The Added Value of the **European Single Market**

Background

The single market is a core achievement of the European integration process over the last six decades. It constitutes the largest, barrier-free, common economic space in the industrialised world, encompassing over half a billion citizens in an economy with a gross domestic product of some € 13 trillion.

Foreshadowed in the 1951 Treaty of Paris, which established the European Coal and Steel Community (ECSC), the development of a **unified or** '**common**' **market** was the central policy commitment contained in the 1957 Treaty of Rome. It was based on the '**four freedoms**' - of free movement of goods, services, capital and workers, and supported by the 'freedom of establishment', in effect the right to practise a trade or profession in a member state other than one's own. Progress towards the free movement of goods was greatly facilitated by the removal of tariff barriers to trade in the years to July 1968, as the European Communities' **customs union** was put in place, but the effect of non-tariff barriers or technical barriers remained significant.

The time-consuming process of attempting to replace multiple, national technical and consumer standards in different sectors by single pan-European ones, especially given that **unanimity** was still required in the EU Council of Ministers, gradually ran out of steam in the 1970s, with progress in realising the common market increasingly stalled. In the early 1980s, the first directly-elected European Parliament led efforts to point to the '**cost of non-Europe**' - a phrase first coined in the Ball-Albert Report (1983), sponsored by the Parliament - in failing to remove remaining barriers to free movement. The concerted campaign to relaunch the **single or** '**internal**' **market** was the result, with the latter defined in the 1986 **Single European Act** (SEA) as 'an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured' (now Article 26(2) TFEU).

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A deadline of December 1992 was set in the SEA for the completion of the single market, based on a programme of nearly 300 specific legislative proposals set out in the '**Cockfield White Paper**' tabled by the European Commission in June 1985, under its then President, Jacques Delors. This programme continued and accelerated the existing process, started in the 1960s, of seeking to replace multiple national standards with European ones, taking greater advantage of the principle of 'mutual recognition' - strengthened by important rulings of the European Court of Justice - wherever 'harmonisation' proved difficult or unnecessary. The introduction (under the SEA) of **qualified majority voting** (QMV) in the Council of Ministers, decisively eased decision-making on single market issues, removing the national right of veto. The Cecchini Report (1988) estimated that successful completion of the single market would add up to 4.5 per cent to EU GDP.

As single market legislation was adopted, **physical barriers** to the free movement of goods at internal borders were removed, with attendant customs formalities and paperwork disappearing, whilst many technical barriers, notably divergent national product standards, were gradually eased. The growing momentum of the single market after 1987 helped to revitalise the European economy, as companies became more and more able to operate across national boundaries – realising both their 'comparative advantage' and economies of scale – and individual consumers enjoyed widening choice in increasingly competitive markets. During the 1990s and 2000s, there was a very substantial **expansion of trade and investment within the European Union**, spurred in part by the deepening of the single market: before the current economic down-turn hit, these figures were expanding at rates of up to 10 per cent a year.

The single market has added 2.15% to EU GDP, increased employment by 2.8 million, and promoted inward investment into the European economy

This process was compounded by the parallel widening of the market with enlargement: from a Community initially encompassing 170 million people in six member states in the late 1950s, the number of EU citizens grew from 345 million in 12 member states in 1992 to just under 500 million in 27 member states by 2007. Since the creation of the European Economic Area (EEA) in 1994, the single market has also included Iceland, Norway and Liechtenstein. The number of companies located within the single market has risen from 12 million in 1999 to 21 million in 2012.

Macro-economic impact of the single market

The overall effect of the progressive completion of the single market since 1992 can be seen in higher GDP, greater employment, expanded internal and external trade, and stronger inward investment into the EU economy than would otherwise have been the case.

- Between 1992 and 2002, over its first decade, the completion of the single market is estimated by the European Commission to have increased **EU GDP** by 1.4 per cent. This figure rose to 2.15 per cent by 2006, before the current economic down-turn began. The 2006 figure represents € 233 billion, or around € 500 per citizen. A Dutch government (CPB) study in 2008 suggested that the single market had increased overall EU GDP by approximately 3.0 per cent.

- During the period from 1992 to 2008, the single market is estimated to have increased **employment** in the EU economy by 2.8 million, representing a 1.3 per cent increase in total employment.

- Between 1992 and 2011, **intra-EU trade in goods** rose from 12 to 22 per cent of EU GDP, from € 800 billion to € 2.8 trillion per year. Intra-EU trade in services rose from € 215 billion to € 729 billion over the same two-decade period. Trade in certain products has grown especially rapidly, notably in entertainment goods, consumer electronics, chemicals, food and beverages - all of which have seen increases of between 70 and 140 per cent.

- At the same time, the development of a barrier-free single market has also increased the attractiveness of the EU as a **trading partner** for third countries and increased the ability of EU firms to compete on global markets. Between 1992 and 2011, exports rose as a share of EU GDP from 6.9 to 11.2 per cent.

- The single market has also promoted greater **inward investment** to the EU, with companies investing in any one member state now able to reach 500 million consumers in an integrated, continental market. The annual flow of inward foreign direct investment (FDI) into the EU rose from € 64 billion in 1992 to € 260 billion in 2010, peaking at € 730 billion in 2007, before the current economic down-turn. In 2008, it was estimated that about 17 per cent of inward FDI and 11 per cent of outward FDI could be attributed to the single market (CPB study). World Bank figures suggest that overall annual FDI into the EU rose from 1.0 to 7.0 per cent of GDP between 1992 and 2007, falling back to 2.5 per cent in 2010, compared to comparable numbers of 0.4, 1.8 and 1.6 per cent in the United States.

- Many of the advantages of the single market have been enhanced by the adoption of a **single currency**, currently encompassing 17 of the 27 EU member states: a recent study suggested that 15 per cent of increased trade within the eurozone can be attributed to the single currency effect, which has overall added a further 1.1 per cent to eurozone GDP (McKinsey Global Institute study).

- The existence of the single market has made it easier, and more necessary, to operate an effective **competition policy**, so helping to ensure that firms compete on a level playing field across the EU. Illegal state aids declined from 0.3 to 0.1 per cent of GDP in the period 1996-2009, with competition policy decisions estimated to have saved consumers some € 4.0 billion in 2011. Legal state aid has fallen from around 2.0 per cent of GDP in the 1980s to 0.5 per cent in 2011. Some economists estimate the benefit of EU competition policy (in addition to that of the single market) to around 3.2 per cent of GDP.

- Growing competition has resulted in a **convergence of prices** within the EU: the coefficient of price variation fell from 39 per cent in 1995 to 26 per cent a decade later. The divergence in prices has fallen especially rapidly in transport, consumer goods, fuel and foodstuffs.

- The European Commission has recently estimated that the 2006 **Services Directive** has already increased EU GDP by 0.8 per cent, with an impact varying between member states from 0.3 per cent to over 1.5 per cent of GDP (full implementation could add another 2.3 per cent to EU GDP).

Benefits of the single market in specific sectors

The added value of the European single market can be seen very clearly in the practical benefits that it brings in specific sectors. To take some examples:

- The **liberalisation of airline services** within the EU has increased competition on existing routes, opened up new routes and reduced fares, whilst simultaneously permitting improved passenger rights. Since 1993, the number of intra-EU airline routes has more than doubled, giving a major boost to regional airports - with over 400 airports in the EU now receiving scheduled flights. The number of routes served by two or more airlines within the EU has increased more than five-fold - from 93 in 1992 to 482 in 2011. It is estimated that the total volume of 'air mobility' in the Union has risen by over half, from 346 billion passenger kilometres in 1995 to 522 billion in 2009. The number of employees in the air transport sector has grown by 1.4 million. As a result of the parallel liberalisation of **road transport**, the number of 'billion tonne kilometres' undertaken in freight transport by road has risen by 31 per cent over the period 1995-2009.

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- The breaking-down of barriers in the EU **telecommunications** market - whether in fixed or mobile phones, internet access or other digital communications telecoms - has improved efficiency in the economy generally. By 2010, the average cost of international voice calls had fallen by well over half, from € 1.63 to € 0.67, since 1988. The cost of making and receiving international mobile calls fell by 73 per cent between 2005 and 2012. There has also been a parallel growth in international e-commerce, with 10 per cent of all consumers buying goods or services on-line from other EU member states each year (even if this still represents less than 4.0 per cent of total retail trade in the Union).

- In the field of **public procurement**, it is estimated that the requirement that all contracts above a certain threshold be open to competition from other member states and be publicly advertised has pushed down prices by about six per cent, which represents a huge efficiency gain in a market of some € 370 billion per year.

- The gradual liberalisation of the **energy sector** within the EU - through successive rounds of legislative 'packages' since 1996 - has removed monopoly suppliers, encouraged cross-border competition, and reduced price disparities between member states. The opening of EU energy markets to greater competition is estimated already to have generated welfare gains of around € 2.0 billion per year. At least 14 major European energy companies are now providing services in more than one EU member state. Consumers are much freer to shop around, enabling them potentially to save up to € 13 billion by switching suppliers.

Opportunities for citizens

The single market has impacted on citizens directly as consumers. However, as a result of the rights of free movement and establishment, there has been a very substantial increase in the **mobility of citizens** in recent decades.

- The number of EU **citizens living in member states other than their own** has risen from 4.6 million in 1995 (EU 15), to 6.9 million in 2005 (EU 25) and to 12.8 million in 2011 (or 2.5 per cent of the EU 27 population).

Around 2.8 cent of the total EU workforce - 6.2 million out of 224 million people - now work in a member state other than their own. In addition to such intra-EU labour mobility increasing personal freedom, it is estimated to add about 0.3 per cent to the Union's GDP each year. Free movement makes labour markets more dynamic and flexible, makes it easier to match job-seekers to vacancies and to match employers to skills, and generally enhances the employability of the individuals concerned.

- The number of **students** studying in an EU member state other than their own has increased from 3,000 in 1988 to 219,000 in 2011. (Since 1987, over 2.5 million students and a quarter of a million teaching staff have taken part in the EU's Erasmus programme).
- 24 of the 27 EU member states (plus Iceland, Norway, Switzerland and Liechtenstein) participate in the **Schengen Agreement**, which allows passport-free travel for over 400 million citizens, who make over 1.25 billion journeys as tourists every year.
- The **mutual recognition of professional qualifications** has grown rapidly in recent years, with a six-fold increase in the number of people taking advantage of this possibility between 1997 and 2010 - as EU law has widened the number of fields where any one member state automatically recognises the diplomas and/or minimum training requirements imposed by any other state.

Further work to be done

The single market has provided a solid anchor to the European economy during the recent down-turn

Despite its considerable successes - including providing a solid anchor to the European economy during the recent down-turn and helping to avoid any reversion to national protectionism - the European single market remains far from complete. Some of the **3,500 single-market measures** so far adopted mainly to establish common or minimum standards, still need to be implemented or effectively enforced. Although the European Commission says that the formal rate of non- or incorrect transposition in member states has fallen to only around one per cent, the Monti Report (2010) suggested that perhaps half of single-market directives confronted **implementation difficulties** of some kind. At any given time, there are normally about 800 infringement complaints pending.

There are also still significant **'missing links'** in the single market. The Commission calculated in 2011 that action on four fronts - full implementation of the 2006 **Services Directive**, further integration of the **energy and financial services** sectors, and further progress in opening up **public procurement** - could add an additional 3.0 per cent to EU GDP by 2020. Much of this would be added in the services sector, where intra-EU trade has been proportionately much lower than in goods. Full implementation of the **Single European Payments Area** for cross-border financial transfers could add another 0.9 per cent to GDP. Deepening of the **'digital' single market** could also ease conduct of business in many sectors, especially for SMEs, and promote cross-border e-commerce. The further strengthening of EU-wide **intellectual property and consumer rights** could also promote intra-EU trade and investment, whilst greater portability of **social security and pension rights** could make it easier for citizens to work and retire in other member states. The measures set out in the Commission's **'Single Market Acts'** of April 2011 and October 2012 - proposed at the request of the European Parliament - represent moves to address some of these issues, and are likely to be followed by further initiatives in the near future. In some cases – notably energy, transport and digital connections – the successful completion of the single market may yet require significant further investment in **infrastructure** at European or national level.

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