoubtedly, the common market, including the Digital Single Market, generates opportunities for all entrepreneurs. However, SMEs, which are able to scale their operations with relative ease thanks to the Digital Single Market, are special beneficiaries of its opportunities. Traditionally, entering a third-country market has involved significant costs. These have been generated primarily by activities related to gaining insight in the local economic situation, organization of the enterprise, learning about and fulfilling all the obligations of the country's regulations. Large business structures do not have a particular problem with this type of activity, due to both having the resources (entering a new market is generally a significant investment, but rarely decisive for a company's current financial situation) and the experience gained from expanding into third markets in the past (the replicability of the path of entry into a new country – a similar, already known process, even though carried out in different conditions).

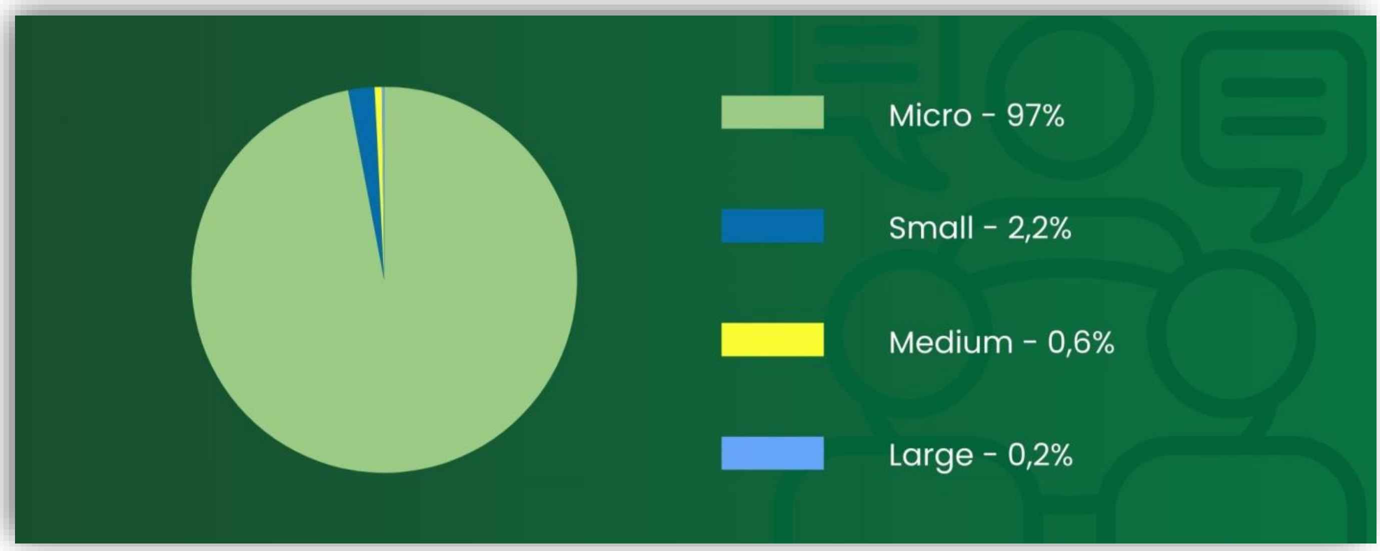
SME entrepreneurs without a capital base are in a much more difficult situation. Consequently, any kind of international expansion involves a gigantic effort and – most often – they have to deal with a lack of know-how. In an ideal model of a single digital market, operating a digital business in France should be almost no different from operating one in Poland and should be fully feasible regardless of the physical location of the establishment. This assumption ensures that a significant portion of both uncertainties and risks, as well as costs, are neutralized or removed. For larger companies, it will simply mean a favorable environment and some kind of savings. For small players, on the other hand, it is likely to be a factor in determining the possibility of expansion. Therefore, it is in the interest of the SME sector to develop the Digital Single Market and eliminate barriers in it.

The most comprehensive study of the SME sector in Poland is the annual report of the Polish Agency for Enterprise Development (PARP).[15] It is worth noting that the data used by PARP in the latest edition is from the 2020/2021 period. This means, therefore, that Poland lacks, in fact, current statistical research on this group of entrepreneurs. This is because the statistics provided by Statistics Poland in monthly, quarterly or even annual cycles include companies with more than 9 employees – thus excluding the most numerous group of Polish entrepreneurs, namely micro businesses. The PARP report, on the other hand, is the best source of information on SMEs that we have at the moment.

According to the publication, 99.8 percent of companies in Poland are SMEs, of which the overwhelming majority, 97.2 percent, are micro businesses. These are the smallest entities – employing a maximum of 9 people and with revenues of no more than €2 million euros.

15 https://www.parp.gov.pl/storage/publications/pdf/ROSS_2023_scalony_ost_popr.pdf.

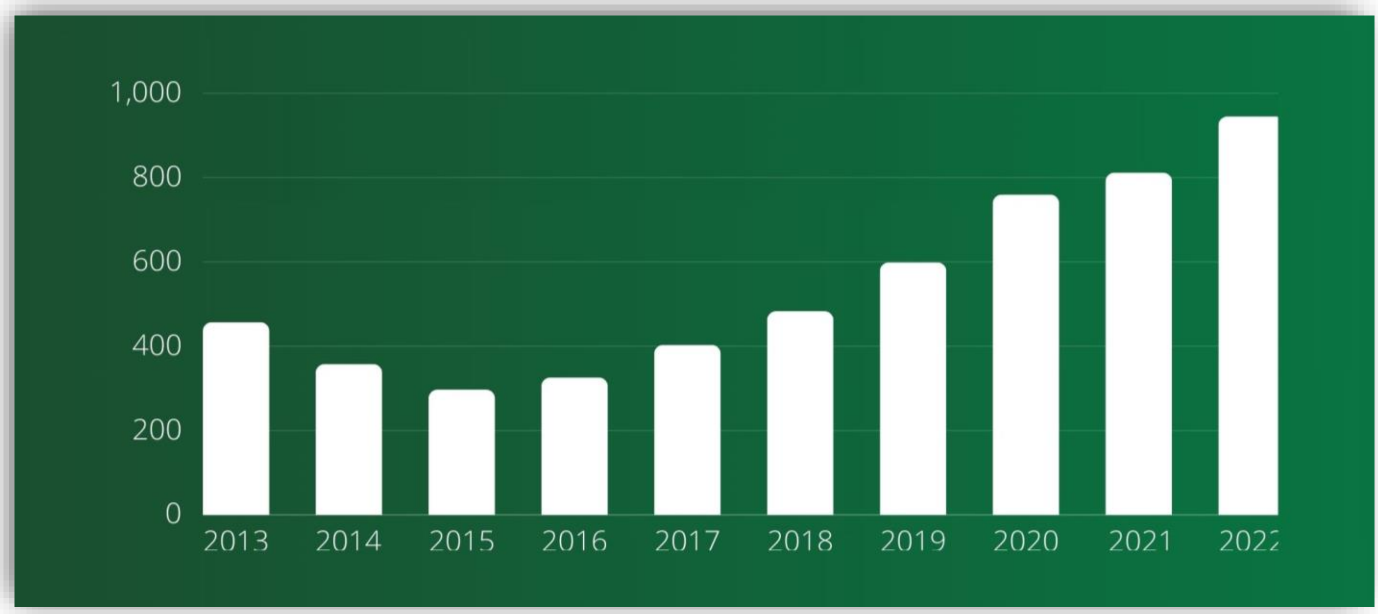
Chart 1. Structure of companies in Poland (by size)



Source: Report on the state of the small and medium-sized enterprise sector in Poland, PARP

SMEs have a special significance for the economy in Poland, as they generate 43.6 percent of GDP and employ nearly 7 million people. In 2022, Polish SMEs continued their post-pandemic recovery – as the European Commission's Annual Report on European SMEs 2022/2023 shows, their added value increased by 7.6 percent and employment by 1.1 percent[16].

Figure 1. Annual growth rate of nominal added value of SMEs under the NFBS in 2022 in the EU27 and EU Member States



Source: Annual Report on European SMEs 2022/2023

16 https://ec.europa.eu/docsroom/documents/54977.

Here, a remark should be made that goes beyond the standard statistical description of the category. Every national government over the years has seemed to have made it one of their key economic policy goals to bring about a situation where a much higher percentage of companies would grow and expand. Politicians keep repeating the line that micro companies should grow to small, small to medium, medium to large, and some of the large ones could grow to the size of regional, European or even global players.

Undoubtedly, this is a goal worthy of support. However, it is important to consider the specifics of the smallest part of the business environment that will never be scalable as it relies on providing products and services to a specific, usually local market in order to support the owner and their family – these are by no means traditional businesses focused on gradual revenue growth and development. The percentage of SMEs in Poland has remained at a similar level for years, just like the number of large entities, and companies in this segment, with some exceptions, have stagnated in specific size categories and are not growing any further.

In 2020, 92.5 percent of large companies had their own website, but only 67.3 percent of small businesses had one. For medium-sized companies, the percentage was 88.6 percent.

At this point, it is important to note a factor that is difficult to quantify, and which does not seem to have been sufficiently studied, namely a certain lack of “hunger” among Polish companies. Direct experience of working with the Polish SME sector leads us to believe that a significant portion of entities in this segment are focused on current operations to such a level that they do not have the space to create development strategies for the future. Moreover, some companies make a completely conscious decision to keep their current size, considering growth a challenge rather than opportunity. This is a psychological and mental barrier, and thus difficult to overcome. However, it seems to be the one that most effectively prevents companies from consistent growth.

What is particularly striking in the analysis of the Polish SME sector is the significant gap in the use of digital tools. The survey presented by PARP in this regard does not include micro companies, but based on the assumption that the smaller the company, the less it absorbs digital solutions, we are able to outline an approximate order of magnitude for the individual statistics.

In 2020, 92.5 percent of large companies had their own website, but only 67.3 percent of small businesses had one. For medium-sized companies, the percentage was 88.6 percent.

If no particular deviation is assumed for micro businesses, the value for them should probably be around 50 percent. This would mean that in the largest group of companies in Poland, one in two businesses lacks such a basic tool as their own website. Relatively few companies in the sector are also taking advantage of the ability to accept orders online – the option essential to take full advantage of the Digital Single Market. This is done by twice as many medium-sized companies as large ones (20.7 percent vs. 43.6 percent) and relatively few small companies (15.2 percent). However, it should be pointed out that in this regard, there has been some improvement over the previous years, because in 2021 only 14.5 percent of small businesses received orders through computer networks – so their percentage has increased by 0.7 percentage points in two years. Extending this statistic, as it were, to micro companies as well, it can be assumed that about 10 percent of them take advantage of this opportunity, which is a small figure.

Kosma Złotowski

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and Reformists Group

The SME sector in Poland has been struggling for years with unnecessary excessive bureaucracy, over-regulation due to European regulations and difficult access to EU funding. The crises that have hit Europe in recent years and the unreasonable paceof the energy transition imposed by Brussels have burdened companies with additional costs. In addition to the chaos it has caused in the economy, the pandemic has become an accelerator of digital transformation and made businesses face the need to adapt to the demands of this revolution. It is this vulnerability to crises and the crucial importance of small and medium-sized enterprises to the Polish economy that makes the SME sector require special treatment when creating new laws and regulations in all areas.

The digital condition of Polish SMEs is also reflected in the first report on the state of the Digital Decade.

It summarizes the progress of individual EU Member States on the path to successful digital transformation, as set out in the Path to Digital Decade 2030 policy agenda[17]. The program sets out the digital ambitions for the next decade, which are encapsulated in four main goals:

- a digitally skilled population and highly skilled digital professionals,
- secure and sustainable digital infrastructure,
- digital transformation of businesses,
- digitization of public services[18].

One of the program's goals is also to promote the interconnectivity, interoperability, and security of the Digital Single Market.

17 https://digital-strategy.ec.europa.eu/pl/library/2023-report-state-digital-decade.

18 Ibid.

Table 1. „Path to the Digital Decade" targets by 2030

Skills	**Digital transformation of enterprises**
ICT specialists: 20 million + more gender balance in the profession **Basic digital skills:** at least 80 percent of the population	**Use of technology:** 75 percent of EU businesses should use cloud, AI or big data **Innovators:** developing scale-ups and increasing access to financing to double the number of so-called "unicorns" in the EU **Technological development lags**: more than 90 percent of SMEs should achieve at least a basic level of digital usage
Digitization of public services	**Secure and sustainable digital infrastructure**
Key public services: 100 percent online **e-Health:** 100 percent of citizens have access to medical records online **Digital Identity:** 100 percent of citizens have access to electronic identification	**Connectivity**: one gigabit for everyone **Top-quality semiconductors:** double the EU's share of global production **Data – edge and cloud solutions**: 10,000 climate-neutral edge nodes **Data processing:** first computer with quantum acceleration

Source: European Commission, Europe's Digital Decade: digital goals for 2030.

Unfortunately, as the first report shows, Poland's performance remains below the EU average. Cloud services are used by 19 percent of Polish companies (EU average is 34 percent), and electronic information exchange is used by 32 percent (EU average: 38 percent). The least, only 3 percent of Polish companies integrate AI-based technologies into their operations. The data show that we still have a lot of catching up to do because according to the goals of the Digital Decade, at least 75 percent of enterprises should use cloud services, big data or AI by 2030 the EU average.

39 percent of Polish SMEs were classified as exporters in 2022, matching the EU average. 90 percent of them exported to European Union countries.

Adam Jarubas

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Unfortunately, in recent years, Poland's position in the digitalisation ranking among EU member states has not looked favourable. In the Digital Economy and Society Index (DESI), we are positioned in 24th place. While there is an ongoing dispute about measuring digitalisation level, and in some indicators of the index, Poland holds a leading spot, much work still needs to be done. Polish SMEs and digital startups that can succeed despite these challenging conditions deserve respect.

It is worth appreciating that the European Union has a clear vision for digital transformation addressed within the "Path to the Digital Decade" policy program. With the help of EU funds, including the National Recovery Plan (NRP), which the new government must activate as soon as possible, we can address the discussed challenges, unlocking the full potential of Polish companies. European Union-level regulations are an excellent way to stimulate their development. They standardise regulations across the EU, and legal segmentation, as indicated in the report, is identified as one of the barriers to developing SMEs in Europe. For this reason, they are introduced by regulations, which, more than directives, harmonise the single digital market.

The current term of the European Parliament has resulted in numerous legal changes, including DGA, DSA, DMA, DA, and the ongoing AI Act. However, it should be emphasised that DSA and DMA are reforms of the European digital market - a sector that has been developing rapidly for over 20 years since adopting the current "constitution" of the European digital market - the e-commerce directive.

Therefore, we must ensure rational legislation within the European Union. Let's hope the digital regulations adopted in this term will be equally enduring, clearly defining the division of responsibilities and rights ensuring legal stability and predictability for the next decades.

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The above data correlate with information on exports of Polish SMEs. As Polityka Insight writes in its report, citing Eurostat data, our micro, small and medium-sized companies account for about 33.5 percent of the value of total exports of goods and services.[19] At the same time, one can clearly see a kind of overrepresentation of medium-sized companies, which definitely go to foreign markets more often than their smaller peers. This observation is in line with the intuitive diagnosis that the SME category as such is extremely diverse. As a rule, medium-sized companies are much closer to large ones than to micro operations, even though they are in the same category with the latter, and not the former. Such discrepancies significantly interfere with the accuracy of statistical measurements, or rather cause the performed analyses to not fully

19 *https://www.politykainsight.pl/_resource/multimedium/20306210.*

correspond to reality. However, the crucial importance of the Digital Single Market within the EU for the development of exports within Polish SMEs is evidenced by other data.

According to the SAFE report, 39 percent of Polish SMEs were classified as exporters in 2022, matching the EU average. 90 percent of them exported to European Union countries.

Dr. hab. Katarzyna Śledziewska

Prof. UW, Director of DELab UW, and Representative of the Rector of the University of Warsaw

The Polish economy and industry development depend on intensifying support for Polish businesses in digital transformation. Currently, only a tiny percentage of companies in Poland demonstrate advancement in implementing digital technologies, with lower participation in the manufacturing sector than in other industries. Large enterprises adopt key digital technologies more often than small and medium-sized enterprises (SMEs), where a significant gap exists compared to industry leaders and other EU member states.

To strengthen their competitive position in the market, Polish businesses need to increase the scope of digital implementations, encompassing technologies such as the Internet of Things (IoT), data analytics, process automation, artificial intelligence, and advanced customer relationship management (CRM) systems. Particularly concerning is the gap in Polish companies' use of data and intelligent algorithms. Insufficient involvement of employees with advanced digital skills poses another challenge. In a changing work environment, digital competencies are required at every management level, from leadership to frontline workers.

Supporting Polish engineering firms that possess in-depth knowledge of the specifics of the Polish industry represents a significant opportunity to accelerate the digital transformation process in the SME sector. With their experience and expertise, these companies can offer tailored solutions that can be effectively adapted to the specific needs and conditions of operation of small and medium-sized industrial enterprises. Their role as technology providers and consultants can be crucial in overcoming technological and organizational barriers that often hinder SMEs from fully leveraging the potential of digitization. A personalized approach, considering these enterprises' individual needs and constraints, enables more efficient and targeted implementations of modern technologies, such as IoT, data analytics, or process automation. Moreover, Polish engineering firms can play an essential role in the education and training of SME employees, providing technological solutions and essential knowledge and skills. Through such efforts, they can significantly contribute to the growth of digital competencies among Polish entrepreneurs and workers, which is crucial for increasing the competitiveness of the Polish industry in the global market.

Interesting fact: During the pandemic, the growth of digital solution implementations in Polish businesses was relatively small compared to the pace observed in other EU member countries, further emphasizing the need to intensify efforts towards digitization in Poland.

3. BARRIERS TO THE DEVELOPMENT OF THE DIGITAL SINGLE MARKET

At the beginning of this chapter, the authors propose to sum up the findings so far:

- the Digital Single Market as a concept is expected to benefit the development of European companies, generate higher added value and stimulate innovation by removing barriers to operating online between EU Member States;
- the implementation of the Digital Single Market principles in their current version leads to tangible economic benefits and stimulates GDP growth within the European Union, but the full potential of the Single Market remains untapped;
- a clear example is the Polish SME sector, which – although the benefits of being in the Digital Single Market are particularly clear to it – remains insufficiently digitized and relatively reluctant to internationalize.

The reasons for caution in starting a presence in the Digital Single Market can be divided into three specific groups:

- **internal** - e.g. no desire to grow, or business specifics that preclude intensive scaling. An example would be a hairdressing salon which uses B2C digital tools but will not enter other markets using the opportunities of the Digital Single Market;
- **external, domestic** - e.g. complicated business regulations that leave the entrepreneur with no space to plan and implement expansion, unfriendly administrative and institutional environment that hinders new initiatives, barriers to accessing capital, etc.;
- **external, EU-leve.**

Removing internal barriers is a difficult task (if possible at all, by instilling ambition and a hunger for success beyond personal wealth in entrepreneurs), and national constraints are particular to each specific Member State.

External barriers at EU level, on the other hand, can be described by referring to development trends of the Digital Single Market and the European Union's methods of action in the field of digital policy. The key barriers in the third category will therefore be presented below.

1. Digital overregulation

All available research (whether academic or conducted directly on entrepreneurs – both quantitative and qualitative) shows that one of the main barriers to business overall is the unpredictable and often changing regulatory environment. There is no doubt that it is the digital market that is the area that the EU institutions have been very keen cover with regulations over the past few years. We are dealing with a veritable cannonade of proposals and acts that – with varying intensity – are focused on regulating the digital economy in its broadest sense. Digital Services Act, Data Act, Digital Markets Act, GDPR, AI Act, ePrivacy, Terrorist Content Online Regulation, Data Governance Act, NIS2 – these are just some of the regulations, both already enacted and only drafted, that have appeared on the horizon over the past few years.

It can be argued, of course, that they apply to different areas or categories of entities. However, this does not change the fact that, for an essentially sector-specific regulation, they occur with extraordinarily high frequency, leading to an ever-increasing level of complexity in the regulation of the digital market within the European Union and thus raising the threshold for entry for potential new players.

Regulatory barriers are most painful to smaller companies, which have neither their own specialized legal departments nor the means to acquire the necessary competence in the market.

According to SAFE's 2022 survey, SMEs in Poland were significantly more likely to agree with the statement that regulations are the most important problem (17 percent) compared to the European Union average (9 percent).

From their point of view, the depth of interference of regulations in economic life is one problem, but the sheer multiplicity of them becomes a separate one – for each new act creates the need to verify whether a particular type of activity of a particular entity is covered by it. And confusion in this regard is not hard to come by. The multiplicity of legal acts means that theoretically the same areas are regulated in many places at the same time. As an example, there is no consistent approach to regulating online content moderation – provisions in this area are found in both the Digital Services Act, the draft Terrorist Content Online Regulation and the new Media Freedom Act proposal. It gets even more difficult when it comes to regulating the handling of data – for at least some rudimental provisions in this area are included essentially in all of the previously mentioned regulations, and in some of the more significant decisions such as Schrems II.

Such a complex regulatory environment has a cascading effect on SMEs that would like to enter the EU digital market. On the one hand, through its influence on the largest players (see the example of the Digital Markets Act), it causes increased costs and therefore reduced availability of tools useful and sometimes necessary for development in this area. On the other hand, it creates a barrier of uncertainty and fear of starting a business in such a tightly regulated area. The digital market at the EU level is currently treated in terms of regulations almost like the excise sectors, and this does not create favorable conditions for the development of SMEs in this area. In addition, the multiplicity of regulations means that testing new and innovative business models may not be possible, for example, due to the specific restrictions placed by regulations on the collection and processing of user data.

An example of how the plethora of new regulations generates the risk of conflicts between legal acts is the convergence of issues addressed in the Digital

Markets Act, which were partially regulated by the P2B regulation. In addition, the DSA establishes the duties and responsibilities of online platforms to remove content published online – similar to the aforementioned Terrorist Content Online Regulation or Copyright Directive. The latter two pieces of legislation have a narrower scope of application than the DSA, but nevertheless all three in fact boil down to regulating online content and establish various obligations and liability thresholds for online platforms.[20]

The high number of new regulations generates definitional and procedural difficulties and, as a result, also reduces legal certainty. This means that companies operating in the digital sector face high costs to comply with the new requirements. Due to limited resources, SMEs will be disproportionately burdened with these costs. According to a report by the Polish Economic Institute (PIE), the costs of implementing compliance with the DSA and DMA regulations, as well as new information obligations that arise for companies selling through online platforms translate into about PLN 52.3 million in administrative costs across the economy.[21] On the other hand, costs for intermediary services (hosting) are much higher. According to the European Commission's estimates given in the PIE report, these range from 0.1 to 2 FTEs dedicated to adjusting to the new reporting obligations. Assuming 1 FTE for each of the hosting companies included in this requirement (33 medium and large companies), this translates into annual costs of about PLN 116,000 per company, or PLN 3.8 million for the entire economy. However, they do not include the unit cost of setting up a system to process and store the data. Ultimately, the compliance costs of the above regulations may become a barrier to entry and expansion for some companies.

From the point of view of top representatives of EU institutions, more and more regulations make the EU a "leader" in setting trends and standards when it comes to protecting users online, especially in the context of data. In practice, however, this leads to very tangible consequences. The result is limited or delayed availability of some services within the EU. Examples include the popular large artificial intelligence language models that came to Europe long after they became publicly available in other regions around the world and the limited activity of SMEs.

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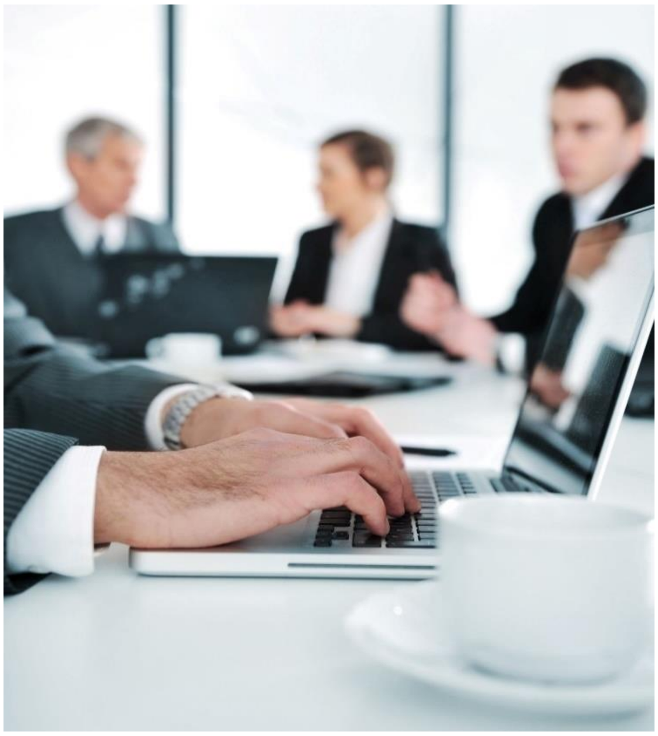

[20] *https://zpp.net.pl/wp-content/uploads/2021/05/25.05.2021-Raport-ZPP-Digital-Markets-Act.pdf.*

[21] *https://pie.net.pl/wp-content/uploads/2023/05/DSA-DMA-3.04.2023.pdf*[22] *https://single-market-scoreboard.ec.europa.eu/node/322_pl.*

Przemek Mikus

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The ZPP report points to the key issue of digital over-regulation as a major barrier for the Polish SMEs.

The results of the Digital Economy and Digital Society Index (DESI) 2022 show that most European countries, including Poland, are making progress in digital transformation, however, the level of implementation of key digital technologies like artificial intelligence (AI) and big data technologies in companies remains low.

Given these challenges, it is necessary to create a more stable and predictable regulatory environment that will enable SMEs both to grow and digitize effectively. The reduction of bureaucracy and harmonization of regulations at the European Union level can significantly support the growth and innovation of these businesses, strengthening their position on the European market.

2. Inconsistent implementation of common regulations

In principle, Community regulations are intended to build a single market and thus lead to a situation where it will be possible to do business in many countries under the same rules, without the need for detailed knowledge of specific local legislation. In this context, cases in which EU law is implemented inconsistently in different countries become problematic. It should be noted that the term "implementation" is used in a broad sense, because strictly speaking, only directives are implemented. In practice, however, regulations directly often generate the need to adapt legislation in a particular country.

The inconsistent implementation of common regulations is well illustrated by the Single Market Scoreboard published by the European Commission. Transposition monitoring makes it possible to understand persistent enforcement barriers in Member States and to take action to remove them. In Poland, the transposition deficit as of December 2022 was 2.1 percent, ranking us 25th among all Member States (the EU average is 1.1 percent).[22]

An excellent example of this would be GDPR (or RODO in Poland). Although it is formally a regulation and – as mentioned before – applies directly, it nevertheless required a rather unique legislative process (300 people participated in the consensus conference![23]) in Poland aimed at implementing the standards adopted at the EU level into our legal order. The Member States covered by the regulations have approached this task in various ways.

[22] https://single-market-scoreboard.ec.europa.eu/node/322_pl.

[23] https://www.gov.pl/web/cyfryzacja/projekt-ustawy-o-ochronie-danych-osobowych-skierowany-na-komitet-do-spraw-europejskich-rady-ministrow.

As shown by the European Commission's report, "30 Years of the Single Market – Taking Stock and Looking Ahead," 61 percent of the barriers that companies reported in 2002 matched those they also reported in 2020. Many of these related to discrepancies in regulation at both the national level and administrative practices of Member States.

For example, Slovenia has provided regulations for the personal data of deceased persons (even though the GDPR does not refer to them in any way), Spain has included in its regulations, among other things, issues related to video surveillance systems, and Hungary has prepared special regulations, stricter than the GDPR would imply, on the supervision of data processing reasons.[24] The approach to reporting also varies, with authorities in some countries directly indicating the names of punished entities, the type of violation and the penalty amount. Others publish only anonymized reports, and some do not publish any information at all unless explicitly asked to do so.[25] Thus, it can be concluded that the GDPR, despite its ambitious goals, is hardly a common data protection regulation for all countries, but rather a description of general assumptions and approaches to data issues, variously implemented in different countries.

As shown by the European Commission's report, "30 Years of the Single Market – Taking Stock and Looking Ahead," 61 percent of the barriers that companies reported in 2002 matched those they also reported in 2020.[26] Many of these related to discrepancies in regulation at both the national level and administrative practices of Member States.

24 https://www.technologylawdispatch.com/2019/05/privacy-data-protection/one-year-of-gdpr-how-have-eu-member-states-implemented-and-enforced-the-new-data-protection-regime/.

25 Ibid.

26 https://single-market-economy.ec.europa.eu/publications/30-years-single-market-taking-stock-and-looking-ahead_en.

To some extent, a similar fate may be shared by the DSA Regulation, which, while leaving much less discretionary power at the disposal of national regulators, nevertheless puts the enforcement of regulations in the hands of local authorities – and these can take a more or less restrictive approach, be fully independent of politicians, or indirectly bound by their directives, and so on. A same regulation can be applied variously, which, from the point of view of its addressee, has essentially the same effect, namely leading to a situation in which it becomes necessary to know local specifics and conditions – a far cry from the one that, in an ideal model, should be produced by the single digital market.

To overcome the barriers associated with the uneven implementation of common regulations, it is worth looking at the recommendations contained in the report 11 Recommendations of the Swedish EU Presidency to reboot the Single Market, which was written on the occasion of Sweden's presidency of the Council of the European Union, which began in 2023. The authors believe that adding to the European Semester – which is part of the EU's economic governance framework – an assessment of how Member States achieve their Single Market goals could serve to harmonize the implementation of EU legislation.[27]

27 https://implementconsultinggroup.com/media/11214/11-recommendations-of-the-swedish-eu-presidency-to-reboot-the-single-market.pdf.

27 https://implementconsultinggroup.com/media/11214/11-recommendations-of-the-swedish-eu-presidency-to-reboot-the-single-market.pdf.

Tomasz Loose

Managing Partner of the business advisory and digital team, CRIDO

Differences in the implementation of common regulations across the EU Member States are very important and are even likely to undermine the idea of the Single Market at times. In addition, rapid technological development, including the development of artificial intelligence and the increasing digitization in all areas of life, may further enhance these differences. The Swedish presidency's recommendations include proposals to harmonize and better implement regulations, strengthen regulatory and administrative tools, and increase collaboration and coordination among member states to strengthen the efficiency of the Single Market. Despite the very accurate and ambitious assumptions, their effective implementation will require excellent coordination and the involvement of all member states on the national and EU level. It will also be a challenge to find the right balance to avoid over-regulation, in order not to reduce the competitiveness of European companies on global markets.

3. Lack of strong vision for EU digital economy

Further strategy documents to be prepared in the EU institutions refer to the need to develop the various elements of the digital economy. The European Union is expected to be a major player in the chip market, as well as a leader in AI, robotization or data protection. The ambition to pace the way for the emergence of European digital giants is also repeatedly expressed. There seems to be a lack of a coherent, convincing development vision for the EU's digital economy. The objectives outlined in 2015 have been partially achieved – for example, the elimination of intra-EU roaming charges and the spread of high-speed Internet access. In other areas, however, initiatives are being taken that directly contradict them – in the strategy of eight years ago, the principle of net neutrality was an important one, today actually threatened by calls for the introduction of “network fees” for the benefit of telecommunications operators. The proposal put forward by the European Telecommunications Network Operators' Association (ETNO), which represents the largest telecommunications companies, includes demands to charge content and application providers for the traffic generated from the use of their services.[28] The fees, which can just as effectively be called an “internet levy,” could affect the way competition takes place on the internet and seriously threaten the smallest entrepreneurs, on whom the costs of implementing these fees will be passed on.[29] Such concerns are voiced, among others, by the French Association of Alternative Telecommunications Operators, which notes that such fees could have a negative impact on small and medium-sized digital companies.[30] Small companies offering content on the Internet will find themselves in a difficult position. Not only will they be charged for Internet traffic, but this may also result in the need to pass this cost on to consumers.

28 *https://zpp.net.pl/oplaty-sieciowe-proponowane-przez-niektorych-operatorow-telekomunikacyjnych-czy-konsumenci-zaplaca-podwojnie-za-utrzymanie-infrastruktury/#_ftn10.*

29 *https://www.aboutamazon.eu/news/policy/a-new-internet-levy-threatens-europes-creative-industries-and-digital-decade-targets.*

30 *https://www.project-disco.org/european-union/020723-is-anyone-in-favour-of-taxing-internet-traffic/.*

Making changes in price lists to cover the cost of “fair share” fees will make them lose competitiveness with larger players in the market. The fate of network fees is still being weighed. However, all indications are that the proposal will not be on the list of priorities during the current term of the European Commission. Information on this is still not official, but sources say that after gathering exploratory consultations on the future of the communications sector and related infrastructure, the legislative framework for “network fees” will not be presented until 2024.[31] While it is true that Internal Market Commissioner Thierry Breton announced a landmark regulation of the telecommunications sector, the Digital Networks Act (DNA), the issue of telecommunications investment was not outlined in detail in the regulatory announcement.[32]

In the meantime, new challenges have emerged, such as the aforementioned artificial intelligence and robotics, among others, and thus new areas in which the European Union would naturally want to seek space for leadership.

Unfortunately, prioritization is necessary for any policy to be effective. We cannot simultaneously be a leader in regulation, creating more overlapping regulations, and aspire to top positions in innovation rankings. We are also unlikely to succeed in being the best at everything at the same time. Therefore, the future of the Digital Single Market is contingent on answering the question – what place does Europe see for itself in the global digital economy? To answer it, it is necessary, on the one hand, to reliably assess one's own capabilities and, where they are insufficient, to rely on effective cooperation with others, and, on the other hand, to accurately identify one's own advantages and opportunities, and then prepare a feasible plan to exploit them.

Despite the many words written in strategies, white papers and other studies, such analysis is lacking, and further executives of EU institutions want leadership in everything, yet do not fight for leadership in anything except supposedly setting standards. The legitimate question here seems to be whether “China's GDPR” really resembles ours and serves the same purposes – this is doubtful, but at the same time this thread should possibly be developed in a completely different study.

Meanwhile, there are important areas of potential synergy between EU policies. Since we have ambitious environmental goals set – regardless of the assessment of their practicality and adequacy – why should the digital ecosystem disregard them? There are ideas on how to use digital tools for building effective environmental policies, as described in Implement Consulting Group's 2022 report[33] in the context of a one stop shop for extended producer responsibility systems in waste management, or digital product passports, among others. The e-commerce market, as well as the re-commerce category has a significant impact on the development of a circular economy, as highlighted by the study E-commerce and the EU Green Deal commissioned by the IMCO.[34] This development trend for the EU digital economy is worth considering.

31 *https://zpp.net.pl/wp-content/uploads/2023/10/24.10.2023-Komentarz-ZPP-Komisja-Europejska-odklada-projekt-wprowadzenia-oplat-sieciowych.pdf.*

32 *https://www.linkedin.com/pulse/digital-networks-act-redefine-dna-our-telecoms-thierry-breton*33 *https://implementconsultinggroup.com/media/11214/11-recommendations-of-the-swedish-eu-presidency-to-reboot-the-single-market.pdf.*

33 *https://implementconsultinggroup.com/media/11214/11-recommendations-of-the-swedish-eu-presidency-to-reboot-the-single-market.pdf.*

34 *https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734013/IPOL_STU(2022)734013_EN.pdf.*

4. Impediments to the exchange of goods and services

The essence of the common market as such, including the Digital Single Market, is the smoothest possible, easy, seamless exchange of goods and services within the European Union. However, despite clear progress in this area, there are still areas whose further improvement would have positive impact on the development of the e-commerce sector and stimulate internationalization and therefore the development of European companies, especially those in the SME sector.

For example, despite the changes implemented in recent years, as well as the VAT in the digital age (ViDA) project, settling the very tax on goods and services is a significant barrier for companies that operate in multiple markets simultaneously. According to the report "11 recommendations of the Swedish EU Presidency to reboot the Single Market", it takes an average of one hundred days to obtain an identification number for VAT purposes. On the other hand, the cost of compliance in one country for one year averages €8,000.[35]

According to the European Commission's analysis in the report, an EU entrepreneur needs to file an average of 13 documents to complete one registration procedure and submit up to 60 forms per year per country.

With this in mind, it seems that changes aimed at simplifying the system and making it easier for SMEs to enter markets in countries other than their country of origin are reasonable. A big step forward would be at least a single registration for VAT throughout the European Union – today this is a cost to be borne multiple times and a burden. Such a proposal is included in the aforementioned VAT in the digital age package. Adopting the final ViDA is announced for this year and involves significant changes to the VAT settlement system within the EU for entrepreneurs making intra-Community sales.[36] As part of its VAT proposal, the European Commission has proposed a One Stop Shop 2.0 solution, which, among other things, would abolish the requirement for businesses to register in each EU country where traders store inventory and from which they sell to local customers. The implementation of the solution, experts point out, would enable remote sales businesses to have a single VAT registration and report all VAT via a single portal throughout the EU logistics chain – from ordering and storing goods to selling. In particular, the solution would make it easier for small and medium-sized businesses to conduct intra-EU trade.

However, impediments to the free exchange of goods and services are absolutely not limited to tax issues. Among other things, attention should be paid to the issue of labelling, both in terms of requirements for specific product categories – which vary at the EU level – and the potential space for the implementation of electronic labels as a more "long-lasting" solution than traditional stickers on packaging. Difficulties also include customs tariffs and non-custom restrictions imposed on particular types of goods.

In this context, attention is drawn primarily to a group of products and services that are key to the implementation of EU climate policies, the marketing of which is quite tightly regulated and difficult at the moment.

35 Ibid.

36 Ibid.

According to the European Commission's analysis in the report, an EU entrepreneur needs to file an average of 13 documents to complete one registration procedure and submit up to 60 forms per year per country.

Mariusz Mielczarek

Regional Director CEE, Public Policy, Amazon

The 20th anniversary of the European Union's enlargement by Central and Eastern European countries, which falls in 2024, is the perfect opportunity to reflect on the benefits Poland has gained from accession to the Community, particularly regarding access to the EU's Single Market. This is well exemplified by data indicating that while at the beginning of the economic transformation after 1989, the value of Polish exports in relation to GDP was 15%, during the EU membership period, it increased as much as five times. As a result, it currently stands at nearly 60% (data from 2020), with a significantly larger GDP.

The establishment of the Single Market is undoubtedly one of the most outstanding achievements of a united Europe, although it remains an unfinished project in practice. Technological advancements, new economic sectors, business models, and sales channels, such as the dynamically evolving e-commerce sector, introduce new barriers and associated regulatory challenges. These challenges are particularly burdensome for SMEs, which constitute 99% of all entrepreneurs in the EU, providing two out of every three jobs in the private sector while accounting for over half of the total value added.

Amazon regularly supports small and medium-sized enterprises in their business development, collaborating with over 275,000 European SMEs, 40% of which export their products within Europe. Polish companies are increasingly utilizing opportunities the e-commerce industry provides, with over 75% of domestic entrepreneurs on Amazon engaging in international sales. In 2022 alone, Polish SMEs managed to sell over 25 million products, approximately 50 per minute! This translated into export sales worth PLN 4.4 billion, representing a 15% increase compared to 2021.

Based on extensive experience gained from collaborating with SMEs and an awareness of the barriers they encounter, Amazon recognizes the need to discuss the future of the EU's Single Market. This is supported by the political calendar, with the European Parliament elections scheduled for 2024 and the appointment of a new European Commission, alongside Poland's presidency in the first half of 2025 in the EU Council. We believe that this discussion should focus on small and medium-sized entrepreneurs, who bear relatively high costs of conducting export activities despite their significant impact on Europe's and Poland's economic development. Therefore an active policy to support their international expansion should not only be the ambition of our government but also Poland's contribution to the debate on the challenges that European institutions should address in the near future.

4. SUMMARY

The Digital Single Market has certainly brought several positive changes, especially in the field of regulations, as well as the development of companies and increasing consumer welfare. It creates great potential, which Polish companies in the SME sector are already taking advantage of – with the simplifications of VAT settlements in recent years being one of the examples. In contrast, we can still relatively easily identify further barriers to overcome within the Digital Single Market. They range from strategic and horizontal, to very practical, specific areas that need to be changed.

In recent years, the European Union has significantly unified laws and procedures in cross-border e-commerce, but we still observe cases in which the existing legal loopholes result in uneven implementation in individual countries. Although the further implemented regulations are to make us a major player in the chip market, as well as a leader in AI, robotization, or data protection, we lack a coherent, convincing vision for the development of the EU's digital economy. Despite clear progress in facilitating the exchange of goods and services within the European Union, businesses that operate in multiple markets at the same time are constrained by tax clearance issues. Although much has already been achieved under the current, imperfect model of the Digital Single Market, any improvement in this area will lead to much better results to the benefit of European economies and the European Union as a whole.

In this context, it is positive that the development of the single market and digital transformation are among the key priorities of the European Commission's 2024 work program. The program puts strong emphasis on simplifying regulations for citizens and businesses across the European Union. It also refers to President Ursula von der Leyen's pledge to reduce reporting requirements by 25 percent, in line with the strategy to boost the EU's long-term competitiveness and provide support for SMEs.[37] The program also includes a series of measures for tax simplification, the development of artificial intelligence technologies, the achievement of the Digital Decade 2030 goals and the development of network infrastructure.

Another important aspect is the European Parliament elections scheduled for June 2024, and consequently the formation of a new European Commission. The election of representatives who will actively support the development of digitization, data protection and innovation is fundamental to the future of the digital economy in the European Union. They will face the daunting challenge of finding the golden means between effective market regulation through legal acts such as the Digital Service Act, the Digital Market Act or the AI Act, and maintaining a favorable ecosystem for the development of small and medium-sized enterprises and their competitiveness in the Digital Single Market.

Their implementation and enforcement should also be one of the key goals of Poland's upcoming presidency of the Council of the European Union, which, according to the schedule, we will once again hold in the first half of 2025. Among the declarations already announced by the Polish authorities, there is the issue of strengthening Euro-Atlantic ties, including Ukraine and Moldova in the EU, the reconstruction of Ukraine, as well as energy transition. Equally important should be the stimulation of the new technology industry and the further integration of Member States into the Digital Single Market, which is the foundation of the European economy.

[37] *https://commission.europa.eu/strategy-documents/commission-work-programme/commission-work-programme-2024_pl?etrans=pl.*

Michał Kanownik

President of the Digital Poland Association, Board Member of Digital Europe

The actions of EU countries, including Poland, in building the Digital Single Market should mainly support the implementation of the goals set by the European Commission in the "Path to the Digital Decade" program, a pillar of which is the digital transformation of businesses. The EC rightly noted that in order for European business to remain competitive, it must take advantage of the modern technological solutions available. According to the program, by 2030 more than 90 percent of SME companies are expected to reach a basic level of digital technology use, and 75 percent of them will use solutions such as the cloud or AI. While these are very ambitious goals, they are achievable. On one condition – the proposed regulations in the EU will support the development of modern technologies, and not create unnecessary barriers. Over-regulation in some areas related to digitization threatens to limit the ability to create innovation, making it extremely difficult for Europe to compete with the United States or China in this area.

For example, with reference to the use of artificial intelligence, European companies may be at a disadvantage precisely because of the legal barriers the European Commission is proposing, which will not apply to competitors outside the Community. Of course, new technologies are linked to potential risks and challenges that need to be monitored and, if necessary, regulated. However, this should be properly balanced, and the voice of the market should be considered, so as not to lead to a situation where technologies are developed outside Europe to an even greater extent. This will also be a huge challenge for the upcoming Polish presidency of the EU Council to find and maintain a balance at the EU level between the regulation of the area related to digitization and the needs of innovative business and citizens.

What's more – for the Digital Single Market to serve its purpose, it is also essential for the EU to develop transatlantic cooperation so that businesses can exchange technology and experience related to digital transformation without hindrance. Only on this basis can we develop our European innovations – products and services. In turn, reducing burdens on businesses or regulating an issue under a single piece of legislation within the Digital Single Market will certainly help unlock the potential of European companies.

Eliminating the barriers described in the report is a difficult task and one that requires, above all, the commitment of policymakers. In contrast, we already know the mechanisms whose implementation will allow faster integration within the single market. The recommendations contained in the report "11 Recommendations of the Swedish EU Presidency to reboot the Single Market", which was written on the occasion of Sweden's presidency of the Council of the European Union, which began in 2023, may be a guidepost. Among other things, its authors point to strengthening SOLVIT by establishing a single market ombudsman in each Member State. Another proposed action is to modernize the European Semester to include recommendations that are expected to benefit the harmonization of implementation of regulations in Member States and closing the compliance gap. Equally important is to implement a single VAT registration throughout the European Union and to expand the One Stop Shop (OSS) solution.

We hope that our report will become a resource for policymakers on key digital challenges and guide EU policies to support the digital transformation more effectively.

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regional
organizations

19
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