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A SINGLE MARKET FOR GROWTH AND JOBS: AN ANALYSIS OF PROGRESS MADE AND REMAINING OBSTACLES IN THE MEMBER STATES

- Contribution to the Annual Growth Survey 2014 -

INTRODUCTION

The financial and economic crisis has shown the need for deep structural reforms in Europe. In response to this, the Commission has rolled out an ambitious programme to make the Single Market work better. The Single Market Acts I and II lay down a set of legislative proposals and other measures to boost growth and employment in Europe. The Commission has also issued recent proposals to further complete the digital Single Market. Swift adoption of all remaining proposals is needed to effectively unlock the full potential of the Single Market and make the Single Market fit for the 21st century.

For the Single Market to function well however, reforming the EU legislative framework is not sufficient. For citizens, consumers and businesses to effectively reap the benefits of the Single Market, rules must work in practice. Vigorous and consistent efforts are needed to ensure that markets function well and remaining barriers are lifted.

Five years after the start of the crisis, there are signs of recovery. Many Member States have taken steps to drive through reforms and create better market conditions, in spite of short-term tendencies to shield off national markets.

This report aims at reviewing in the context of the Europe 2020 strategy the way the Single Market functions within the various Member States. It takes stock of where progress has been made since the start of the crisis and seeks to identify where bottlenecks remain and defines a set of policy priorities on that basis. The report thus contributes to the overall priorities set in the Commission's Annual Growth Survey 2014, and to the further identification of country-specific recommendations in the context of the European semester.

As was the case in last year's edition, this report focuses on key areas where growth potential is the biggest: services, networks and the digital economy. Services sectors are growing fast and generate most employment. Whilst progress has been made, further steps must be taken to unlock the full potential of the services sector. In parallel, and given that services are strongly inter-linked with other sectors of the economy and in particularly manufacturing, work is needed to further improve the functioning of the internal market for industrial products. In fact, whilst the internal market for goods is a success, the EU must ensure that its legal framework stays fit for purpose in a globalised world, where innovation is key and products evolve rapidly. To this end, the Commission will present a review on the internal market for industrial products by the end of the year.

This year's report also looks at the functioning of the financial sector, as better access to finance and better integration of financial markets are quintessential to restoring confidence and financing the real economy.

Networks remain the backbone of the economy. E-communications, energy and transport activities account together for 8.9% of value added and 6.1% of employment in EU27 and are still growing in importance.[1] They also offer essential inputs to other sectors of the economy. The digital sector is also a main driver for productivity, creativity and innovation. In some

[1] European Commission Occasional Papers 129 "Market Functioning in Network Industries – Electronic Communications, Energy and Transport", February 2013

major economies (the G8 countries, South Korea and Sweden), the internet economy[2] has brought about 21% of the growth in GDP in the period 2006-2011[3].

Part I of this report offers an analysis of the key sectors mentioned above and defines a number of policy priorities. Part II presents more horizontal findings on the functioning of the Single Market, based on an analysis of intra- and extra EU value chains.

PART I – THE STATE OF THE SINGLE MARKET IN KEY AREAS WITH THE BIGGEST GROWTH POTENTIAL

2.1. Implementation and enforcement – general overview

- The Communication on Better Governance of June 2012[4] announced a set of measures to mark swift progress in key areas for growth. First, it called for a '**zero tolerance' approach:** Member States should transpose and implement EU legislation listed in the annex to the Communication swiftly and correctly so as to reduce both the transposition and compliance deficits to 0%.

- One and a half years later, there are some good results (see the annex). For pieces of legislation listed in the annex to the Communication and belonging to the financial services, digital Single Market and transport areas, the **0% transposition deficit target** is respected. At the other end of the spectrum, however, stands the energy sector. Whilst a number of Member States have improved their records, many Member States still fail to respect transposition deadlines, with four Member States even failing to transpose three of the four directives concerned.

- The Communication also called for a more vigorous approach and enforcement in key areas. Where there are indications that key pieces of legislation are breached, **infringement procedures** should take no longer than maximum 18 months on average, and full compliance with Court judgments should on average not take longer than 12 months. In several areas, steps have been taken to pursue possible breaches of EU law with vigour, and the results of such approach are clearly visible, for instance in the services sector (cf. infra). Having said this, the average duration of infringement proceedings is still 29.4 months, with some infringement proceedings lasting for more than 50 or even 84 months. The situation is much better in the areas of energy (15 months) and transport (15.4 months).

2.2. The services markets

Market performance and obstacles to EU integration

[2] All activities linked to the creation and use of internet access networks as well as the services offered on the internet (IP telecommunications, manufacture and maintenance of IT material intended for the Web, Internet based service activities, and all activities using the internet as a medium, from e-commerce to online advertising).

[3] "Internet matters, the net's sweeping impact on growth, jobs, and prosperity", McKinsey Global Institute, May 2011, which looks at these countries and at Brazil, China and India.

[4] European Commission Communication « Better Governance for the Single Market », COM(2012)259 final, June 2012

Many Member States undertake reforms in the services sectors to make them work better. Over the past year this has been the case in particular in PT, ES, IT, GR and PL, and, to a lesser extent, in SI and CZ. These reforms have been encouraged by country-specific recommendations (CSRs) or programmes agreed with the respective governments. There is a need for reforms in several Member States however, including in AT, BE, DE and FR, which also received services-related CSRs.

Another spur to reform has resulted from the Commission's **zero-tolerance exercise to ensure full compliance with the Services Directive**. Over the last year, 13 Member States have initiated further reforms in reaction to EU pilot or infringement procedures launched by the Commission. These relate mostly to restrictions on commercial communication, residence requirement or the territorial limitation of the authorisation.

Points of Single Contact (PSCs) have been further developed in many Member States as part of their wider efforts to offer comprehensive e-government services for businesses (e-government issues are more widely dealt with in the section on "digital markets" below). For businesses to thrive, they need reliable and easily accessible information on regulatory requirements, and they need to be able to complete the relevant administrative procedures on-line. This is the objective of the PSCs and the recently approved PSC Charter. Some PSCs are already part of integrated e-government structures (EE, ES, DK, NL, UK, SE, LU). Other countries have been making progress over the last year (BG, EL, FR). PSCs in BE, DE, LV, PL and RO require particular attention however, especially as regard the on-line completion of procedures.

Having said this, **the potential of the Single Market in boosting the development of the services sector remains strong**. The trends presented in last year's report showing that integration in services was significantly lower than in the goods market continue to be valid. Indeed, trade integration in the Single Market for goods stands at approximately 22%, with that for services at around 5%[5]. Similarly, consumers evaluate the performance of the Single Market for services less positive than that for goods.[6]

A more ambitious approach to implementing the Services Directive could yield benefits for growth and jobs in the EU. Measures taken by Member States to implement the Services Directive will increase GDP by approximately 0.8% over 5-10 years. A more ambitious implementation of the Services Directive alone could generate an additional 0.6%-2.6% of GDP.[7]

At the same time, the recent peer review on the implementation of the Services Directive has confirmed the earlier assessment[8] that **many Member States did not carry out significant**

[5] Trade integration is given by the average of imports and exports of goods and services divided by GDP.
6 Cf, the Consumer Market Monitoring Survey 2013 commissioned by DG SANCO and to be used in the forthcoming 10th Consumer Markets Scoreboard,
http://ec.europa.eu/consumers/consumer_research/consumer_market_monitoring_survey_en.htm
[7] European Commission Economic Paper 456: "The economic impact of the Services Directive: A first assessment following implementation", June 2012
[8] European Commission Communication on the implementation of the Services Directive "A partnership for new growth in services 2012-2015", COM(2012) 261 final, June 2012

proportionality tests on the remaining requirements in the services sector[9]. Carrying out such tests is necessary to assess whether these restrictions are justified and whether the same public interest objectives cannot be reached through less restrictive measures. As a result, there are still too many restrictions on the right of establishment, such as the obligation for companies to have a certain legal form or shareholding and capital requirements. These obstacles may restrict the establishment of service companies throughout the Single Market, impede the development of certain business models or limit investment in the sector which affects growth and innovation.

Fragmentation of national rules relating to **labour, taxation, health and safety, consumer protection and contract law** remains an issue. In a cross-border context, this causes compliance costs that impact in particular micro and small enterprises.

As regards **access to professional activities, several Member States have started reforms, but entry barriers remain in a number of professional activities.** Entry barriers often take the form of professional qualification requirements or restrictions on the number of services providers allowed on the market. They can be justified by the need to safeguard the quality of services, ensure the appropriate technical knowledge of professionals and protect consumers from malpractice. At the same time, they cause considerable restrictions to the access and conduct of professional activities. Several Member States have launched reviews to assess whether public policy interests cannot be achieved without imposing restrictions on market access and competition. PT is carrying out a comprehensive screening and reform of regulated professions. IT has revised its horizontal regulatory framework. ES has presented a draft law delimiting the powers of professional orders across sectors. Sector-specific reforms have also been launched in PL, CZ and SI and have been announced in DK. The Commission will further facilitate such reviews through a mutual evaluation exercise initiated under the revised Professional Qualifications Directive[10], including in countries with scope for further reforms such as AT, DE or FR.

As regards **health services**, many Member States still have to set up adequately resourced National Contact Points to help patients exercise their rights to cross-border healthcare. Beyond patients, the free movement of professionals and providers within the health services sector carries considerable potential.

In the retail services sector, some reforms have been launched and need to continue to address remaining barriers affecting competition, including those in commercial establishment. FI has initiated reforms to increase competition in the retail sector. ES has carried out reforms in relation to small retail outlets, but restrictions remain for larger outlets. While some restrictions can be justified by objectives of public interest (e.g. environmental impact), others are more difficult to justify as they, notably, soften competition with negative effects both on industry (modernisation, efficiency) and consumers (less choice, higher prices). Economic needs tests are prohibited under the Services Directive, but are nevertheless still in place in HU, NL, and in certain regions of DE and ES. The Commission has issued CSRs to BE, DK, FI, FR, DE, HU and ES to encourage further reforms. As announced in the

[9] Commission Communication on evaluating national regulations on access to professions, COM(2013) 676 final, October 2013 and Staff Working Document on the outcome of the peer review on legal form, shareholding and tariff requirements under the Services Directive, SWD(2013) 402 final, October 2013

[10] http://ec.europa.eu/internal_market/qualifications/policy_developments/index_en.htm#maincontentSec1

European Retail Action Plan[11], the Commission is launching a wider debate and an exchange of best practices between MS on commercial establishment.

Restrictions on the cross-border supply of goods may also affect competition in retail markets. Retailers may not always be free to source their goods at best prices across Europe. There are valid reasons for certain price differences between national markets, but there are also indications of territorial supply constraints that prevent lower prices in some national markets (LU and BE), especially in the case of branded products. The Commission intends to explore this topic further in 2014, by consulting stakeholders on alleged territorial supply constraints, with a view to deciding on possible next steps.

Consumers are sometimes still confronted with situations where their **nationality or place of residence hampers their ability to purchase products and services** across the Single Market, or increases the price they have to pay, especially in the on-line world. This situation of perceived discrimination may not always be the result of objective market conditions and affects consumers' trust in the Single Market.

Public authorities are a major consumer of services in Europe. The correct, efficient and transparent application of procurement rules delivers significant gains. Several Member States have initiated **reforms in public procurement**[12], including IT, GR, PT and ES. In many Member States service providers and public budgets could further benefit from reducing the length of procedures, enhancing competition and transparency in public tenders and preventing irregularities (for example by investing in the professionalization of officials responsible for public procurement or increasing the level of notice publication) and, more generally, improving governance in this area (for example by better monitoring, better information and the dissemination of best practices). Reforms are particularly (but not only) required in BG, DE, HU, IT, MT and RO, as pointed out in the country-specific recommendations addressed to these countries in 2013. Additionally, given their economic importance[13], better compliance with procurement rules in the waste management and ICT sectors could be the source of particular savings generated by improved competition in these markets.

Policy priorities

Taking into account of the foregoing, Member States should focus on the following key priorities:

- Adopt a **more ambitious approach towards the implementation of the Services Directive** by systematically screening regulatory frameworks with a view to assessing the necessity and proportionality of the remaining obstacles. Particular attention should be

[11] Commission Communication “Setting up a European Retail Action Plan”, COM(2013)36 final, January 2013

[12] E-procurement aspects are dealt with in the “digital markets” section

[13] The value of waste collection and treatment contracts awarded amounted to € 12674 million in 2010, i.e. a 10% of the total industry turnover in the same year or around one third of general government expenditure on goods, works and services for waste management. The value of contract award notices for ICT hardware, software or services in EU27 in 2010 amounted to € 22483 million. For more information please consult: “Sector analysis of Public Procurement, criteria for selecting sectors and initial analysis of two sectors: waste collection & treatment and ICT contracts”, 25 June 2013.

given to the restrictions that have been identified in the context of the recent peer review on legal forms and shareholding.

- **Take due account of Single Market principles when adopting national rules impacting the provision of services and establishment**, such as national taxation, labour law and consumer protection rules. Only a comprehensive approach to services will allow significant advancement in the integration of the Single Market for services.

- Simplify legislation in the services sector in such a way that it leads to administrative simplification for businesses, especially for SMEs. E-government is a powerful tool to achieve this. Member States should therefore further **improve the functioning of the Points of Single Contact** by making them a part of the e-government services (see also the "digital markets" section below).

- Seize the opportunity granted by the transparency and mutual evaluation exercise by performing an **in-depth screening of the restrictions in place at national level which affect the access to regulated professions,** examining the justifications for maintaining them taking into consideration their knock-on effects on other markets. Explore the possibility of less restrictive mechanisms to guarantee consumer and public interest.

- **Strengthen competition across the services sector including in retail services by eliminating barriers.** In particular, restrictions to commercial establishment, which are not necessary and proportionate, should be removed and remaining economic needs tests should be systematically abolished.

- **Foster transparency and awareness about price differences and consumer rights** across the Single Market, in particular through the European Consumer Centres and other responsible authorities. Work towards reducing unjustified consumer discrimination.

- Set up **National Contact Points to help patients seeking healthcare abroad**.

- Work towards **reducing the complexity and length of procedures, enhance competition in public tenders** inter alia through increased transparency and the publication of rates, **and invest in the professionalization of officials responsible for public procurement**. They should also actively prevent irregularities and improve governance of public procurement. Additional attention should be paid to the correct application of public procurement rules in waste management and ICT sectors.

2.3. Financial services

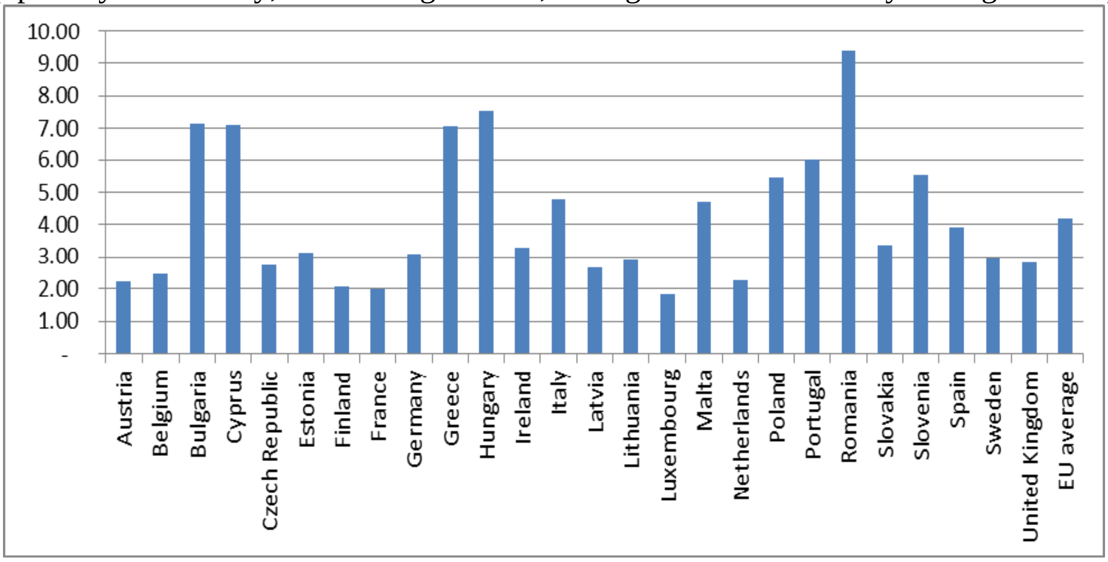
Market performance and obstacles to EU integration

In general, financial market fragmentation - understood as differences in the functioning and performance of national markets caused by obstacles to the free movement of capital or financial services - **has increased during the crisis**. Even though there are now signs of stabilisation, this trend should be reversed. Fragmentation is evident in the replies by corporations to SAFE[14], which document considerable cross-country differences.

[14] http://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html

Fragmentation is also evident when comparing the different interest rates for bank loans (typically important for households and SMEs) across the different Member States, as shown in chart 1.

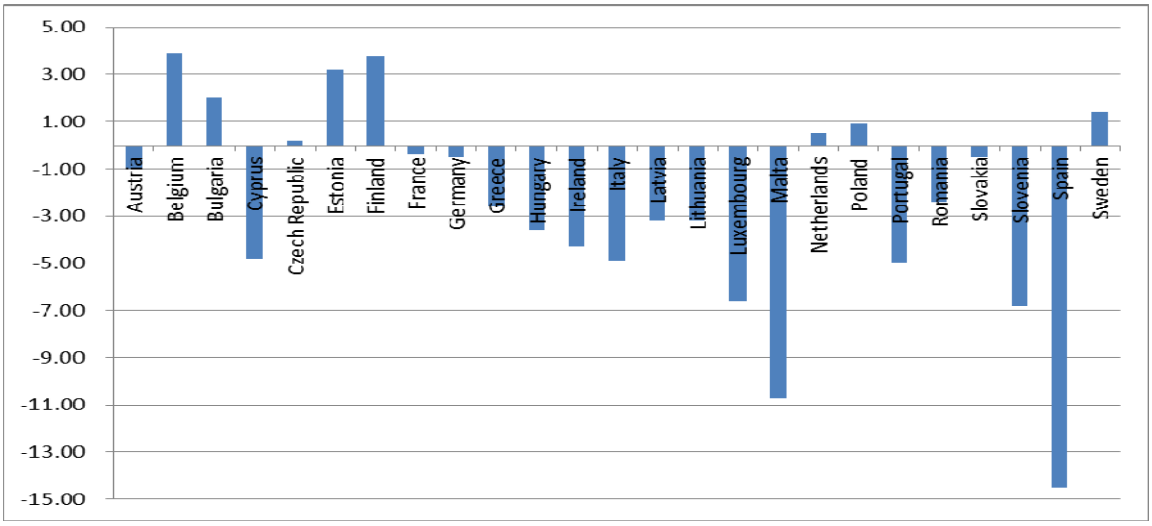
Chart 1: Interest rates, loans to non-financial corporates
(up to 1 year maturity; outstanding amount, average rates from January to August 2013)



Source: European Central Bank. No data available for Denmark and Croatia.

Important differences are equally observable in relation to loan volumes (see chart 2). Additionally, and whilst the data is not strictly comparable due to differences in cyclical developments and to the particular measures taken in some Member States (i.e. in ES, certain loans have been transferred to a "bad bank", which is not a MFI), it is still clear that **the restricted or costly provision of credit has contributed to substantial falls in the total volume of credit being intermediated through banks to the real economy in the EU**.

Chart 2: Loans to non-financial corporates, Outstanding MFIs Balance Sheet
(Year on Year growth rates, August 2013)



Source: European Central Bank. No data available for Denmark, United Kingdom and Croatia.

Finally, fragmentation is also reflected in consumers' assessments. Financial services[15] are evaluated as a particularly underperforming group of markets by consumers and record the highest differences in evaluation between different Member States. Particularly low scores are noted in Southern and Eastern European Member States[16].

Fragmentation has sometimes been exacerbated by the practice of some national supervisors in both euro area and non-euro area Member States. In order to respond to potential stability concerns triggered by the sovereign debt crisis, some have taken **prudential measures which have "ring fencing" effects**, such as measures aiming at retaining liquidity, dividends and other bank assets within national borders[17]. While restrictive prudential measures may be justified to maintain the stability of financial markets, national supervisory authorities need to ensure that any measure potentially limiting the free flow of capital is non-discriminatory and proportionate to its objective. To that purpose, close and loyal cooperation between national supervisory authorities under the auspices of the European Banking Authority (EBA) is a prerequisite to mitigate fragmentation risks of the Internal Market.

The recent adoption of the **package on capital requirements for banks**[18] will make EU banks more solid and will strengthen their capacity to manage properly the risks linked to their activities, and absorb any losses they may incur in doing business. The 28 Member States need to **ensure that these rules are implemented by 1 January 2014**.

The development of a single rulebook, which will ensure uniform rules, supervision and resolution across the EU and the **creation of the Banking Union aims to restore confidence and thus facilitate funding, fostering the internal market for financial services**. The completion of all of its building blocks[19] and its swift and effective implementation are therefore of the utmost importance. Similarly, it is of crucial importance to ensure **a correct, swift and uniform implementation of other essential elements of the financial reform agenda** as they enter into force in order to preserve financial stability and rebuild consumer trust and confidence.

In this context, the Single Supervisory Mechanism Regulation requires that prior to direct supervision by the new Single Supervisor which is the ECB an **Asset Quality Review** needs to be conducted. This review will be part of a larger exercise, which involves the European Banking Authority and will also include bank balance sheet assessments and stress tests[20].

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[15] Markets for loans, credit and credit card,; bank accounts, mortgages, investment products, private pensions and securities and individual pension funds.

[16] Consumer Market Monitoring Survey 2013 commissioned by DG SANCO, to be used in the forthcoming 10th Consumer Markets Scoreboard,
http://ec.europa.eu/consumers/consumer_research/consumer_market_monitoring_survey_en.htm
The evaluation refers to the Market Performance Index (MPI) which is a composite index which includes consumer evaluations on comparability, trust, problems and complaints, and satisfaction of specific markets.

[17] The Commission Services have received confidential information from national supervisors about prudential measures taken in different Member States to address financial stability concerns, which may have ring fencing effects.

[18] Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

[19] Including, in particular, the Single Resolution Mechanism with a Single Resolution Fund and the Bank Resolution and Recovery Directive .

[20] http://www.ecb.europa.eu/press/pr/date/2013/html/pr131023.en.html

This exercise should improve market confidence and contribute to further easing financial fragmentation. For this reason, it is important for Member States **to thoroughly prepare for these exercises** by making all necessary efforts, including the establishment of appropriate backstops ahead of the completion of the exercise and the preparation for the implementation of the revised rules for State Aid to banks.

Before the entry into force of the Directive on Alternative Investment Fund Managers (AIFMD)[21], **the activities of AIFM in Europe were not sufficiently transparent and the associated risks not sufficiently addressed by the regulatory and supervisory arrangements**. Whilst the transposition deadline for the Directive was July 2013, to date, not all Member States have transposed it.

An integrated payments market in the euro area will make payments cheaper, easier and safer. More than 10 years after the euro has been put in place as a common currency and a common means of payment, 28 different cash payment systems are still in place. **The SEPA Regulation[22] sets 1 February 2014 as the end-date** for the migration of domestic as well as intra-European credit transfers and direct debits in euros towards SEPA credit transfers (SCT) and SEPA direct debits (SDD) respectively. More than 35 billion credit transfers and direct debits, annually processed in the euro area, will be directly affected. According to the ECB's SEPA indicator, the overall migration rate in the Euro-area was, in July, SCT 50% for SCT (compared to 38.2 % in February) and 4.8% for SDD (compared to 2.3 % in February). This means that in order to meet the deadline for SEPA migration, SEPA preparedness, communication efforts and implementation measures have to be enhanced considerably and without delay by all involved parties.

Several steps have been taken at EU level to improve access to finance for SMEs[23]. At national level, Member States need to intensify their support to SMEs access to finance, taking also advantage of the avenues of work open at the EU level, which include regulatory, EU financial instruments, new State aid rules for risk finance and other measures to improve the environment for SMEs.

The access to company information across the internal market is also a crucial element for SMEs in order to facilitate their cross-border activities and their financing. In this context, as a necessary first step, the **timely transposition of the Directive on the interconnection of**

[21] Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

[22] Regulation (EU) No 260/2012 of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009

[23] At the EU level, the Commission launched in 2011 an Action Plan on access to finance for SMEs, and a public consultation in March 2013 was also launched on long term financing including access to finance for SMEs; two Regulations establishing a European passport for investment funds targeting unlisted SMEs and social enterprises have already been adopted and are in force since 22 July 2013. The European Commission and the EIB are closely cooperating to develop an initiative to expand risk-sharing instruments between the European Commission and the EIB and EIF with the support of ESI Funds to leverage private sector capital market investments in SMEs. This SME initiative was endorsed by the October European Council and is currently being reviewed by the European Parliament. Support for SMEs, including through financial instruments, currently totals almost EUR 70 billion of ERDF and ESF through Cohesion Policy, and will continue to be a key priority for the European Structural and Investment Funds in 2014-2020

central, commercial and companies' registers[24] whose deadline expires the 7th of July 2014 and which requires all Member States to link up their business registers electronically is of great importance. Further steps will be the interconnection of insolvency registers via the European e-Justice portal[25] and modernising insolvency law in the EU[26].

Policy priorities

Based on the foregoing, Member States should focus on the following key priorities:

- **Ensure that the new rules on capital requirements for banks are implemented by 1 January 2014**.

- Make all necessary arrangements, including the establishment of appropriate backstops and the preparation for the implementation of the revised rules for state aid to banks ahead of the exercises of the **Asset Quality Review, the balance sheet assessments and the stress tests**.

- **Ensure full compliance by national supervisory authorities with the cooperation requirements set out in banking legislation, in order to prevent uncoordinated or disproportionate actions in the context of restrictive prudential measures being taken by national supervisors**. This is particularly important before the Single Supervisory Mechanism becomes fully operational.

- **Finalise the implementation of the Directive on Alternative Investment Fund Managers (AIFMD)**.

- **Ensure all market participants complete their migration to SEPA before 1 February 2014.** Communication efforts and awareness actions at the national level have to be amplified, in particular as regards SMEs, small public administrations and local authorities.

- **Encourage and support SMEs' access to finance** in particular by:

    - **Developing alternatives to bank financing as well as innovative sources of finance**, including: options for the development of SME bonds and alternative stock markets, promoting the emergence of stock markets specialised in listing SMEs of high growth companies, crowd-funding, and venture capital. For the latter, this is now possible across Europe thanks to the European Venture Capital Funds[27] and Social Entrepreneurship Funds Regulations[28]; Forthcoming State aid rules on risk finance

[24] Directive 2012/17/EU of 13 June 2012 amending Council Directive 89/666/EEC and Directives 2005/56/EC and 2009/101/EC as regards the interconnection of central, commercial and companies registers
[25] This follows the pilot project with a group of Member States and the Commission proposal amending the Regulation on insolvency proceedings – for further details see Proposal for a Regulation amending Council Regulation (EC) No 1346/2000 on insolvency proceedings, COM (2012) 744 final, December 2012
[26] Communication on a new European approach to business failure and insolvency, COM (2012) 742, December 2012
[27] Regulation (EU) No 345/2013 of 17 April 2013 on European venture capital funds
[28] Regulation (EU) No 346/2013 of 17 April 2013 on European social entrepreneurship funds

will also create a more even level playing field among Member States and facilitate access to venture capital for SMEs;

- **Improving the quality of how credit assessments are established for SMEs, and facilitating cross-border access to company information to achieve EU wide company information**. A first step in this regard is the timely transposition of the Directive on the interconnection of central, commercial and companies' registers;

- Improving the financing flows within the supply chain, including trade finance, and combating payment delays would contribute to alleviating SMEs liquidity constraints and improving SMEs working capital.

2.4. The energy markets

Market performance and obstacles to EU integration

The third energy package aims to complete an internal gas and electricity market. However, more than two years after the deadline there are still **delays in its transposition, enforcement and effective application on the ground**. As of 25 October 2013, there are still 12 cases pending for non-transposition of the Directives of which 9 pursued by the Commission before the Court of Justice of the EU and 3 at the stage of reasoned opinion against 7 different Member States (PL, SI, FI, EE, RO, IE and LT). In addition, the Commission is still in the process of assessing compliance of national legislation, given that many notifications came in only recently.

Considerable investment in energy infrastructure, such as transmission pipelines and electricity networks, storage and LNG projects **is still needed** so that energy flows freely and be traded across borders in order to strengthen the ensure security of supply. In 2013 CSRs have been addressed to 13 Member States (BG, EE, FR, DE, IT, LV, LT, MT, PL, RO, SK, ES, UK) regarding the need to increase electricity and/or gas interconnections. Since then, interconnections both for gas and electricity have improved (e.g. gas interconnections on the Africa–Spain–France corridor, electricity interconnections between PT and ES, the UK, IE and in the Baltic region and the development of reverse flow gas projects especially in Central and Eastern Europe). These projects have contributed to a better functioning of markets. In October 2013, the European Commission has adopted a list of 248 key energy infrastructure projects of common interest which will benefit from faster and more efficient permit granting procedures and improved regulatory treatment and may also have access to financial support from the Connecting Europe Facility (CEF).

The generation market is still highly concentrated. In eight Member States more than 70% of power generation is still controlled by the historic incumbent[29]. There is a particularly high concentration (with a market share above 75%) in EE, LV, FR, LU and SK. The lowest market share of the largest generation company at national level can be observed in PL and ES. On the gas retail side, apart from LV, where only one entity dominates the national sales market, figures above 90 % for the largest retail company can be found in LT, PL and in EE.

[29] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Electricity_market_indicators
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Natural_gas_market_indicators

A relative small market penetration for the largest retail company on national level (below 30%) can be observed in DE, HU and IT.

Consumers rank the electricity and gas markets among the poorly functioning markets[30]. Both markets score lower than average on choice, comparability, switching of suppliers and tariffs, suggesting that consumers do not actively participate in the market. Overall, the electricity and gas markets have improved the most in BE, but the electricity market in EE and BG has deteriorated the most.

Rolling-out of smart metering systems will enable consumers to get more accurate and frequent feedback on their energy consumption, will minimize errors, facilitate invoicing or switching and reduce infrastructure. 16 Member States have already decided to roll-out smart electricity metering by 2020 at the latest, representing about 84% of the consumers in the EU and an investment of about €35 billion. For gas, 7 Member States already decided to roll this out which represents about 30% of the users and an investment of about €15 billion. For a succesful implementation, consumer trust is an important element, as was the case in the roll out in SE and FI. Attention needs to be given to existing data protection and security concerns.

Member States should phase out retail price regulation. This regulation tends to deter competitors' market entry and investment by both newcomers and incumbents. In the absence of retail price regulation, more competition and Member States action for greater transparency in retail energy markets and better information tools for consumers would keep prices in check and empower consumers to exercise choice and reap the benefits of competition. As a consequence of retail price regulation, service quality and innovation tends to be lower. As regulated prices are being phased out, **support for vulnerable consumers needs to be strengthened,** through the implementation of energy efficiency measures combined with specific support measures (including for example financial assistance to help vunerable consumers pay their bills). Steps in the right direction have been taken in AT, DE, NL, SE where the support is linked to the market price of energy. BG, FR, HU, PL, RO have received a CSR on regulated prices in 2013.

In order for Member States to reach the binding **renewables targets** for 2020 - overall 20% of the gross final energy consumption needs to be generated from renewable energy sources - significant investments are also needed in the generation capacity. While in 2011 most Member States had already reached their 2011/2012 interim target (except BE, FR, LV, MT, NL and the UK), there is no room for complacency. In the short-to-medium term support for renewable energy technologies is still needed for many technologies. It should be applied in line with the best practice guidance issued by the Commission[31].

Capacity remuneration mechanisms are sometimes needed to ensure the continued ability of power generation given the increased sharing of renewable energy (wind, solar). However such mechanisms potentially significantly distort the market and therefore should be a last

[30] Consumer Market Monitoring Survey 2013 commissioned by DG SANCO, to be used in the forthcoming 10th Consumer Markets Scoreboard, http://ec.europa.eu/consumers/consumer_research/consumer_market_monitoring_survey_en.htm

[31] Commission Staff Working Document "European Commission guidance for the design of renewables support schemes" http://ec.europa.eu/energy/gas_electricity/doc/com_2013_public_intervention_swd04_en.pdf

resort option only after making full use of the demand response, energy efficiency and crossborder cooperation measures.

Policy priorities

Based on the foregoing, the Member States should focus on the following key priorities:

- **Timely and comprehensive transposition of the Third Energy Package directives** and proper application of the third energy package regulations.

- **Adoption and application of electricity and gas network codes**, governing the day-to-day functioning of the market in terms of facilitating trade and operating the networks cross-border.

- Increase interconnection capacity with neighbouring countries, i.a. through fully **applying the Regulation containing guidelines for trans-European infrastructure**. At the same time, Member States should adopt a greater cross-border perspective in addressing security of supply challenges.

- **Empower consumers** by ensuring that they have better access to transparent and simple information, are better equipped to participate in open markets, and can make use of the frequent metering data that will be available through the roll-out of smart metering systems.

- **Phase out of regulated prices whilst ensuring the protection of vulnerable consumers.** The support should target the specific needs of vulnerable consumer while not disproportionately affecting competition in energy markets.

- **Rethinking state intervention in line with the best practice identified by the Commission[32] in order to avoid** subsidies, support schemes, taxes or levies, in the energy sector which have distortive effects on market functioning **or which have an unnecessary and disproportionate impact on energy affordability for households and businesses**.

2.5. The transport markets

Market performance and obstacles to EU integration

Given the limited progress in integration of transport services, in 2013 major initiatives for rail and aviation sector were proposed by the Commission[33]. Nevertheless, **to achieve a true internal market for transport services, more needs to be done at Member State level,** as divergent national priorities and the fragmentation of the transport market continue to negatively affect the quality of transport services in Europe.

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[32] European Commission Communication on "Delivering the internal electricity market and making the most of public intervention " http://ec.europa.eu/energy/gas_electricity/doc/com_2013_public_intervention_en.pdf

[33] 4th Railway Package (January 2013), Single European Sky 2+ (June 2013), Consultation on the draft Guidelines on State aid to airports and airlines (July 2013).

The market for train services is perceived as one of the poorest performing service sectors by consumers. In 2013, the market ranks 25th out of 31 services markets. On the positive side, market performance has increased slightly since 2012, when it ranked 27th.[34] While the market for airline services is evaluated relatively well overall, a fifth of all cross-border complaints related to passenger or luggage transport by air[35].

Regarding the **enforcement benchmarks** (see details in the annex), there is a good score in the transport sector**, with all Member States having finally transposed all seven related directives. Nevertheless, there are still difficulties in adequate transposition and implementation of the key legislation** in this field. As a result, there are 20 pending infringment cases for non-conformity with transport legislation against 14 Member States.

Looking at the specific transport modes, **bottlenecks to integration in the rail services sector are the most persistent**. Market access continues to be a major problem in spite of the opening of the rail freight services to competition in 2007 and international passenger services in 2010.

Several Member States maintain a legal monopoly in the domestic passenger market (FI, FR, ES, BE, NL[36]). Many other Member States award directly public service contracts without open competition (BE, CZ, EL, ES, FR, HR, IE, LU, RO, SI)[37]. Moreover, in some countries opening of the market de jure has not changed the situation, because open tenders for public services failed to find new market entrants (BG, LT, LV, SK).

Another impediment to entry of new operators and efficient provision of rail services is the **insufficient independence of and the lack of financial transparency between infrastructure managers and service operators**, which can result in discriminatory behaviour and market distortions. In 2013, there were 42 on-going infringement procedures (situation as of June 2013) launched against nearly all Member States concerning rail services, while a number of complaints have also been filed under competition rules. Lack of progress in establishing open and competitive railway markets can be particularly harmful for the entire European economy when it concerns transit countries and/or large markets with greater potential for entry. This concern is reflected in the 2013 CSRs, where AT, DE, ES and FR were advised to enhance competition in the rail market, while BE, BG, IT, PL and RO received a recommendation to strengthen the role of the regulator(s).

Approximately 40% of Single Market goods are transported via short sea shipping between EU ports. However, shipping services between Member States are regulated by slow and rigid procedures, as a consequence of the fact that maritime transport is treated as going beyond the external borders. With its “Blue Belt” initiative[38], the European Commission wants to establish a **true Single Market for maritime transport** by no longer subjecting EU goods transported between EU ports to administrative formalities that apply to goods arriving from

[34] Consumer Market Monitoring Survey 2013 commissioned by DG SANCO, to be used in the forthcoming 10th Consumer Markets Scoreboard, http://ec.europa.eu/consumers/consumer_research/consumer_market_monitoring_survey_en.htm
[35]Recorded by the European Consumer Centres Network in 2012 (http://ec.europa.eu/consumers/ecc/ecc_key_statistics_en.htm)
[36] Tendered contracts or open access for commercial services account for less than 5% of the total market
[37] Tendered contracts or open access for commercial services account for less than 5% of the total market
[38] Commission Communication “Blue Belt, a Single Transport Area for shipping, COM(2013), 8 July 2013

overseas ports and simplified procedures. This increases the attractiveness of this transport mode.

The developments in the aviation sector show the potential benefits of market liberalisation. The number of passengers flown inside the EU has been growing steadily since the 90's while the fares have been substantially reduced. Between 1995 and 2011 the number of passenger-km travelled by air in the EU increased by over 66% and air transport accounts now for almost 9% of the EU passenger market. Nonetheless, **the EU airspace is still fragmented leading to higher costs and putting EU operators at a disadvantaged position compared to their foreign competitors**. In this context, operational benefits resulting from the implementation of Functional Airspace Blocks and a strong EU Network Manager are necessary elements for further market integration. Furthermore, air navigation service provision (ANSP) remains closed to competition and requires improvements in terms of quality and cost-efficiency. In June 2013, the European Commission made proposals to speed up the reform of Europe's air traffic control system[39].

Regarding enforcement, **the correct implementation of the airport charges Directive continues to pose problems in several Member States**, which is illustrated especially by cases of discriminatory airport charges.

State Aid formal investigation procedures were opened in 2012/2013, in particular in DE, FR, IT but also in RO, PL, DK, SE, to ensure that the public financing granted to airports and airlines does not impede a fair competition within the aviation sector.

Market opening has also proven to be successful in international road transport. International road haulage increased by 32% in 2000–2011 and accounts for almost 33% of total haulage. Nevertheless, optimal matching of transport supply and demand is impeded because of **persisting restrictions to the temporary provisions of domestic road haulage services and restrictions on the permanent access to domestic road transport markets[40]**.

Domestic road haulage markets remain sheltered from international competition[41]. Operational and time restrictions on cabotage limit the freedom of road haulage operators to provide services. As a result, cabotage remains a minor segment of the EU road haulage market (around 2% of all transport volumes). In addition, certain Member States (FI, DK) have adopted additional measures to protect their markets from competition from non-resident hauliers. Other Member States, such as ES continue to impose restrictions on the permanent establishment of small businesses. In that regard, the Commission will also focus on the clarity of interpretation and more uniform enforcement of the existing legislation both as regards market access and social standards. The removal of the restrictions on the activities of hauliers from the EU-12 on the other hand, has had led to a strong increase in their participation in the international road haulage market (two thirds of their transport volumes is carried out internationally).

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[39] http://ec.europa.eu/transport/modes/air/single_european_sky/ses2plus_en.htm

[40] Although conditions for establishment are set out in Regulation (EC) No 1071/2009, this Regulation also allows Member States to impose additional requirements for the establishment of a road haulage undertaking.

[41] Domestic road transport operations carried out by hauliers from other Member States, also known as cabotage, is limited to three operations in the seven days following an international carriage under Regulation (EC) No 1072/2009

Member States need to increase their efforts to complete and upgrade cross-border connections and infrastructure for European transport of goods and passengers. This could be achieved in particlar through the implementation of the new TEN-T core network corridors, the deployment of the Intelligent Transport Systems (ITS), and the better management of the congestion in cross-border transport[42]. In addition, infrastructure charging should avoid potential discrimination of occasional users by the implementation of distance-based charges for infrastructure. This system has so far only been used in AT, CZ, DE, PL, SI, SK for charging heavy duty transport and in EL, ES, FR, IE, IT, PL, PT for charging all road users on specific parts of the road network[43].

Policy priorities

Based on the foregoing, Member States should focus on the following key priorities:

- **Ensure a timely and high-quality transposition of the transport acquis**, in particular in the railway sector.

- **Open domestic rail passenger services to competition** and ensure that public service contracts are well defined and awarded following a fair, open and transparent tendering procedure. The institutional set-up should guarantee the independence of the infrastructure manager in order to allow effective competition in railway markets ensuring and guaranteeing equal access to infrastructure.

- **Remove red tape in ports easing customs formalities for intra-EU shipping and easing customs formalities for ships** that dock in third country ports.

- **Accelerate the implementation of the Single European Sky (SES)** (e.g. progressing in the defragmentation of the Air Traffic Management network through the implementation of Functional Air Blocks and meeting the performance targets for the period 2012-2014) to improve safety, capacity, efficiency and the environmental impact of aviation.

- **Review any remaining national restrictions to access to domestic road haulage and road passenger markets** with the view to ensuring their full compatibility with existing EU legislation in respect of the freedom for foreign road hauliers and passenger transport operators to carry out certain cabotage operations and to establish in any Member State.

- **Remove bottlenecks and modernise transport infrastructure** by completing the TEN-T corridors, improving cross-border connections, coherent deployment of ITS and implemention of non-discriminatory distance-based charges whilst avoiding investing in transport infrastructure that is not part of a coherent network design and risk underutilisation and costly maintainance.

[42] In that regard, the Commission has proposed, and the co-legislators have agreed, with the two major pieces of legislation the TEN-T Regulation and the Connecting Europe Facility Regulation, which aim to achieve a fully functional pan-European transport network – the backbone of the Single Market.

[43] CE Delft et al. (2012), An inventory of measures for internalising external costs in transport.

2.6. The digital markets

Market performance and obstacles to EU integration

Several inter-related factors contribute to the good performance of digital markets. Advanced countries in e-commerce typically display a high intensity of the e-economy. The good performers, such as SE, DK and UK[44] all enjoy high levels of broadband penetration, high internet use and strong internet skills across the population. Trust in the internet as a sales channel[45] and awareness of rights and obligations online[46] is also high in these Member States. A strong correlation of online sales with per capita GDP can be observed in SE and DK.

The availability of fixed broadband infrastructure, which is crucial for digital markets, has progressed moderately but steadily. However, fixed rural coverage is still below 80% in ten Member States, and remains a challenge in Member States such as PL, SK, SI, LV and RO, with some progress registered in LT and CZ. Whilst more than half of the EU households are covered by high speed broadband, IT, HR, EL, FR, IE and PL need to upgrade their networks to keep pace[47].

The mobile sector has generally benefited from competition and continuously growing take up of mobile broadband[48], but is hampered by delays in spectrum release. The coverage of 4th generation mobile broadband access networks tripled to 26% in just one year, but the continued growth of wireless broadband will require further major investments in the enabling networks. This is possible only if sufficient spectrum is available. Yet more than half of the Member States have still not made available the 800 MHz band for wireless broadband, which was to be effected by 1 January 2013[49]. Mobile network sharing, in compliance with competition rules, can allow for a better use of the already assigned spectrum. There is also a need to remove unjustified restrictions to the roll-out of wireless broadband networks.

Price differences between the Member States remain generally high[50] and have been persistent over time[51]. This, combined with persistent barriers to switching operators[52] highlight the need to deepen the Single Market for electronic communications, where the

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[44] In these Member States, respectively 74%, 73% and 73% of citizens have bought online at least once in 2012 (source: Eurostat).
[45] In DK, UK and SE 80%, 75%, 71% of respondents in recent surveys said they have trust in internet sales from domestic retailers, compared to an EU average of 59%.
[46] http://ec.europa.eu/public_opinion/flash/fl_358_en.pdf
[47] For the market data in this section please see in particular the Digital Agenda Scoreboard at: https://ec.europa.eu/digital-agenda/sites/digital-agenda/files/DAE%20SCOREBOARD%202013%20-%20SWD%202013%20217%20FINAL.pdf
[48] Mobile broadband take-up increased by another 11 percentage points from January 2012 to January 2013.
[49] Between July and October 2013 the Commission granted derogations (new deadlines) to eleven Member States (AT, CY, FI, EL, HU, LV, LT, MT, PL, RO and ES). In countries such as BE, EE, SI and SK, availability has been hampered by administrative delays.
[50] For example, there is a seven-fold difference in the average price per minute of a national mobile call between the most expensive (NL) and least expensive Member State (LT).
[51] For a comprehensive account of the evolution over time of these price and non-price disparities in both fixed and mobile markets, please see European Economy Occasional Papers 129: "Market Functioning in Network Industries – Electronic communications, Energy and Transport" (February 2013)
[52] Consumer market study on the functioning of the market for internet access and provision from a consumer perspective" (2012) – conducted on behalf of the European Commission by Civic Consulting. http://ec.europa.eu/consumers/consumer_research/market_studies/internet_services_provision_study_en.htm

independence and good resourcing of national regulators and proper implementation of the regulatory framework are crucial. The recently proposed legislative package for a Single Market for electronic communications will bring down remaining barriers and bring the regulatory certainty required for investments in infrastructure. In case of market failures there will however also be a need for continued targeted public support, including from the Structural Funds which, in some Member States, have been under-used and/or faced considerable absorption problems.

On average for the EU, online commerce continues to grow domestically as well as cross border. However, it is still a mainly domestic commerce. The number of individuals ordering or buying over the internet in the previous 12 months rose to 45% in 2012, from 43% in 2011 and 40% on 2010[53], with Member States starting from a particularly low level ('catch-up' countries) growing particularly fast. However, many of them continue to exhibit lower than average domestic e-commerce levels (rates of 25% or below in HU, EE, HR, PT, CY, EL, LT, IT, BG, RO).

Cross-border e-commerce is still limited, with the proportion of individuals in the EU making purchases from other EU Member States increasing but only marginally (from 10% to 11%)[54]. While the eCommerce Directive is generally well implemented, issues remain in some Member States in terms of prior authorisation requirements and the enforcement of information obligations for traders. Furthermore, areas warranting renewed attention are the availability and security of payments, personal data privacy, the delivery of ordered goods, information for online contracts and easy access to redress mechanisms as well as general contract and consumer protection laws. Costs for businesses and consumers to engage in the online economy could be brought further down by effective cyber security strategies, which however only half of the EU Member States have in place (AT, CZ, EE, FI, FR, DE, HU, LT, LU, NL, PL, RO, SK, UK)[55], with AT, DE, DK, FI, FR, NL, SE and UK[56] having particularly good national capabilities.

ICT for public sector efficiency is an underestimated lever for growth-friendly fiscal consolidation and structural reforms, notably through eGovernment, cloud-based services[57], eHealth and smart and interoperable energy and transport grids, as well as through the opening up of public sector information. Since the last year, steady progress is being made with public sector modernisation: 87% of enterprises use e-government services and several Member States are introducing mandatory online services. The proportion of citizens using eGovernment has also increased over the last year to 44% (both up by 3 percentage points). IT, HR, BG, CY, CZ, RO, PL and EL would benefit from a stronger up-take. Although the use of electronic tools in public procurement remains limited, some Member States have seized its opportunity, particularly PT (e-submission mandatory for most procedures), LT, IE, SE and the UK. The use of e-invoicing is already mandatory for the majority of public authorities in DK and SE and should become the rule across the EU.

[53] Eurostat - Community survey on ICT usage in Households and by Individuals – Digital Agenda for Europe key performance indicator.
[54] Eurostat - Community survey on ICT usage in Households and by Individuals – Digital Agenda for Europe key performance indicator.
[55] ENISA mapping of national cyber security strategies in the world, April 2013.
[56] Impact assessment report accompanying the proposal for a Directive concerning measures to ensure a high level of network and information security across the Union, SWD(2013) 32 final, February 2013.
[57] See the Commission's Cloud Computing Strategy, COM(2012) 529 final, September 2012.

The EU's "intellectual property infrastructure"[58] must be reinforced. The ICT sector, as well as those increasingly opting for the Internet as a distribution channel, are often very reliant on intellectual property rights, which increase their attractiveness for finance and ensure the necessary returns on investment. Registration systems for national rights must be affordable and accessible[59]. Furthermore, specialised IP sections in national courts can substantially speed up proceedings and improve the quality of rulings.

Even state-of-the-art networks and technologies cannot deploy their full potential for growth and jobs, if companies and citizens do not use them fully[60]. This potential for growth and jobs is currently being held back, in particular, due to a **lack of ICT skills in the work force**. Some 50% of EU citizens have no or low computer skills[61]; yet 90% of all jobs are forecast to require some ICT knowledge by 2015[62]. ICT skills need to become a part of the general education system at all levels. In addition there is a need for a stronger interaction between the education and business communities, given the current acute lack of ICT professionals[63].

Policy priorities

Based on the foregoing, Member States should focus on the following key priorities:

- **Ensure the proper functioning of the electronic communications markets** by reinforcing their national regulatory authorities and by implementing regulation that supports a competitive deployment of high speed broadband and with targeted public support where necessary, notably through an efficient use of the European Structural and Investment Funds**.**

- **Complete the assignment of the 800 MHz frequency bands as soon as possible and bring the radio spectrum available for wireless broadband to a total amount of at least 1200 MHz, and remove barriers to the efficient deployment and use of wireless broadband networks**.

- **Put in place favourable conditions in the various areas affecting online services**, including by correctly and timely implementing relevant legislation, from e-commerce – as the legislative centrepiece for the provision of on-line services - to taxation, from parcel delivery to payments, from consumer protection legislation such as Consumer Rights Directive[64] to dispute resolution mechanisms such as ADR/ODR legislation[65].

[58] Encompassing EU and national systems of recognition, registration, exploitation and enforcement of intellectual property.
[59] For example, the cost of applying for and registering a trademark in three classes varies within the EU, ranging from 78 euro in CY to 419 euro in SE.
[60] In this regard, one European out of five has never used the Internet and the rates of non-use are above 40% in some Member States.
[61] Eurostat, based on a representative sample of the adult (16-74) population in the EU. Country differences are considerable; they range from 26% to 79% of individuals having no or low skills.
[62] IDC White Paper "Post Crisis: e-Skills Are Needed to Drive Europe's Innovation Society" (November 2009).
[63] From 2011 to 2012, more than 100 000 software engineering jobs were created. Combined with stagnating ICT graduate numbers, the result is a growing shortage on the labour market.
[64] Directive 2011/83/EU of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC and repealing Council Directive 85/577/EEC and Directive 97/7/EC

- **Support the use of ICT, and of broadband Internet in particular**, by improving access to financing the connectivity and usage for SMEs. Member States should also invest in ICT skills, notably with the use of European Social Fund, by integrating them more and better into their education systems, promoting partnerships with business, attracting cross border mobility and adopting the eCompetence Framework.

- **Adopt a comprehensive and up-to-date cyber-security strategy** and designate an entity for its implementation and for cooperation with other Member States.

- **Increase the availability of user-friendly on-line public services, including through cross-border interconnection and infrastructures, make e-procurement interoperable and roll it out more widely** across the various levels of administration, **and promote more frequent use of e-invoicing.** Member States should promote open cloud based services to develop digital service infrastructures and stimulate demand. Member States should also deploy eHealth interoperable solutions, including electronic health records and e-prescription for more efficient public healthcare and clinical research and further promote the use of ICT for interoperable smart energy and transport grids.

- Without prejudicing the quality of granted patents and trademarks, Member States should consider possible **reductions of costs and average delays for registering national patents and trademarks.** They should moreover ensure **specialised IP chambers** are in place and have the necessary resources.

PART II – SINGLE MARKET INTEGRATION THROUGH THE LENS OF VALUE CHAIN INTEGRATION

This part offers some horizontal findings about the state of Single Market integration, based on an analysis of value chains, i.e. the supply and purchase of production inputs. A full report of the analysis can be found at the following link.

Strengthening cross-border production chains is an important means to foster competitiveness and growth,[66] and the overall long-term employment effects are likely to be positive as well. In addition, strengthening value chain integration within the EU may also help restore external balances since it opens up markets in Member States with external surpluses.

The analysis shows that, overall, **cross-border inputs in EU production, both intra- and extra-EU, have increased.** This shows that the pace of Single Market integration has

[65] Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC and Regulation (EU) No 524/2013 of 21 May 2013 on online dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC.

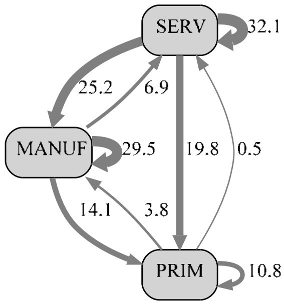
[66] See Chapter 2 at http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/comprep2012_en.htm
.

continued. Notwithstanding these positive overall trends, there are marked differences between Member States[67].

The analysis also suggests that **intra-EU and extra-EU trade in production inputs are complementary[68].** This shows that efforts to further deepen the Single Market and to foster EU free trade agreements with partner economies outside the EU reinforce each other.

Further, services sectors provide the largest input into other sectors' activities, in particular manufacturing. Therefore, **well-functioning services markets have positive effects on EU manufacturing and vice versa**, as is illustrated by Graph 1.

Graph 1. The importance of cross-sector production inputs in the EU

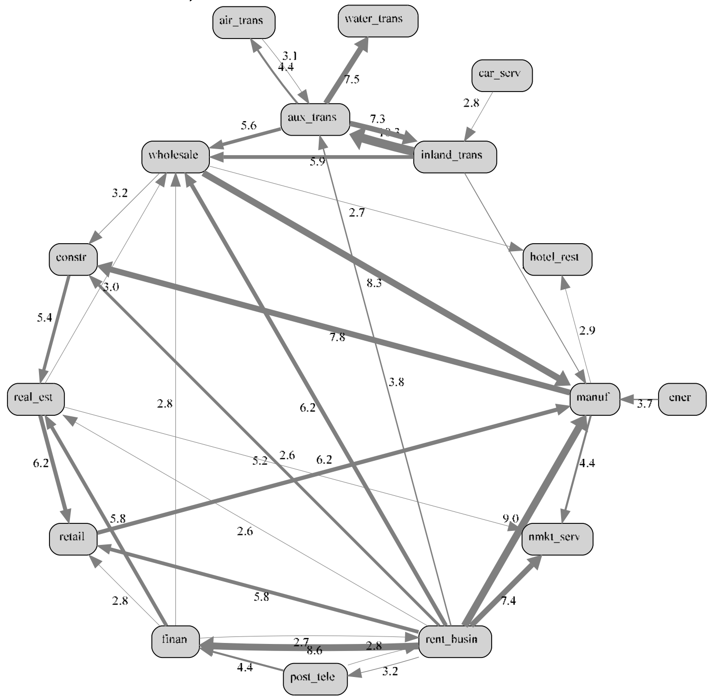


The sector labels are explained in the table in the annex of the full report to be found at the following link. The numbers represent shares of the intra-EU (cross-border and domestic) inputs relative to the output of the destination sector (in per cent).

The analysis also suggests that, with a view to maximising the benefits from the Single Market, Member States should concentrate their reform efforts on **reducing trade barriers in sectors that are relatively large but not yet very well integrated.** This is particularly true for sectors where extra-EU integration is high as compared to intra-EU integration, since this may show that capacity for intra-EU cooperation is underexploited and may, therefore, suggest that significant barriers remain.

[67] For a country-specific analysis of changes in integration intensity, see the full report at the following link.
[68] The 2006–2009 average share of non-domestic intra-EU production inputs in output was positively correlated with the average share of extra-EU production inputs across the Member States.

Graph 2. The strongest intra-EU production linkages (domestic and cross-border) across sectors



The thickness of an arrow corresponds to the size of the coefficient: input from one sector to another as % of an average of both sectors' outputs. The respective coefficients are shown next to the middle of each arrow. Sector labels are explained in link.

Viewed from this perspective (i.e. focusing on trade flows within production value chains), there seems to be scope for further reducing barriers in non-market services,[69] real estate activities and retail[70].

In addition, more economic growth could be achieved if Member States were to implement **policies to improve productivity in already highly-integrated sectors.** Such reforms are likely to result in productivity spill overs to partner sectors, especially where inter-relationships between sectors are strong. As Graph 2 shows, within services, renting of machinery and equipment and other business activities have the strongest linkages with the largest number of partner sectors. Manufacturing had strongest connections with renting and other business activities, as well as with wholesale and retail trade on the input side and with construction on the output side. The transport sector has the strongest links with the wholesale markets.

[69] Public administration, defence, education, and healthcare.

[70] This analysis takes into account the extra-EU integration in these services as a benchmark. However, when assessing the *overall* integration of services markets in the EU, other channels of integration beyond the scope of this chapter (notably the provision of services through establishment) should be taken into consideration to complement these findings.

Annex

INTERNAL MARKET ENFORCEMENT TABLE IN KEY SECTORS - State of play as at 25 October 2013

The 'Better Gouvernance for the Single Market communication' calls Member States:
- to commit to 'zero tolerance' when it comes to transposition of directives, i.e. respecting [1] a transposition deficit target and [2] a compliance deficit target of 0%
- to ensure quick compliance to allow the [3] duration of infringement procedures to be reduced to 18 months on average
- to speed up the process for complying with judgments of the Court of Justice, i.e. [4] achieving full compliance within 12 months on average

For further information please consult the online Single Market Scoreboard: http://ec.europa.eu/single-market-scoreboard. The next update is planned for the end of January 2014.

		BE	BG	CZ	DK	DE	EE	HR	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	EU 25.10.13	EU 25.10.12 [1]
SERVICES (4 directives)	[1] Number of directives not fully transposed yet	1	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0
	[2] Number of pending infringement cases for non-conformity	0	0	0	0	0	0	0	1	1	2	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	6	7
	[3] average duration of pending infringement cases	4.9		32.6		28.4			12.8		20.0		28.1	8.8	44.6	8.8		50.2	12.8		52.0	8.8		8.8	56.7	84.2			0.2	29.4 months	34.7 months
	[4] average duration since Court's judgments									60.1										22.8										41.4 months	29.4 months
FINANCIAL SERVICES (2 directives)	[1] Number of directives not fully transposed yet	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	[2] Number of pending infringement cases for non-conformity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	[3] average duration of pending infringement cases																														
	[4] average duration since Court's judgments																														
TRANSPORT (7 directives)	[1] Number of directives not fully transposed yet	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	[2] Number of pending infringement cases for non-conformity	1	1	1	0	0	0	0	0	1	2	3	1	0	2	1	0	1	0	0	0	2	1	0	2	0	0	0	1	20	22
	[3] average duration of pending infringement cases	14.0				11.1	15.2			4.8	9.1	16.9	6.0		36.0	40.0					4.1	9.0		8.3	11.1				24.8	15.4 months	12.4 months
	[4] average duration since Court's judgments			3.5						11.6	7.8	6.2	0.7					7.8				4.8	12.0		3.5					6.4 months	0.0 months
DIGITAL IM (1 directive)	[1] Number of directives not fully transposed yet	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	[2] Number of pending infringement cases for non-conformity	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
	[3] average duration of pending infringement cases								12.8			75.9																		44.3 months	32.3 months
	[4] average duration since Court's judgments																														
ENERGY (4 directives)	[1] Number of directives not fully transposed yet	1	1	1	1	1	3	0	2	1	1	1	1	1	1	3	1	1	1	1	1	2*	1	3	3	0	3*	1	1	3	3
	[2] Number of pending infringement cases for non-conformity	0	1	1	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	5	2
	[3] average duration of pending infringement cases	13.1	10.1	10.1	0.9	13.1	20.9		12.9	13.1	13.1	15.0	13.1	13.1	13.1	17.7	13.1	13.1	13.1	9.6	13.1	22.2	13.1	18.5	20.7	13.1	20.9	0.9	9.6	15.0 months	7.3 months
	[4] average duration since Court's judgments																														
OVERALL PERFORMANCE 25.10.2013																															
OVERALL PERFORMANCE 25.10.2012								NA																							

Legend

Transposition deficit	0%	> 0%
Compliance deficit	0%	> 0%
Pending cases duration	≤ 18 months	> 18 months
Duration since Court's judgment	≤ 12 months	> 12 months
Not applicable		
Performance	0 target missed	> 3 targets missed / 1-3 targets missed

- the transposition deficit measures the number of directives which have not been fully transposed yet out of the total number of directives which should have been transposed. A directive is described as a transposed directive if i) the MS has declared it to have been fully transposed AND ii) if the Commission's prima facie examination of the measures notified by the MS (and any other relevant information provided by the MS) indicates that the directive can be considered to have been fully transposed, OR if the Commission has not yet completed its prima facie examinations.
- The compliance deficit measures the number of Directives against which infringement proceedings for non-conformity are opened.
- The pending cases duration is calculated from the date on which the Commission sends a letter of formal notice to the completion of the pre-litigation phase.

* The Commission is in the process of assessing the recent notified legislation for one directive (PL) and for two directives (FI).

[1] The present figures have been recalculated to take into account the different methodology applied in 2013 and thus not identical to those published in 2012: at present, the average duration of pending infringement cases does not cover those cases pending in front of the Court of Justice; furthermore, the average duration is calculated only on the basis of positive values and not as an average for all Member States.