Unlocking Growth: Overcoming Barriers to the Single Market for Services in the EU

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1. Introduction

The freedom of services in the EU has slowed down. Unlike the Single Market for goods, services remain underdeveloped, leading to slower growth, lower employment, and reduced competitiveness. According to the 2023 Annual Single Market Report, in 1993, trade integration in services was at 3%, and by 2021, it had only risen to 6%, indicating a stagnation in market integration.[1]

2. Support for Economic Cooperation

We, the European Enterprise Alliance and Union of Entrepreneurs and Employers reaffirm our support for promoting economic cooperation within the EU. As we navigate current challenges, we stand firmly behind addressing the significant limitations on the freedom of services. Unlike the Single Market for Goods, the underdevelopment of trade in services hinders growth, reduces employment opportunities, and undermines competitiveness. We support the need to tackle these barriers, including addressing complex licensing requirements, and regulatory disparities across member states. Strengthening enforcement mechanisms and adopting a unified regulatory framework are essential steps to foster fair competition and facilitate seamless cross-border service provision.

Recommendations

- Enhance the enforcement mechanisms and venues for compliance within the EU's regulatory framework addressing trade obstacles. Strengthening these measures will ensure that regulations promoting the free movement of services are effectively enforced across member states.

- Focus on simplifying processes and reducing administrative burdens across EU member states to facilitate easier cross-border practice for professions like legal, real estate, and transportation. Streamline licensing and certification processes to reduce complexity and ensure smoother cross-border operations for firms.

- Prioritize cohesion policy to ensure balanced development and integration across EU regions. Focus on reducing infrastructure and investment gaps across EU regions to promote balanced development.

- In addition to mitigating regulatory burdens, it is imperative that law enforcement measures be instituted in accordance with competitiveness assessments.

- The Single Market Enforcement Task Force should emphasize interaction with businesses through increased consultations and a sector-oriented approach to identify bottlenecks and promote competitiveness by tackling challenges related to product standards, safety regulations, and environmental laws in the Single Market.

[1] European Commission. "2023 Annual Single Market Report: Single Market at 30." p. 6.

● Enhance cooperation among infrastructure managers to improve freight transport efficiency and attractiveness, including substantial investments in the European Rail Traffic Management System for safer and faster rail freight operations. Accelerate efforts to develop competitive EU-wide capital markets, reducing national ringfencing practices and promoting broader access to risk capital, particularly beneficial for startups and small businesses.

● Complete the banking union to include public risk sharing and facilitate easier cross-border consumer finance, removing barriers that currently hinder the integration of banking services across the EU.

● Increase peer pressure and public scrutiny to overcome resistance and entrenched interests, supported by proactive actions from the European Parliament’s Committee on the Internal Market and Consumer Protection (IMCO). Moreover, establish a dedicated Commissioner for the single market and ensure the single market remains a consistent priority on the Council troika agenda.

3. Analysis of the Single Market

The Single Market aims to allow the free movement of goods, services, capital, and people and it was established to create integrated economic areas across the EU member states, to ensure economic growth, competition, and efficiency. While significant progress has been made in eliminating barriers to the movement of goods and capital, the freedom of services remains constrained by various regulatory and protectionist measures. Although the Member States and the European level will undoubtedly prefer to paint the entire system in glowing terms, the future survival of the European Single Market is in jeopardy.

One of the most important factors contributing to this jeopardy is the protectionist measure by the member states by bleaching single market rules. One example is the case of Laval un Partneri Ltd (C-341/05) in which the European Court of Justice ruled against Sweden for not allowing Latvian companies to provide Latvian service under Latvian conditions[2]. Additionally, in the Viking Line ABP v. International Transport Workers' Federation case, a Finnish ferry operator planned to reflag one of its ships to Estonia to benefit from lower labor costs. The International Transport Workers' Federation (ITF) and the Finnish Seamen's Union (FSU) threatened industrial action to prevent the reflagging, as a result, The European Court of Justice ruled that while the right to take collective action is a fundamental right, it must be balanced against the freedom of establishment. The court held that the actions of the ITF and FSU could constitute a restriction on Viking Line's freedom of establishment if they were disproportionate to the legitimate aim pursued. As many examples can be found it is clear that Member states often act less willing to respect the single market rule. Even though the European Commission has proposed a regulation to reduce Member State protectionism in the movement of services within the EU, it is still visible that protectionism affects the providers. Currently, under Article 30 of the EC Treaty countries can ban imports only if they threaten national objectives like health or consumer protection.[3] However, this exception is often ignored to protect domestic industries from

[2] "Case C-341/05." Curia, European Court of Justice, https://curia.europa.eu.
[3] European Community Treaty, Article 30.

foreign competition, costing the EU economy over €150 billion annually and preventing the creation of 2.5 million jobs.[4] The Commission views this regulation as vital for preserving the Single Market, but it faces resistance from influential groups within Member States seeking to maintain their protectionist practices.

4. Economic Impact of Service Market Barriers

Services account for approximately 70% of the EU's GDP and employment.[5] However, only around 17.6% of services are traded across borders, highlighting significant underperformance in the internal market for services. According to the World Economic Forum, less than half of online businesses, which account for just 8% of the SMEs within the bloc, engage in cross-border sales within the EU, and only 4% extend their sales beyond the Union.[6] This scenario presents both an opportunity for the global economy and a potential threat to global prosperity. Additionally, the OECD states that between February 2020 and April 2021, 70 to 80% of SMEs in 32 countries experienced up to a 50% loss in revenue.[7] Nevertheless, with the growing digitalization of markets, the complete recovery and success of SMEs depend on their capacity to expand internationally.

5. Sector-specific examples of protectionism

Telecommunications: The EU telecom market remains fragmented, with national regulators and operators resisting consolidation which results in higher costs and reduced efficiency, preventing a seamless EU-wide telecom market.

Financial Services: The national ringfencing of banks and the lack of an EU-wide deposit insurance regime make it difficult for financial market integration. The persistence of national prudential regulations and practical barriers, such as the inability to open bank accounts across borders, exemplify the reluctance to harmonize financial services.

Retail Sector: Restrictiveness in the retail sector varies widely among Member States. While operational restrictions are generally low, establishment restrictions are high, with scores often exceeding 2, and even above 3 in some countries and it reflects national protectionism and regulatory barriers that discourage cross-border retail operations.

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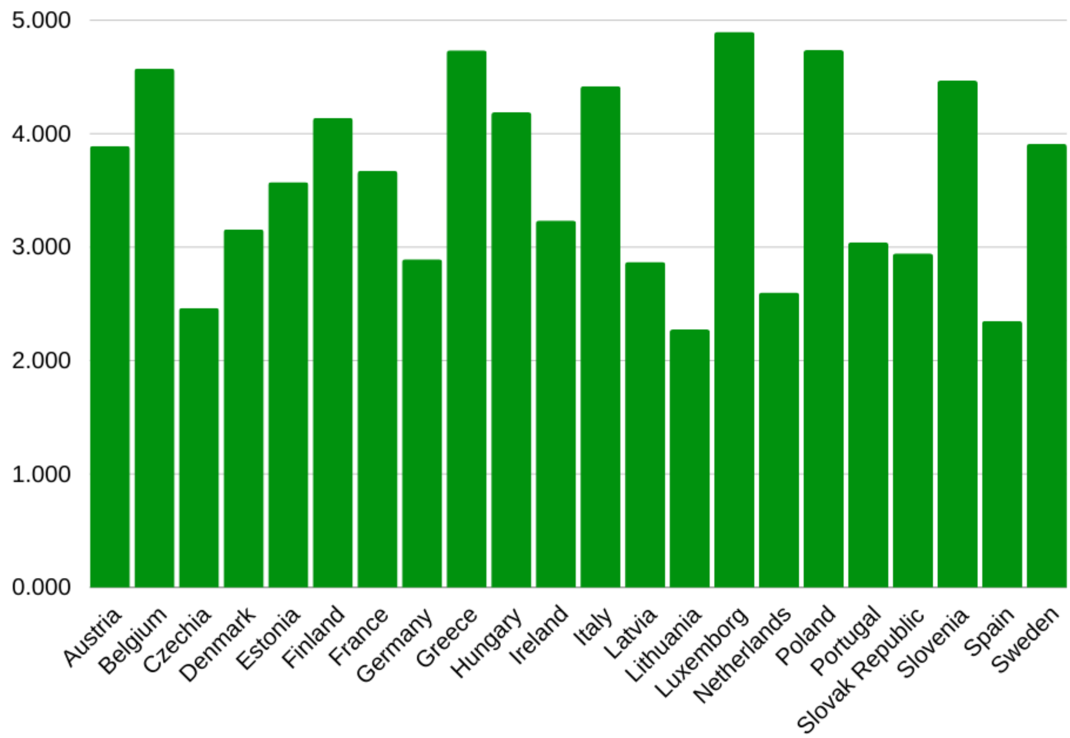
[4] Bolkestein, Frits & Gerken, Lüder. *'The EU Single Market: Free Markets, Protectionism, and Excessive Regulation".*
[5] " Single market for services." *Single Market Economy*, European Commission, https://single-market-economy.ec.europa.eu/singlemarket/services_en#:~:text=Services%20are%20crucial%20to%20the,for%20them%20to%20do%20business.&text=Business%20services%20cover%20many%20varied%20sectors.
[6] Naas, Penelope." The digital divide: Why SMEs must cross borders." *World Economic Forum*, 22 Aug. 2022, https://www.weforum.org/agenda/2022/08/smes-small-medium-business-cross-border-enterprise/.
[7] One year of SME and Entrepreneurship policy responses to COVID-19: Lessons learned to '*build back better*", OECD, April 2021.

6. Service Trade Restrictions in the EU

Analyzing Service Trade Restrictions in the EU: Insights from the STRI Database

Figure 1.1

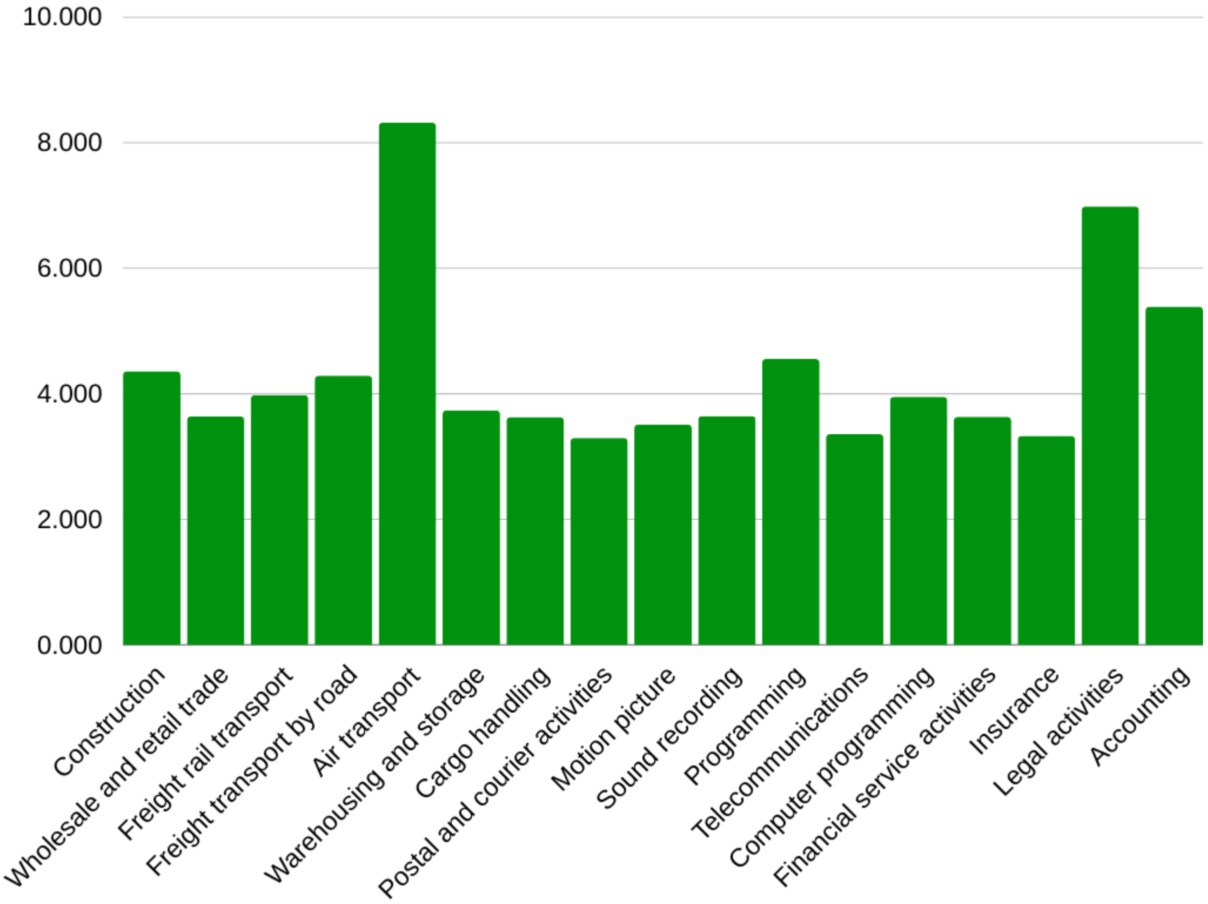


Source: OECD Service Trade Restrictiveness Index[8]

The STRI (Service Trade Restrictiveness Index) database is extensive, and summarizing its data in clear dimensions is useful. The simplest method is to rank countries by their total STRI score, which is calculated by summing the scores of all sectors for each country (see Figure 1.1). According to the intra-EEA data, Lithuania has the fewest restrictions, while Luxembourg has the most within the EU single market.

8 OECD (2023a). IntraEEA Service Trade Restrictiveness Index.

Figure 1.2



Source: OECD Service Trade Restrictiveness Index[9]

As shown in Figure 1.2, air transport, legal services, and accounting face significant regulatory challenges. In the figure, we count how often a country exceeds a specific threshold, using the same threshold as in Figure 1.1, which marks the point where 20 % of countries surpass that value across sectors.

The obstacles to trade-in services are as varied as the services themselves. This paper combines different indices to present an overall view of regulatory obstacles. Based on OECD data, certain sectors—such as legal, distribution, and rail freight transport services—could be reformed with minimal cost to governments. However, red tape and bureaucracy challenge all businesses in the EU. Blix argues that the EU Single Market for services remains unfulfilled, over 90 % of EU GDP comes from countries that rank below 20 in the 2020 World Bank's Doing Business assessment.[10]

Another area ripe for reform is the more than 5,700 regulated professions in the EU. Notably, around 140 non-medical professions are regulated in only one EU country (such as florists in Luxembourg and

[9] OECD (2023b). OECD Services Trade Restrictiveness Index: Policy trends up to 2023. February.
[10] Blix, Mårten."*Wither on the Vine? The Unfulfilled EU Single Market for Services*". 2023, p. 2.

wine tasters in Slovenia).[11] There are also notable regional differences in regulating professions within countries, especially in Belgium. These numerous regulated professions risk the full potential of the Single Market and could be reduced and harmonized with political will. If only professions common to a reasonably large number of EU countries (say twenty) were regulated, the list of such professions would decrease significantly.

Intra-EU services also doubled, albeit at a much lower level, increasing from 3% in 1993 to 6% in 2021. However, the tradability of services is significantly lower than that of goods.[12] Local presence is often crucial in services to maintain permanent client-supplier relationships and build trust. Therefore, intra-EU foreign direct investment (FDI) or establishment is more significant. Intra-EU foreign affiliates account for 12% of the total value added in the EU, including both goods and services.[13]

Trade in services is slightly different from trade in goods, as in goods, historically barriers arise from customs, quotas, and tariffs. On the other hand, trade in services is much larger extending to national laws and regulations. However, it's essential to recognize the close interconnection between services and goods. About 38% of the value added in EU manufacturing industries comes from services, ranging from 22% in mining and quarrying to 43% in food products.[14] The highest share of services value added in manufacturing is found in wholesale and retail. Reducing barriers in the single services market positively impacts goods markets, with potential multipliers as high as two, three, or even four.

To address these challenges, the Services Directive 2006/123/EC was introduced to eliminate obstacles to trade in services across the EU. Initial efforts led to the removal or alteration of thousands of laws, resulting in a welfare gain of 0.8% of EU GDP by 2011. However, further liberalization has been slower than anticipated. The suggested impacts on trade within the EU's service sector (7%) and services-related foreign direct investment (FDI) (4%) are considered only in the context of short-term competitive outcomes. The long-term effects are anticipated to further boost the total economic impact. About 80% of the GDP growth occurs within a five-year period.[15] The European Commission's 2021 survey identified 24 significant restrictions, with at least 14 included in the PRO-SERV indicator on professional services restrictiveness.[16] Studies suggest that fully implementing and expanding the Directive's principles could yield gains between EUR 279 billion and EUR 457 billion or up to 2.28% of EU GDP.[17] This is a clear sign of the substantial potential benefits of continued efforts to relax product market regulations in services.

[11] Ibid., p. 2.
[12] Blix, Mårten.*"Wither on the Vine? The Unfulfilled EU Single Market for Services"*. 2023, p. 5.
[13] European Commission. 2023 Annual Single Market Report: Single Market at 30. p. 7.
[14] European Commission. 2023 Annual Single Market Report: Single Market at 30. p. 9.
[15] Mustilli, Federica, and Pelkmans, Jacques. *'"Securing EU Growth from Services"*. Centre for European Policy Studies, No. 67, Oct. 2012, p. 18.
[16] Barbero et al. (2022).
[17] Pelkmans, Jacques. *"Empowering The Single Market In-Depth"*. CEPS, 2024. p. 25.

7. General Barriers

Environmental and Sustainability

Environmental regulations in the EU often require businesses to comply with stringent labeling and waste management standards. While these regulations aim to protect the environment, they can impose significant costs and operational challenges on businesses. EU regulations mandate detailed labeling on products to provide information about their environmental impact. For instance, the EU's Eco-label scheme requires businesses to label their products with detailed information on energy consumption, recycling, and other environmental factors. This can be costly and time-consuming for businesses to implement, especially for SMEs. Denmark's detailed requirements for labeling food products, including specifics on additives and ingredients, can add substantial compliance costs for foreign SMEs, potentially deterring them from entering the Danish market.[18] Additionally, the European Commission has acknowledged that cumulative regulatory burdens and varying national standards can disproportionately impact SMEs, making it harder for them to compete across borders (Internal Market). The Waste Electrical and Electronic Equipment (WEEE) Directive[19] requires businesses to manage the disposal and recycling of electronic products. Companies must collect, treat, and recycle electronic waste, which can be particularly burdensome for smaller firms that lack the resources to establish comprehensive waste management systems.

Agriculture

Additionally, the CAP aims to support farmers and improve agricultural productivity, but it also creates market fragmentation and barriers for small-sized landholders. The policy includes environmental and sustainability standards that, while important, can create competitive disadvantages for smaller farms. CAP subsidies often favor larger agricultural enterprises, leading to market fragmentation. Small-sized landholders may struggle to compete with larger farms that receive more substantial financial support. For example, in countries like France and Germany, large agribusinesses receive the bulk of CAP subsidies, leaving smaller farmers at a disadvantage. CAP includes strict environmental requirements, such as the Greening Measures, which mandate crop diversification, and maintaining permanent grassland, and ecological focus areas. These requirements can be particularly challenging for small farmers to meet, potentially reducing their competitiveness compared to larger, better-resourced farms.[20]

Digital: Geographical Blockages

Geographical blockages refer to restrictions that prevent consumers from accessing and purchasing digital services and goods based on their location. These blockages can occur through various means, such as IP-based restrictions, payment method limitations, or redirecting users to country-specific

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[18] "Denmark - Labeling/Marking Requirements." *Trade.gov*, 20 Jan. 2024, www.trade.gov/country-commercial-guides/denmark-labelingmarking-requirements

[19] See the Waste Electrical and Electronic Equipment (WEEE) Directive, (2012).

[20] "Unfair Share: How Europe's Farm Subsidies Favor Big Money over Small Farmers." *Slow Food*, 15 May 2024, www.slowfood.com/blog-and-news/unfair-share-how-europes-farm-subsidies-favor-big-money-over-small-farmers/.

websites with different offerings. Netflix, a global streaming service, offers different content libraries based on geographical location due to licensing agreements. This geographical restriction limits consumers' choices and creates an uneven playing field in the digital content market. An online shopper in Hungary trying to purchase a product from a French e-commerce website is blocked from completing the purchase because the website does not ship to Hungary. Alternatively, the shopper may be redirected to a local version of the website with higher prices and fewer options. This practice restricts consumer access to a wider range of products and often results in higher costs for consumers in certain regions. Additionally, Different selling rules for e-commerce across EU member states create significant challenges for businesses. These rules can include variations in consumer protection laws, return policies, VAT rates, and data protection requirements. Such regulatory disparities complicate cross-border sales and increase compliance costs for e-commerce businesses. An e-commerce company based in Italy selling clothing online must navigate different return policies in each EU member state. For example, while the return period in Germany is 14 days, in Finland it may be 30 days. The company must adapt its return policy to comply with the specific regulations of each country it operates in, leading to increased administrative complexity and costs. A small electronics retailer in Spain selling products online to customers across the EU must deal with different VAT rates and regulations. For instance, the VAT rate in Luxembourg is 17%, while in Hungary it is 27%.[21] The retailer must register for VAT in multiple countries, keep track of varying rates, and file separate VAT returns, increasing their administrative burden and compliance costs.

8. Professional Limits and Licenses

Professional Services: The PRO-SERV indicator shows high barriers in professions such as legal, accounting, and architectural services in some Member States.[22] These barriers include stringent authorization requirements, restrictive legal forms, and shareholding constraints. For example, advertising restrictions remain prevalent in six sectors, and multidisciplinary practices face constant limitations in eight subsectors. A study shows that adopting the Commission's 2017 reform recommendations in just four business service sectors (legal, accounting, architectural, and engineering) could result in a GDP increase of more than EUR 14 billion and the creation of over 50,000 jobs across 12 EU Member States within three years; a significant benefit considering the minimal public cost of these reforms.[23]

Transport: Despite EU efforts to shift freight from road to rail, the modal split has remained constant due to insufficient investment and fragmented policies. Road transport faces cabotage restrictions, while rail transport suffers from territorial supply constraints and a lack of interoperable rolling stock. Air transport is hindered by the failure to fully implement the SES 2+ air traffic control system. Transportation faces significant challenges due to the incompatibility of cross-border connections,

[21] Mengden, Alex. "VAT Rates in Europe, 2024." '*'Tax Foundation*'', 30 Jan. 2024,
[22] "Services Markets." *Single Market Scoreboard*, European Commission, https://single-market-scoreboard.ec.europa.eu/business-framework-conditions/services-markets_en.
[23] European Commission. '*'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Taking Stock of and Updating the Reform Recommendations for Regulation in Professional Services of 2017*''. COM(2021) 385 final, 9 July 2021, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=COM:2021:385:FIN.

which often either lack sufficient capacity or are entirely absent. This issue is exacerbated by the frequent incompatibility of national digital systems and physical infrastructure, creating barriers to efficient and seamless travel. A notable example is the Rastatt Incident, where infrastructure incompatibilities caused substantial disruptions. The Rastatt incident that paralyzed rail freight traffic during a seven-week interruption of railway operations on the Karlsruhe-Basel line of the Rhine-Alphine Corridor has resulted in economic damage of more than two billion Euros for the industry.[24] Additionally, non-harmonized VAT rules for coach service providers further complicate cross-border operations, adding a layer of financial complexity that hinders the growth and efficiency of international transportation services. The aforementioned issues highlight the urgent need for improved infrastructure to support robust and reliable cross-border transportation networks. Additionally, the implementation of the EU's Mobility Package, intended to streamline and improve working conditions in road transport, has introduced complex compliance requirements that some stakeholders argue restrict competition and impose significant administrative burdens on businesses operating across multiple countries. Although the establishment of the European Union's Mobility Package was initially designed to enhance conditions within the road transport sector, it carries several negative consequences for the single market and challenges its efficiency.[25] The Mobility Package acts against the principle of the single market by increasing operational costs for transport companies and creating a significant regulatory burden. Additionally, the single market faces fragmentation as the implementation of rules varies unevenly across different EU member states. Rules such as the mandatory return of trucks every eight weeks and stricter cabotage regulations necessitate additional investments, leading to increased expenses. This impact is particularly severe on the SME sector, where smaller firms may struggle with these complex regulations, potentially exiting the market and reducing competition. The Mobility Package increases disparities within the EU, particularly in countries heavily reliant on the transport sector, which may experience reduced competitiveness and higher costs and inevitably exacerbates economic inequalities and hinders cohesive growth across the EU. Additionally, Licensing challenges in the transport sector within the EU Single Market stem from regulatory disparities and compliance requirements across member states. There are multiple challenges including differing standards for vehicle safety, environmental regulations, and driver qualifications, as well as bureaucratic obstacles in obtaining necessary licenses and permits. In 2017, the Italian Competition Authority determined that the necessity of possessing a national railway license to operate domestic rail passenger services impeded competitive entry.[26]

Energy: The need for additional cross-border interconnectors for electricity transmission is critical for market integration, especially for non-fossil sources. However, national regulatory frameworks and investment shortfalls undermine the development of a fully integrated EU energy market.

[24] "Economic Damage of Rastatt Incident More than 2 Billion Euros." *RailFreight.com*, 22 Apr. 2018, www.railfreight.com/corridors/2018/04/22/economic-damage-of-rastatt-incident-2-2-billion-euros/?gdpr=accept.

[25] *Mobility and Transport Transport in the European Union Current Trends and Issues*. European Commission, Mar. 2019. https://transport.ec.europa.eu/system/files/2019-03/2019-transport-in-the-eu-current-trends-and-issues.pdf.

[26] *Mobility and Transport Transport in the European Union Current Trends and Issues*. European Commission, Mar. 2019.https://transport.ec.europa.eu/system/files/2019-03/2019-transport-in-the-eu-current-trends-and-issues.pdf. p.80.

Professional services across the EU face varying degrees of restrictiveness due to differing national regulations. For example:

Legal Services: In some Member States, foreign legal professionals face significant barriers in practice, including the requirement to requalify under local laws. In France, foreign legal professionals face significant barriers due to strict requirements for practicing law. For instance, lawyers trained outside of France often need to pass a demanding equivalency exam and possibly complete additional legal education to practice in French courts, which can be a lengthy and costly process.

Construction and Real Estate: Professionals in these sectors face complex licensing requirements that vary significantly between countries, creating obstacles for cross-border operations. In Spain, professionals in the construction and real estate sectors encounter varying licensing requirements across regions. For instance, a civil engineer licensed in France might face different technical standards and licensing procedures when seeking to operate in Spain. Therefore, naturally, the differences can lead to delays and increased costs as professionals navigate the complex regulatory environment, impacting their ability to provide services across borders effectively.

Optimal Regulation Balance

Regulation plays a crucial role in balancing economic growth and societal interests. Extremes such as the Silicon Valley mantra of 'move fast and break things' are criticized for oversimplifying complex regulatory needs. Striking the right balance between stringent rules that could stifle innovation and a lack of regulation that may lead to chaos is essential. Optimal regulation not only establishes necessary standards but also fosters trust among businesses and consumers, thereby promoting innovation and ensuring fair competition. The variety of regulatory measures requires providers to be highly adaptable. For example, the Telecommunication sector is subjected to varied licensing requirements and spectrum allocation policies that complicate the process of movement of goods. Followed by financial services as the detailed regulations of investment, insurance, and banking slows the process for companies to extend their services across multiple jurisdictions.

However, within the European Union, trading services face significant obstacles. These include the need for businesses to conform to diverse national regulations, discrepancies in how regulations apply to domestic versus non-domestic firms, and complex value-added tax (VAT) regulations. Such regulatory burdens can impose high costs on businesses, potentially hindering economic growth and job creation across EU member states.

When considering the business case for exporting services within the EU, companies must carefully assess the costs and benefits involved, including non-tariff barriers. The ad valorem equivalent (AVE), a measure used to estimate the additional costs due to non-tariff barriers, helps quantify these challenges. However, these assessments may overlook softer barriers such as language and cultural differences, which significantly influence service feasibility and market penetration strategies.

Moreover, regulatory environments within the EU can be discriminatory despite appearing non-discriminatory on the surface. Domestic firms often benefit from institutional knowledge and regulatory familiarity, giving them advantages over non-domestic competitors. Measures such as the World Bank's Doing Business ranking provide insights into the ease of doing business across different countries, reflecting varying levels of regulatory burden and administrative complexity.

Explicit trade hurdles further complicate the landscape for service providers in the EU. OECD methodologies reveal significant sector-specific restrictions that disadvantage non-domestic firms, adding layers of complexity and unpredictability to cross-border operations.

9. Conclusion

In conclusion, the European Enterprise Alliance and Union of Entrepreneurs and Employers firmly support the vision of a fully integrated Single Market for services within the EU. We acknowledge the challenges posed by regulatory disparities and protectionist measures that hinder the free movement of services across borders. Moving forward, we advocate for robust measures to harmonize regulations, streamline licensing processes, and enhance enforcement mechanisms.