



The Cost of Non-Europe in the Single Market

'Cecchini Revisited'

An overview of the potential economic gains from further completion of the European Single Market

STUDY

EPRS | European Parliamentary Research Service

Author: Zsolt Pataki

European Added Value Unit

September 2014 – PE 510.981

**The Cost of Non-Europe
in the Single Market
(*'Cecchini Revisited'*)**

CoNE 1/2014

AUTHOR

Zsolt G. Pataki, European Added Value Unit

ABOUT THE PUBLISHER

This paper has been drawn up by the **European Added Value Unit** of the Directorate for Impact Assessment and European Added Value, within the Directorate-General for Parliamentary Research Services (DG EPRS) of the European Parliament.

To contact the Unit, please e-mail eava-secretariat@ep.europa.eu

LANGUAGE VERSIONS

Original: EN

Translations: DE, FR

DISCLAIMER

The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

This document is available on the internet at: www.europarl.eu/thinktank

Manuscript completed in September 2014. Brussels © European Union, 2014.

PE 510.981

ISBN: 978-92-823-5534-3

DOI: 10.2861/57536

CAT: QA-02-14-328-EN-N

In the legislative own-initiative report of Dr Andreas SCHWAB on '*Better governance of the Single Market*' of 7 February 2013 (2012/2260(INI)) the European Parliament called on the Commission to submit a proposal for a legislative act aiming at strengthening governance, as well as guidelines and other measures to bring the Single Market to its full potential.

In 2013 the European Parliament's Committee on Internal Market and Consumer Policy requested a new Cost of Non-Europe (CoNE) report in the field of the Single Market, to build on the findings of the European Added Value Assessment supporting the legislative initiative report. This Cost of Non-Europe Report has been drafted by the **European Added Value Unit** of the Directorate for Impact Assessment and European Added Value, within the Directorate General for Parliamentary Research Service (DG EPRS) of the General Secretariat of the European Parliament.

This text builds on expertise commissioned specifically from RAND Europe (Brussels-Cambridge), CEPS (Brussels), Europe Economics (London) and GHK Int. (London).

Abstract

It is well known that the Single Market has contributed significantly to economic growth and consumer welfare in the European Union. It has not however achieved its full potential and economic gains could be secured by better and more effective application of existing legislation and a deepening of the Single Market.

This Cost of Non-Europe report seeks to quantify the costs arising from the lack of full integration and analyses the benefits foregone for citizens, businesses and Member States. The report considers the economic cost of market fragmentation and of the gaps and deficits in the free movement of goods, of services, public procurement, the digital economy and the body of consumer law known as the consumer *acquis*.

The report estimates that completing the Single Market in these fields **would entail economic gains** ranging from **651 billion** to **1.1 trillion euro per year**, equivalent to a range of **5 % to 8.63%** of EU GDP.

Contents

List of abbreviations	5
Note on methodology	6
Executive summary	8
1. Introduction.....	12
2. State of play of the Single Market: Gaps and deficits identified.	15
2.1 Free movement of goods	15
2.2 Services	16
2.3 Digital Single Market	19
2.3 Public procurement and concessions	20
2.5 Consumer <i>acquis</i>	21
2.6 Other issues related to the Single Market, to be further analysed	23
3. Quantitative estimation of the Cost of Non-Europe.....	24
3.1. Free movement of goods	24
3.2 Services	27
3.3 Digital Single Market	28
3.4 Public procurement and concessions	29
3.5 Consumer <i>acquis</i>	30
3.6 Other issues related to the Single Market, to be further analysed	31
4. Conclusions and recommendations.....	33
References.....	35

Annexes - External expertise

- I - The Cost of Non-Europe in the Single Market: Free movement of goods
by RAND Europe, Brussels-Cambridge
- II - The Cost of Non-Europe in the Single Market: Single Market for Services
by CEPS, Brussels
- III- The Cost of Non-Europe in the Single Market: Digital Single Market
by GHK Int., London
- IV- The Cost of Non-Europe in the Single Market: Public Procurement
by Europe Economics, London
- V- The Cost of Non-Europe in the Single Market: Consumer *acquis*
by GHK Int., London

List of tables

Table 1: Potential GDP gains from closing gaps in the EU Single Market.....	9
Table 2: Further non-overlapping potential GDP gains from closing gaps in the Single Market estimated in other studies, estimated by IAs of the Commission ...	9
Table 3: Studies on gaps in the Single Market - methodologies and figures	13
Table 4: Holistic view of internal services market <i>acquis</i>	18
Table 5: Predicted GDP gains of removal of barriers to FDI.....	25
Table 6: Predicted GDP gains of removal of non-tariff barriers (<i>Member State Level</i>)	26
Table 7: Cost of Non-Europe – Free Movement of Services.....	28
Table 8: Estimated direct Cost of Non Europe - DSM.....	29
Table 9: Estimated Cost of Non-Europe per annum – Consumer <i>acquis</i>	31

List of abbreviations

EC	European Commission
EU-27, 28	European Union with 27, or with 28 Member States
EAVA	European Added Value Assessment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IA	Impact Assessment
NTB	Non-tariff trade barriers

Member State abbreviations

BE	Belgium	LU	Luxembourg
BG	Bulgaria	HU	Hungary
CZ	Czech Republic	HR	Croatia
DK	Denmark	MT	Malta
DE	Germany	NL	Netherlands
EE	Estonia	AT	Austria
EL	Greece	PL	Poland
ES	Spain	PT	Portugal
FR	France	RO	Romania
IE	Ireland	SI	Slovenia
IT	Italy	SK	Slovakia
CY	Cyprus	FI	Finland
LV	Latvia	SE	Sweden
LT	Lithuania	UK	United Kingdom

Note on methodology

Cost of Non Europe Reports are designed to evaluate the possibilities for gains and/or the realisation of a 'public good' through common action at EU level in specific policy areas and sectors. This report seeks to analyse the costs for citizens, businesses and relevant stakeholders of the 'gaps' in the Single Market, and identify gaps where further EU legislative action could be beneficial. On this basis, it provides tentative estimates of the cost of non-Europe in the Single Market.

The concept of the 'Cost of non-Europe' can be traced back to the report of Michel Albert and James Ball for the European Parliament in 1983, and led to the landmark study carried out for the European Commission by the economist Paolo Cecchini on the cost of non-Europe in the Single Market in 1988.

The methodology of this report is based on and seeks to update this 'Cecchini rationale', and begins with a description of the current situation in terms of delivery of the Single Market. It proceeds with an analysis of the potential benefits of a more integrated Single Market at EU level, compared to no action or action at the level of Member States alone.

The report looks first of all at the economic gains that can be achieved for the EU and Member States through better governance of the Single Market, and seeks to provide a reliable figure on potential savings or benefits, while factoring in for possible costs of realisation. Although it is impossible to fully and precisely quantify the costs and benefits involved in completing the Single Market, the inevitable limitations linked to the degree of precision that can be expected from this EU-wide quantification should not affect the overall conclusions on the magnitude of potential savings.

It is important to note that these calculations denote the order of magnitude and cannot be precise because there is a potential lack of data homogeneity and/or distortion as they may stem from different sources. Caution is needed when figures are cumulated as they may (a) relate to less and more ambitious internal market scenarios; (b) or relate to different periods/end times of adjustment periods; (c) be based on different models, hence they might not be fully comparable; (d) they may be selective, as other elements cannot be easily quantified. Moreover, many aspects of deepening the EU services market can simply not be quantified.

Other research shows that further potential gains could be evidenced by a holistic analysis of deeper integrating the Single Market, namely by taking into consideration all macroeconomic, social and environmental aspects of further dynamic effects on welfare, employment, income, ecological footprint of enterprises etc. This type of approach is best exemplified by the free movement

of goods where the quantification for potential gains took account only of the static effects of increased intra-EU trade in goods and did not include or quantify the dynamic equilibrium welfare effects, e.g. the multiplier effect of increased trade in case of greater economies of scale, lower consumer prices or improved innovation.

The report is supported by research commissioned from external sources on the areas where economic gains or scope for greater integration remains, in the form of research papers in the areas identified by the IMCO Committee, as follows:

- ***Free movement of goods.*** The research paper by RAND Europe analyses in-depth and quantification is offered for the untapped potential due to a lack of full integration for the EU economy as a whole. An econometric analysis has been carried out with the aim of estimating the potential benefits of deeper integration, i.e. of lower trade barriers, for trade flows, growth and job creation. Gravity, an econometric model, was used to analyse the correlation between on one hand GDP, geographical location and the trade barriers as independent variables, on the other hand the bilateral trade flows as the dependent variable. It has been sought - with three different scenarios - how much larger intra-EU trade volumes would be, if existing barriers to trade within the internal market are removed).
- ***Services.*** This research by CEPS takes stock of the remaining gaps or deficits in intra-EU market access obligations in services, and the related proper functioning of the internal market for services. It also identifies the quantitative and qualitative economic gains of overcoming the implied cost of non-Europe of the lingering fragmentation.
- ***Digital Single Market.*** The research paper by GHK Int. identifies gaps in EU legislation which may constrain the functioning of the Digital Single Market and more specifically in the area of e-commerce. Wider economic costs and benefits are calculated using macroeconomic modelling, demonstrating the collective benefits of completing the Digital Single Market in selected areas.
- ***Public procurement and concessions.*** The study by Europe Economics explores the costs that gaps in the current European public procurement and concessions legislation place on a range of stakeholders.
- ***Consumer acquis.*** The study by GHK Int. analyses the costs for citizens, businesses and other relevant stakeholders of the gaps in European consumer legislation (the consumer *acquis*), including its implementation.

These research papers are annexed to the report.

Executive summary

The EU Single Market is still incomplete due to fragmentation and barriers, incomplete implementation of legislation, or the potential ineffectiveness of policy instruments put in place and barriers which persist in certain sectors.

Cost of Non Europe Reports are designed to evaluate the possibilities for gains and/or the realisation of a 'public good' through common action at EU level in specific policy areas and sectors. This report seeks to analyse the costs for citizens, businesses and relevant stake-holders of the 'gaps' in the Single Market, and identify gaps where further EU legislative action could be beneficial. On this basis, it provides tentative estimates of the cost of non-Europe in the Single Market.

The research commissioned for this report concludes that a further deepening of the Single Market could increase EU-28 GDP by an additional 5 to 8.63%, equivalent to between 651 billion euro to 1.1 trillion euro of additional economic growth per annum.

The **key quantitative elements of this finding are:**

1. The remaining untapped potential of **free movement of goods** within the EU suggests that, even if this market is already at a relatively advanced stage, a further **183 to 269 billion euro** of per annum economic growth could still be realised, equivalent to 1.4 to 2.1% of EU GDP.
2. A **more deeply integrated EU single services market** - comprising a fuller and more effective application of the Services Directive, further integration and deepening of the financial markets, investment in digital infrastructure, net market integration in electricity and gas - could increase the level of long-run EU GDP by **338 to 637 billion euro**, equivalent to 2.6 to 5% in EU GDP.
3. The estimated direct cost of non-Europe associated with identified gaps in the **Digital Single Market**, specifically in the area of e-commerce, range between **36 to 75 billion euro** per annum (0.3 to 0.6% of EU GDP). A growing number of studies estimate that a deeper and more complete Digital Single Market could raise the long-run level of EU-28 GDP by 4% (or more than 500 billion euro). This gain could result from deepening the digital economy, involving increased use of online services, improved digital infrastructure. A recent estimation by the European Commission suggests potential savings for public authorities of 100 billion euro per annum if all public procurement could be dealt with on-line.
4. Although the compulsory advertising of public contracts above a certain threshold has made public-sector contracts more competitive, only around

3% of all contracts are cross-border in the EU. It is estimated that greater cross-border **public procurement** could potentially yield annual savings of **36 to 66 billion euro** (0.3 to 0.5% of EU GDP).

- An overview of the body of EU consumer law (**consumer *acquis***) suggests that consumer detriment resulting from an incomplete Single Market is of the order of **58 billion euro** per year (0.45% of EU GDP), based on a comparison of price convergence in the EU and the United States.

Taking a cautious approach in quantitative estimations, the lower bound estimates of potential gains can be summarised as:

Table 1: Potential GDP gains from closing gaps in the EU Single Market

Potential GDP gains from closing gaps in the EU Single Market	Cost of Non-Europe (billion euro per year) - lower estimate -	Cost of Non-Europe as % of EU GDP - lower estimate -
Free movement of goods	183	1.43
Free movement of services	338	2.64
Public procurement and concessions	36	0.28
E-commerce	36	0.28
Consumer <i>acquis</i>	58	0.45
TOTAL	651	5.08

Source: author's calculations, based on research commissioned by the European Parliament.

Complementary estimates provided from other sources, which do not overlap with the estimates made in the attached studies, can be summarised as follows:

Table 2: Further non-overlapping potential GDP gains from closing gaps in the Single Market estimated in other studies, estimated by IAs of the Commission

Further potential GDP gains	Cost of Non-Europe (billion euro per year)	CoNE as % of EU GDP
Further gains in E-commerce	168	1,59
E-procurement	100	0,78
Single European Payments Area (SEPA) and e-payments	65	0,51
EU regulation of EU mobile roaming rates	5	0,04
EU regulation of mobile termination rates	2	0,02
Online dispute resolution system	22	0,17
Total:	362	2.8

Source: author's calculations, based on available published and peer-reviewed estimates.

Note: figures in the last column may not add up as they represent results from different studies with different methods.

Taking the two estimates together then, the cumulative economic effect of a 'perfect' and complete Single Market could be as great as 1,467 billion euro could annually. In other words, the full growth potential of the Single Market can be estimated at more than 11% of the total GDP of the EU-28.

Conclusions

Arising out of the attached studies, there would appear to be a need to analyse further the level of remaining non-tariff barriers, as was done in preparing the Single Market Acts I and II, and may need to be re-evaluated.

The attached studies have identified the barriers of regulatory heterogeneity; private law issues; tax issues; language, networking and trust; and informational asymmetries. In addition, cross-cutting economic activities such as retail services, the digital Single Market, logistics services across the Single Market and the horizontal consumer *acquis*, face different levels of fragmentation.

Policy measures which appear targeted to a better functioning of the Single Market, and thereby contribute to reducing gaps and overcoming deficits in the Single Market, i.e. removing the cost of non-Europe, as will be explained in other chapters, could include, in a very partial list of possible actions:

- Better transposition of Directives is important so transposition deadlines should be realistic and any **gold plating** requirements at national level should be assessed for impact;
- Transparency can be enhanced through exchanging **best practices**, on the model of the mutual evaluation which was done in the case of the Services Directive;
- Creating a set of harmonised of qualitative and quantitative **indicators** for measuring the economic effects of application of the Single Market rules would enable monitoring of the Single Market, and provide benchmarks which could be used to develop the internal market pillar of the European Semester, notably in relation to the country-specific recommendations;
- **Enforcement** of the rules of the Single Market should be evaluated so as to further unlock its growth potential. Sanction-oriented enforcement may no longer be the most adequate way and inspectorate functions in the member states could be evaluated and modernised in terms of risk-based approaches;
- The principle of **mutual recognition** is important given the level of regulatory divergence between Member States. Evident benefits already been brought to several important areas such as the free movement of goods and the mutual recognition of professional qualifications;

- In the area of the free movement of services, further targeted actions for the removal of remaining unjustified or disproportionate requirements could be undertaken, via e.g. **proportionality assessment** of Members States' regulatory requirements on service providers;
- Further actions may be needed to promoting the transition to a fully functional e-procurement regime and the use of e-invoicing in Europe; unlocking the potential of a complete Digital Single Market and the implementation of the EU Digital Agenda.

1. Introduction

The European Commission's 1985 White Paper on the Internal Market set out actions aiming to remove physical, technical and fiscal barriers to trade in order to merge fragmented national markets and create a single European market by the year 1992. Professor Paolo Cecchini, then Deputy Director-General for internal markets and industrial affairs at the Commission, was asked to investigate and quantify the so-called 'cost of non-Europe', defined as the untapped potential of the Single Market due to its incomplete implementation. The Cecchini report was published in 1988, and made the economic case for the single market, arguing that the potential economic gain was some ECU 200 billion (equivalent to 800 billion euro in current prices) constituting 5% of the European Community's GDP – potentially even up to 6.5%.

In its twenty years of existence, the European Single Market consisted is estimated to have raised GDP by 5%. When dynamic effects are factored in the measurable effect can be seen to rise significantly.

Since the Cecchini report of 1988, many assessments on the economic benefits have been made. Comparisons between studies are misleading as they are often built on very different concepts and parameters.

The common conclusion, despite the differing estimates, is that deepening the Single Market brings substantial benefits for EU citizens and businesses, in terms of higher incomes, greater choice and business opportunities. A recent estimate¹ by the Bertelsmann Stiftung, based on a calculation of cumulative gains in real GDP per capita, estimated that, between 1992 and 2012, every Member State economy, with the exception of Greece, realised substantial income gains from the European integration process. The regression analysis conducted on 14 selected Member States' economies (EU-15, except LU) showed that an increase of 1% of the EU integration index can lead to a growth rate of 0.08 percentage points of real GDP per capita. The better a Member State is integrated into the Single Market, the more substantial GDP gains can be accounted to solely the integration: a growth of 0.4 to 2.3% in GDP (except for Greece with a decrease of 1.3%). The greatest GDP gains were recorded in Denmark and Germany.

¹ Bertelsmann Stiftung, 20 years of the European Single Market: growth effects of EU integration, Policy Brief # 2014/02

Campos, Moretti and Corricelli² find that the evidence supports the view that only one country (Greece) experienced smaller GDP or productivity growth rates with EU accession, and propose that further research be carried out.

Table 3: Studies on gaps in the Single Market - methodologies and figures

Author(s)	Major gains estimated	Coverage	Time period	Dynamic Impacts	Other considerations
Cecchini (1998)	+4.25-6.5% GDP	EU-12	5-6 years	Not included	Ex-ante
Baldwin (1989)	+0.3-0.9% long-term GDP growth	EU 12	Long-term	Included	Ex-ante Provisional findings
Monti (1996)	+1.1-1.5% GDP; 300,000 - 900,000 jobs	EU-12	Impact to 1994	Limited	Ex-post – limited data
Ilzkovitz <i>et al</i> (2007)	+2.2% GDP; + 2,75 million jobs	EU-25	1992-2006	Included	Ex-post
Boltho - Eichengreen (2008)	+5% GDP in 2008	EU-25	Impact to 2012	Not explicit in numbers	Ex-post – focus on counterfactual Single Market
Decreux (2012)	4.7% GDP	EU-27	Forward looking	Not included	Trade barriers analysed
European Commission/BEP A (2013)	1.6% GDP	EU-27	Forward looking	Not included	Six key sectors analysed
European Parliament (2014)	Min. 5% GDP	EU-28	Impact to date	Not included	Update of individual studies and CoNE reports
Campos-Moretti-Corricelli (2014)	12% GDP	Enlargement member states only	Enlargements 1973 - 2004	Included	Counterfactual analysis

Source: Author's compilation based on Appendix 1 of 'Review of the Balance of Competences between the United Kingdom and the European Union: The Single Market'. London, July 2013

Although the Single Market has fostered greater competition and boosted trade between Member States, concerns have been formulated in regard to its incomplete implementation to date. Economic operators and experts have highlighted that technical difficulties remain, especially when it comes to public procurement throughout the EU for certain types of services, notably telecoms, which remain fragmented into national rather than truly pan-European markets. At the request of the European Parliament, the European Commission brought

² Campos N., Coricelli F., Moretti L. Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union using the Synthetic Counterfactuals Method, April 2014, IZA Discussion Paper No 8162, May 2014.

forward proposals to stimulate the Single Market in the 'Single Market Act' of April 2011 and the 'Single Market Act II' of October 2012. The conceptual underpinning of the Single Market Act was the recommendations formulated in the report of 9 May 2010 by Mario Monti drafted at the request of the Commission President. The Single Market Act identified remedies to the 'missing links' such as the need for better access to capital for small and medium enterprises (SMEs), mutual recognition of professional qualifications, harmonised intellectual property rights, harmonised products and services standardisation system, etc.

2. State of play of the Single Market: Gaps and deficits identified.

2.1. Free movement of goods

Factors that inhibit integration of markets include natural barriers which are inherently difficult to overcome, such as geographic distance or language, and 'man-made' non-tariff barriers which are the result of unnecessary regulation or hidden state aid. Other factors may be explicit barriers to trade and investment such as those related to foreign direct investment, often restricting foreign acquisition of equity in public and private firms. Differences in national legal systems are considered as barriers to trade if they represent an additional cost for enterprises willing to sell their products in other EU member states.

Aspects of this regulatory heterogeneity are mapped in Annex II.

The main deficits and barriers identified in the proper functioning of the Single Market that may potentially be addressed by policy interventions include:

- *Delays or differences in the adoption of harmonised rules* (directives) in Member States' national legal frameworks;
- *Infringements of internal market regulations* mostly due to the incorrect or incomplete application of EU legislation by Member States; and the
- *Existence of home bias* (inherited norms, cultural preferences as well as differences in economic and political organisational systems partly explain remaining difficulties in reaching full harmonisation and subsequent economic integration in Europe).

Two case studies in two manufacturing sectors (construction materials, medical devices) provide further insights onto remaining barriers to market integration and their perceived costs. Both sectors are characterised by a substantial proportion of SMEs, and this partly explains why additional or new EU regulation is often perceived as a burden by economic operators, as small businesses have less in-house capacity to deal with additional regulatory requirements on top of already existing national regulations. It is estimated that *existing rules have not yet been fully implemented across Member States* and that *market fragmentation remains a major issue* for firms. A quantitative estimation for the construction materials sector shows that the transition from a directive to a regulation for harmonised products in Europe can have a small but significantly positive effect on trade between Member States. In the medical devices sector there are a range of contextual factors that may represent barriers

to the free movement of goods; e.g. differences in national healthcare systems can inhibit economic operators to access markets in other EU Member States. Industry representatives in both sectors seem to favour the replacement of current Directives by regulation. However, additional EU regulation may also lead to delays in market access.

2.2 Services

The potential for the Single Market for services is estimated to be much higher than for goods since while they generate about 70% of value added in the European economy, their share in intra-EU trade is only about 20%. The horizontal Services Directive (2006/123) has brought significant and progress into the EU regimes of specific network industries and introduced gradual reforms at EU- and Member States-level in the regulatory regimes governing professional qualifications.

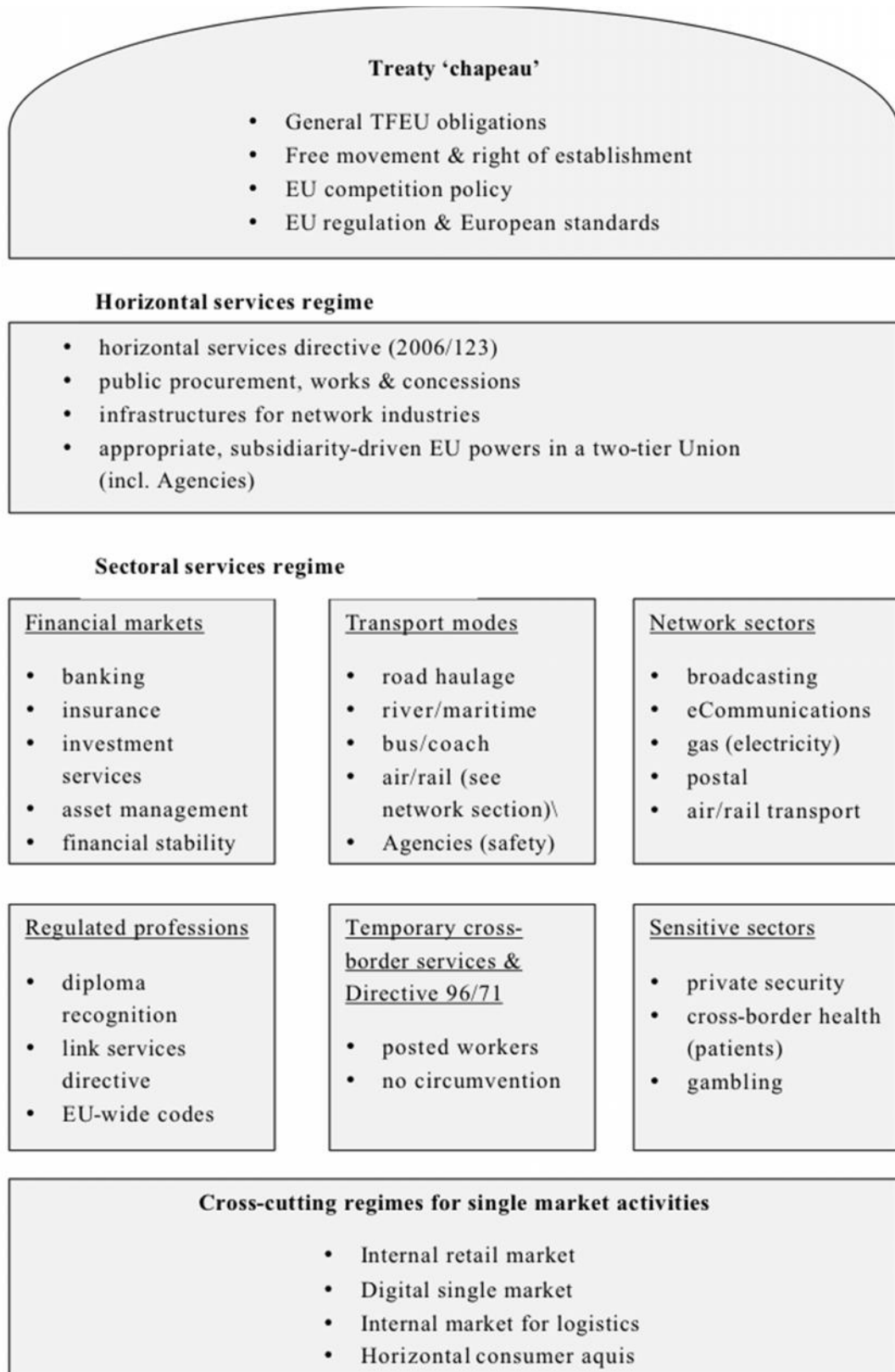
Table 4 provides a holistic overview of the internal services market. The highly diversified Single Market for services has an untapped potential of gains:

- ***The Services Directive*** needs a selective but wide-ranging and deep market monitoring approach, as exemplified in the 2012 Commission report on performance checks in three sectors, both legally and economically, from the point of view of business suppliers and users;
- Infrastructure in ***network industries*** is closely linked with cross-border intra-EU liberalisation, regulation and competition policy of the relevant services. However, there are integration deficits in infrastructures particularly in electricity and gas, (freight) rail, electronic communications, spectrum (frequencies) for e-Communications, and air traffic control. Concerning electricity, the 3rd package shows huge improvement but is still insufficient as cross-border interconnectors are too often congested despite greater efficiency with power exchanges, the wholesale markets are still not competitive enough; and national concentration is far too high. Regarding gas, the 3rd package is an improvement too but insufficient since EU gas networks are unfinished; national concentration is even higher than in electricity; and there is a severe gas security-of-supply problem; gas hubs (wholesale) are still few and illiquid.
- ***Financial services***. Fragmentation is a function of lingering access barriers in specific segments, such as retail banking, mortgages and cross-border mergers, and the failure to ensure a trusted and robust regime to minimise systemic risks, resulting in financial instability (in and outside the Eurozone),

in turn severely discouraging cross-border exchanges, if not dismantling cross-border positioning (and even ownership of some banks). The latter may be restored, eventually, by recent measures, including the banking union as well as EU-wide supervision and other provisions in the fourth generation of EU financial services regulation.

- ***Professional services.*** Regulation is not sufficiently disciplined by e.g. a public-interest proof of market failures and proportionality; only qualifications for major health professions are harmonised; mutual recognition has gradually improved (in some professions) but many barriers remain; national reforms, inspired by key EU principles, are essential.
- ***Excluded sectors.*** Security services and gambling also present substantial barriers mainly concerning the current national nature of many various standards and rules.

Table 4: Holistic view of internal services market *acquis*



Source: CEPS, Annex II, p.16.

2.3. Digital Single Market

A fully functioning DSM would bring significant gains over time, by promoting higher productivity due to the faster flow of information, benefitting in particular knowledge-service industries which depend on information for their services; and structural changes in the EU economy, with activity moving away from manufacturing and traditional service sectors towards knowledge services; greater efficiency and reduced transaction costs in traditional sectors, such as the free movement of goods and services; and welfare improvements to consumers from a higher level of e-commerce. Conversely, we witness a digital field which is still a fragmented, an incomplete Single Market, or in fact, 28 different national markets.

Many gaps were identified in the EU legislation which may constrain the proper functioning of the Digital Single Market, namely in the area of e-commerce, including contract law, data protection and privacy, intellectual property and horizontal enablers of the Digital Single Market such as payment systems, e-identification, postal and parcel delivery services.

The study quantifies costs associated with gaps in three specific areas:

- **Cloud computing:** the lack of liability of cloud computing service providers and the inconsistency of transnational laws and regulations.
- **E-payments:** no major legislative gaps were identified; however, from the perspective of the functioning of the Digital Single Market, the most important gaps are related to the substantial heterogeneity of commercial practices between Member States and the excessive costs of making cross-border payments.
- **Postal and parcel delivery:** individual legislative gaps were not identified, however considerable information gaps exist in relation to the availability of various delivery services and associated delivery options – both for consumers and e-retailers. It remains to be seen how much can be achieved by voluntary self-regulation of the sector and the adoption of best practices.

There are other gaps for which estimates have not been made as they are expected to lead to costs that are of an order of magnitude lower than those linked to the gaps identified above (e.g. the application of commercial guarantees to digital products, differences in standard contract terms and their presentation in Member States). Furthermore, estimation of costs has not been attempted in the fields of e-Identification, e-Authentication and consumer protection in the case of digital products, because of the particularly complex interactions in various aspects of the DSM.

2.3 Public procurement and concessions

One of the key potential benefits of the Single Market, already highlighted in the initial Cecchini Report published in 1988, was the expectation of significantly growing volumes in public procurement. The report found that removing inefficiencies in public sector procurement created by barriers to intra-EU trade could create savings in public expenditure of 8-19 billion euro in the five member states studied (Belgium, France, Germany, Italy and the UK).

The research paper attached in Annex IV explores the costs that gaps in the current European public procurement and concessions legislation, effectively updating the Cecchini estimates, found that the key gaps are related to the following:

- **Scope:** a lack of clarity with respect to the scope and coverage of certain regulations and procedures means that awarding authorities continue to face uncertainty and also makes it difficult for contracting authorities and entities (CAEs) to identify the rules that are applicable to them in specific procurement instances. This same uncertainty can discourage authorities from switching to e-procurement and can discourage smaller CAEs from awarding contracts that are above the threshold. Such risk-averse behaviour reduces the cost efficiency of the Directive;
- **Procedures:** participating in public procurement exercises comes with a cost. Indeed, a typical procurement procedure costs CAEs 5,500 euro while each bidder faces costs of approximately 3,800 euro. The sum of these costs represents a significant proportion of contract value for those contracts that are close to the threshold. In addition, the time taken to conduct the procedure varies significantly among different Member States. This reflects poorly on the efficiency of public procurement. As noted above, the use of disproportionate procedures by CAEs generates excessive costs for both awarding authorities and bidders;
- **Strategic procurement:** despite the European Commission's repeated clarification, there remains uncertainty regarding the integration of strategic goals and this has, due to a fear of litigation, led to stakeholders being reluctant to take up such options³. There are also concerns that the earlier implemented form of the Directive did not leave sufficient latitude to permit other policy considerations to be taken account when awarding contracts. There are two sides to this problem: on the one hand, it is difficult to contract strategic objectives into solid criteria that can be included in the tender; on the other hand, the difficulty of quantifying the extra costs or benefits associated

³ As suggested in the study, this refers to the state of play of legislation prior to 2014.

with achieving strategic objectives also make it difficult for authorities to determine which is the most economically advantageous tender. At present, the treatment of strategic objectives in public procurement has been largely left to the discretion of each Member State;

- **Access:** a more general problem that prevents the EU public procurement market from functioning as a Single Market is regulatory⁴ and other linguistic and geographic barriers that limit market access across borders. While bidders find it harder to win cross-border contracts, CAEs also appear to be somewhat reluctant to publish tenders internationally. According to the European Commission's 2011 Impact Assessment, 73% of active CAEs had not made any cross-border tenders in the previous three years. A lack of experience and language/legal barriers are considered to be the main reasons for low cross-border procurement; and
- **Governance:** differences in governance capacity, governance models and levels of proficiency in public procurement in different Member States result in inconsistency in the application, control and monitoring of public procurement legislation across the EU.

In 2014 the third generation of EU regulation on public procurement was adopted with the view of simplifying the 2004 regime and to overcome interpretation problems and heterogeneity in concession contracts by means of the new concessions directive 2014/23/EU. As a result, in formal terms there are no barriers in the single services market with respect to public procurement, and this field is not so much about removal of barriers than about proper functioning of existing legislation. It is expected that this recent revision of rules should make it easier for small and medium-sized enterprises to win public contracts and reduce the red tape often associated with the process. In principle, this regime should exclude the existence of intra-EU barriers, it only covers ca. 1/4 of public purchases and it still suffers from weaknesses (e.g. national enforcement, remedies).

2.5 Consumer *acquis*

A study commissioned to analyse the costs for citizens, businesses and other relevant stakeholders of the gaps in European consumer legislation (the 'consumer *acquis*') identified various gaps with the potential to adversely affect consumers and businesses in the EU Single Market. Minimum harmonisation was found to contribute to the fragmented implementation of EU law through the 'gold plating' of legal provisions. New technology not foreseen in current EU

⁴ Legislation prior to 2014.

legislation (specifically in the digital space) is another source of gaps which can lead to uneven consumer protection and limits the consistency and coherence of legislative provisions in the same sectors, or between different sales channels (i.e. online, offline and mobile). Finally, the limited scope of EU consumer legislation in some sectors (e.g. retail financial services) and the absence of the Single Market in others (e.g. gambling) are also possible sources of significant cost of non-Europe. From the screening analysis the following gaps unresolved by forthcoming legislation were identified:

- ***Commercial guarantees:*** in a recent infringement case brought against a computer retailer, consumers were found to have been charged for an additional year's guarantee despite entitlement to this guarantee free of charge under EU law. A fragmented approach to implementation of EU law by the Member States in this case resulted in differences in consumer protection for the consumer and differences in the severity and timing of any enforcement measures taken. In the meantime, consumers were overcharged for a guarantee to which they were already entitled.
- ***Reverse type transactions:*** (consumer is the seller of a good or service to a trader, typically involving antiques, items of gold or family heirlooms. The consumer may inadvertently miss-sell an item to a trader at a price below its 'fair' value. The trader may then sell the product for a value closer to its true value at significant profit.) The consumer may consider that they have suffered consumer harm by not selling closer to the true value of the item and were misled by the trader. Transactions of this type are currently not covered by consumer protection legislation.
- ***Consumer-to-consumer (C2C) transactions:*** The Consumer Rights Directive (CRD) ensures that the consumer is protected equally when undertaking a transaction through a website or high street store provided the seller is a professional. However, in the absence of an auctioneer to govern the transaction where the seller is not professional (i.e. on online auctions), C2C transactions are exempt from the CRD, creating a gap in consumer protection where the product is found to be faulty, counterfeit or miss-sold.
- ***Gaps in the Consumer Rights Directive (CRD):*** while the CRD harmonises many aspects of consumer legislation, there are many areas which are not within scope such as financial services, social services, healthcare and real estate. Fragmented approaches to consumer legislation continue to exist in these areas resulting in an uneven level of consumer protection.
- ***Gaps in the Consumer Credit Directive (CCD):*** CCD is a flagship piece of EU legislation covering some but not all retail financial services. Optional provisions within the legislation result in fragmented protection. In addition,

the limited scope of the CCD to transactions above 200 euro results in inadequate protection for consumers purchasing low value credit. Many of whom are the most vulnerable in society.

- ***Gambling activities:*** a Single Market for gambling and online gaming is not currently established in the EU, leading to significant gaps in consumer protection when gambling transaction occur cross border. The lack of a functioning internal market limits competition amongst domestic providers of gambling and gaming services, resulting in higher than competitive prices for the consumer. Protection for problem gamblers and vulnerable consumers is also fragmented and less effective as a result.
- Problems concerning the ***limited scope of the E-commerce Directive:*** technological development of Web 2.0 and cloud computing services were not foreseen when the E-commerce legislation was drafted. The gaps which result create legal uncertainty for businesses considering investing in these technologies and limits consumer confidence when considering the use and uptake of new technologies and services.
- Problems related to ***digital content:*** consumers may face geographical restrictions on the use of the digital content. For example, consumers may be unable to view digital content purchased cross-border including films and music content. Equally, consumers may be restricted in how they use the product they have purchased cross-border (i.e. software

2.6 Other issues related to the Single Market, to be further analysed

The studies have identified the following barriers: regulatory heterogeneity; private law issues; tax issues; language barriers; networking and trust; and informational asymmetries.

In addition, cross-cutting economic activities such as retail services, the digital Single Market, logistics services across the Single Market and the horizontal consumer *acquis*, face different levels of fragmentation.

3. Quantitative estimation of the Cost of Non-Europe - an untapped economic potential

3.1. Free movement of goods

An econometric analysis suggests that the untapped potential of the internal market in goods could be in the range of 183 billion to 269 billion euro in the long-term. These effects should be considered as lower and upper bound estimates; meanwhile it should be noted the sudden removal of all barriers is very unlikely. They would only be gradually removed over time, and therefore the estimates should be interpreted as the potential benefit that may eventually accrue in the longer term.

The predicted effects take into account only static effects of increased trade activity. They do not include or quantify further dynamic equilibrium welfare effects embodied in trade creation. Such welfare effects include the effects of better access to firms in foreign markets (exploiting economies of scale), lower consumer prices or dynamic gains with respect to innovation.

The Single Market for goods is at a very advanced stage but there is still a huge untapped potential to be realised in the longer term. The impacts of a deeper integration are not uniform among the Member States: the removal of barriers to FDI and of NTBs may lead to an increase of intra-EU exports in the Baltic States and Slovenia, Croatia by almost 4%. Smaller firms will more likely benefit from the removal of NTBs as the burden of compliance with various regulatory requirements in the importing Member State is bigger than for larger firms.

The estimated effects of reducing trade barriers are not uniform across Member States. While EU founding members have further some potential to increase their relative merchandise exports in the Single Market by a central value of between 1- 3%, newly joined Member States such as Estonia, Croatia, Lithuania, Slovenia and Latvia have the potential to increase their relative merchandise exports by more than 10%. The effects from the removal of barriers to FDI are smaller in size.

Results of the analysis further show substantial, 0.5% to 4.5%, GDP gains from non-tariff barriers (NTB) for almost each Member. Some Central-European countries would benefit more from the removal of NTBs, i.e. the Czech Republic Hungary and Slovakia could boost their exports corresponding to over 6% of their GDP - whereas the smallest benefit could be counted for in the UK, Italy and Cyprus. This may also be explained by the fact that the latter are more

integrated and open economies where the *corpus legis* of the Single Market is more effectively implemented.

Table 5: Predicted GDP gains of removal of barriers to FDI

Member State	Predicted Value (million euro)	Change in trade (%)	Change in GDP (%)
AT	2,648	2.73%	0.86%
BE	7,945	3.17%	2.11%
BG	382	3.09%	0.96%
CY*	19	2.98%	0.11%
CZ	3,133	3.07%	2.05%
DE	26,422	3.88%	0.99%
DK	1,947	3.35%	0.79%
ES	5,297	3.57%	0.51%
EE	336	3.90%	1.93%
FI	1,075	3.26%	0.56%
FR	7,183	2.60%	0.35%
UK	5,778	2.98%	0.30%
GR	441	3.60%	0.23%
HR*	168	3.04%	0.37%
HU	1,993	3.17%	2.05%
IE	1,972	3.34%	1.20%
IT	8,524	3.63%	0.54%
LT*	547	3.80%	1.66%
LU	416	3.41%	0.97%
LV*	269	3.72%	1.22%
MT*	43	3.41%	0.64%
NL	11,955	3.01%	1.99%
PL	3,174	2.82%	0.83%
PT	911	2.83%	0.55%
RO*	996	3.10%	0.66%
SK	1,583	2.94%	2.23%
SI	717	3.75%	2.03%
SE	2,954	3.25%	0.72%

Source: RAND Europe, p.44. Note: Figures for countries with * should be considered with caution as prediction is based on imputed values for regulatory stringency regarding barriers to FDI and NTBs.

**Table 6: Predicted GDP gains of removal of non-tariff barriers
(Member State Level)**

Member State	Predicted Value (million euro)	Change in trade (%)	Change in GDP (%)
AT	6,595	6.80%	2.14%
BE	12,904	5.15%	3.43%
BG	863	6.97%	2.17%
CY*	49	7.61%	0.27%
CZ	6,450	6.32%	4.21%
DE	35,883	5.27%	1.34%
DK	3,971	6.84%	1.62%
ES	8,059	5.43%	0.78%
EE	710	8.24%	4.07%
FI	2,379	7.21%	1.23%
FR	15,472	5.61%	0.76%
UK	10,275	5.30%	0.53%
GR	778	6.35%	0.40%
HR*	537	9.68%	1.16%
HU	4,347	6.91%	4.48%
IE	2,408	4.08%	1.47%
IT	13,646	5.81%	0.87%
LT*	1,131	7.86%	3.43%
LU	633	5.19%	1.47%
LV*	663	9.19%	3.00%
MT*	71	5.59%	1.04%
NL	22,359	5.63%	3.72%
PL	7,553	6.71%	1.98%
PT	1,853	5.76%	1.12%
RO*	1,958	6.10%	1.30%
SK	3,432	6.38%	4.83%
SI	1,383	7.24%	3.92%
SE	5,325	5.85%	1.30%

*Source: RAND Europe, p.45. Note: Figures for countries with * should be considered with caution as prediction is based on imputed values for regulatory stringency regarding barriers to FDI and NTBs.*

The study does not take full account of the direct and indirect costs of removing the barriers to trade in the internal market. In order to highlight the untapped potential of the internal market it is vital to discuss the potential effects on stakeholders, including companies, employees and consumers. These costs such as those borne by firms to comply with internal market regulation need to be considered when conducting a full assessment of the effects of further economic integration.

Results of case studies in two manufacturing sectors (construction materials, medical devices) provide further insights onto remaining barriers to market integration and their perceived costs. Findings for the construction sector shows that the transition from a directive to a regulation for harmonised products in Europe had a small positive impact on trade across Member States.

3.2. Services

It is difficult to find scientific evidence for quantitative benefits of improving infrastructure for EU-wide or cross-border services, and the infrastructure deficits interact with regulatory, competition or other EU problems. Both the quantitative and qualitative assessments are factored in, as follows:

- A fully functional *Services Directive* and its correct implementation may yield benefits of 0.3% to 1.5% of GDP per year in the long term. A further 0.4% of GDP gain could be obtained if the average EU product market restrictiveness index would be less or equal than 1.6%, and if member states were no more restrictive than the five less restrictive countries.
- The benefits of the reforms of EU *financial regulation* since the crisis, including institutions and funds for the Single Resolution Mechanism as a critical confidence building measure, have partially been quantified: the net benefits of three elements of financial EU reform (higher capital requirements, bail-in and the EU resolution regime) would save 37 to 100 billion euro per year, and some further benefits (new requirements for derivatives trade, improved efficiency of equity markets etc.).
- The quantitative benefits of deepening the *EU gas and electricity market* amount to the following gains: (i) net market integration gains by 2030 of 12.5 to 40 billion euro for electricity; (ii) smaller gains of 0.4 billion euro for sharing balancing reserves and 4 billion euro for introducing smart grids on a wide scale; (iii) net market integration gains of some 30 billion euro in gas, etc.
- The *e-Communications market* is characterised by enormous price disparities which not only distort but also are costly to the public budgets and to EU citizens in general. The welfare gains of EU regulation of Mobile Termination Rates are in the range of 2.8 to 11.8 billion euro, and those of the EU regulation of EU mobile roaming rates are around 4.5 billion euro. Of course there are many more services with price disparities; hence the overall gains are presumably much higher. The impact assessment for the Connected Continent proposals estimated an annual gain of 110 billion euro.

Those quantifications in the field of services based on available and reliable sources can be summarised as.

Table 7: Cost of Non-Europe – Free movement of services

	Cost of Non-Europe (in % of GDP)	Lower estimate (billion euro)	Upper estimate (billion euro)
Services directive	+0.3 to +1.9%	100	304
Financial markets	+0.3 to 0.92%	37	100
	+other minor benefits	2.7	5.7
e-Comms	+ 0.52 to +0.89% Connected Continent initiative	110	110
	electronic invoicing	40	40
Gas and Electricity	net market integration in electricity	12.5	40
	net market integration in gas	30	30
	(+other minor benefits)	1.5	3
	smart grids	4	4
TOTAL		337.7	636.7

Note: calculations based on Table Annex II, p.8. Source: CEPS.

3.3. Digital Single Market

The most serious impediments in the DSM relate to e-privacy, e-payments, VAT payments, consumer protection and dispute resolution, data protection and geographical restrictions (access to products sold electronically which are limited by law or practice to certain geographic areas). There is a clear need to update EU Single Market rules for the digital era, establishing a single area for on-line payments, e-invoicing, protecting intellectual property rights and clarifying VAT requirements, so generating trust in e-commerce and affording adequate protection to EU consumers in cyberspace. The full potential gains can only be realised in the longer term but it is reasonable to assume that approximately half of that gain should be achievable in the coming years.

The wider economic costs and benefits calculated using econometric modelling demonstrate the collective benefits of a complete DSM. The estimated direct cost of non-Europe associated with three specific identified gaps range between 36 billion and 75 billion euro per annum. These predominantly comprise of costs related to lower rates of adoption of cloud computing than would otherwise occur. The economic importance of IT systems and the reported scale of the benefits for users of cloud computing provide the basis for the high estimated costs. Closing the three specific identified gaps could in the long run increase EU GDP level by around 0.4%.

Table 8: Estimated direct Cost of Non-Europe - Digital Single Market

Estimated CoNE	Billion euro per annum		
	Lower bound	Mid-point	Upper bound
Cloud computing	31.5	47.3	63
Payments	2.2	4.4	6.6
Postal and parcel delivery	2.23	3.9	5.57
Total CoNE	35.9	55.6	75.2

Source: GHK Int., Table 1 in Annex IV, p.2.

The estimated cost of non-Europe reflects the foregone reduction in prices which could be achieved if the Single Market was complete. Building on these direct cost estimates, macroeconomic modelling was carried out in order to assess the overall effect from closure of the identified gaps. Macroeconomic modelling accounts for the wider indirect and induced impacts of these cost of non-Europe for the EU economy stemming from linkages between economic sectors, changes in productivity, the re-allocation of resources between sectors, and demand and supply responses. This modelling produced estimates of the likely scale of effects from the completion of the Digital Single Market at EU and Member State levels.

The GDP is estimated to increase by around 0.4% in 2020 due to the completion of the Digital Single Market, mainly driven by a combination of efficiency gains (modelled as lower prices) and additional investment. There are multipliers present within the EU; however there are also benefits for countries outside EU in terms of higher foreign trade including EU imports from this increase in GDP. Employment gains are estimated in the range of 0.1% which is equivalent to over 223,000 jobs created by 2020 due to the removal of identified gaps hindering the DSM. Average real wages also increase slightly, boosting household incomes. There is no large variation in the magnitude of modelled effects between Member States, with GDP gains below 1% in all countries.

3.4. Public procurement and concessions

The EU public procurement regime should balance the benefits of having open and non-discriminatory public purchases throughout the EU – benefits for the EU Single Market, as markets are not distorted and pro-competitive tendering promotes rivalry and innovation, and benefits for local/national governments in that procurement will be at lower costs, easily some 5% on average – with the costs and slowness of heavy procedural requirements guaranteeing proper tendering and awards.

There is the other unavoidable issue of the thresholds: these are inevitable because the costs of tendering and an unreasonably low probability of obtaining the contract will limit the actual interest of potential applicants and this the more so when the contract values get lower and lower. This is an issue for all businesses. SMEs do acquire nearly half (47%) of the direct cross-border procurement. This figure is misleading however since most cross-border public procurement (11.4% of the contracts) is indirect (via foreign intra-EU affiliates) compared to merely 1.6% direct, and these are overwhelmingly dominated by large multinationals. Only some 20% of the public expenditure on goods and services falls under the directives; with the concessions directive, this might now become higher but, on the other hand, the economic nature of concessions is not fully comparable with public procurement.

A study commissioned for this Cost of Non-Europe report found that:

- European public procurement legislation has delivered annual public savings of approximately 22.7 billion euro;
- the key pre-January 2014 legislative gaps related to scope; procedures; strategic procurement; access; governance; and concessions
- some of these gaps will be closed, in part, by the new legislation; and
- some of the remaining gaps may not be possible to close through further European legislation because they are 'natural' rather than legislative.

Suggestions to tackle the use of disproportionate and/or excessively costly procedures include promoting more frequent use of repetitive purchasing and e-Procurement to streamline or automate the procedures. These measures might be expected to reduce the transaction costs for both Contracting Authorities and Entities and suppliers. If e-procurement was mandatory it would not only save annually 50-75 billion euro but would also increase transparency and public accountability.

3.5 Consumer *acquis*

The table below provides an overview of the total cost of non-Europe estimated in relation to the three identified gaps in consumer legislation taken forward for analysis, amounting to approximately 5.9 billion euro per annum, largely driven by the lack of a Single Market for gambling and online gaming. These gambling related costs result from large divergences in current consumer protection, and expected winnings for consumers.

The potential of the EU Single Market for consumers is estimated to generate benefits of 58 billion euro per annum. This benefit, which is currently not realised, is the 'prize' which could be attained if the remaining gaps in consumer

legislation are resolved so that consumers and businesses trade more frequently and confidentially cross border.

Table 9: Estimated Cost of Non-Europe per annum – Consumer *acquis*

Gap	CoNE (million euro/year)
Commercial guarantees	36
Limited scope of the Consumer Credit Directive (CCD)	285
Lack of a Single Market for gambling	5,560
Total	5,881
<i>Complete Single Market - Consumer Rights Directive (CRD) applied to all consumer transactions</i>	58,000

Source: GHK Int., Table 1 in Annex IV, p.2.

In the absence of a Single Market for gambling and online gaming, it is not surprising that the potential benefits from legislative action are so high. However, the gambling example represents less than 9% of the potential benefits of a complete EU Single Market (58 billion euro). The remainder is composed of many smaller gaps in the consumer *acquis* illustrated by some of the other case studies, which benefit from an ‘externality’ if all or the majority of gaps are resolved. In the case of commercial guarantees, the analysis indicates that action to harmonise the implementation of existing provisions in EU law could generate substantial benefits in the region of 36 million euro per year.

While many gaps in the consumer *acquis* have been resolved through recent legislative action, many gaps remain which if resolved could generate significant benefits for EU consumers and businesses.

It is estimated that further gains from improved enforcement of existing consumer legislation would lead to a more equal application of the consumer *acquis* across Europe, which would also mean greater legal certainty for market operators, greater competition on retail markets, higher consumer trust, fewer compliance costs for businesses, lower litigation costs and less consumer detriment overall.

3.6. Other issues related to the Single Market, to be further analysed

So far we presented many different types of gains that were possible to analyse with quantitative methods. Nevertheless, there are a number of domains that remain to be carefully assessed, such as improved consumer protection and improved market surveillance (for consumer products) that would potentially yield further gains for citizens, professionals services, retail market harmonisation etc. - for which no plausible assessment has so far been given

The economic benefits estimated in other studies included productivity and employment effects from increased use of on-line services. Welfare improvements to consumers from a higher level of e-commerce, in terms of lower on-line prices and wider choice, are estimated by the European Commission at around 12 billion euro per year. If e-commerce were to grow to 15% of the total retail sector, and single-market barriers were eliminated, the total consumer welfare gains are estimated at around 204 billion euro, equivalent to 1.6% of EU GDP. Further gains can be made from improvements to the functioning of the market, such as putting in place the online dispute resolution (ODR) system for consumer disputes which could generate savings of some 22 billion euro.

Further potential gains could be evidenced by a holistic analysis of deeper integrating the Single Market, namely by taking into consideration all macro-economic, social and environmental aspects of further were (dynamic welfare effects, employment, income effects, ecological footprint of enterprises etc.). This type of approach is best exemplified by the free movement of goods where the quantification for potential gains took account only of the static effects of increased intra-EU trade in goods and did not include or quantify the dynamic equilibrium welfare effects, i.e. the multiplier effect of increased trade in case of greater economies of scale, lower consumer prices or improved innovation.

4. Conclusions and recommendations

The conceptual underpinning of the Albert/Ball and Cecchini reports, that the costs of barriers (gaps or deficits) indicate the minimum benefits of further market integration once these gaps are tackled effectively. In other words, inaction at EU level is costly and further deepening is beneficial.

These assumptions are confirmed by the attached research papers, and the overall economic benefits of a deeper and more functional Single Market may be significantly larger than the range of 5% to 8% of EU GDP. While there are clearly physical boundaries imposed by the realities of cultural, political, social, economic and linguistic differences, and there is a limit to what legal intervention can achieve, there is potential remaining. Indeed the EU lags behind the United States or Japan in the field of innovation. Knowledge creation, management and preservation are all at the heart of a modern digital economy, and the completion of a fully functional Digital Single Market could unlock gains to achieve success in these areas.

It is important to close the gaps and overcome the deficits in the Single Market, by removing the cost of non-Europe.

Arising out of the attached studies, there would appear to be a need to analyse further the level of remaining non-tariff barriers, as was done in preparing the Single Market Acts I and II, and may need to be re-evaluated.

The attached studies have identified the barriers of regulatory heterogeneity; private law issues; tax issues; language, networking and trust; and informational asymmetries. In addition, cross-cutting economic activities such as retail services, the digital Single Market, logistics services across the Single Market and the horizontal consumer *acquis*, face different levels of fragmentation.

Policy measures which appear targeted to a better functioning of the Single Market, and thereby contribute to reducing gaps and overcoming deficits in the Single Market, i.e. removing the cost of non-Europe, as will be explained in other chapters, could include, in a very partial list of possible actions:

- Better transposition of Directives is important so transposition deadlines should be realistic and any **gold plating** requirements at national level should be assessed for impact;
- Transparency can be enhanced through exchanging **best practices**, on the model of the mutual evaluation which was done in the case of the Services Directive;

- Creating a set of harmonised of qualitative and quantitative **indicators** for measuring the economic effects of application of the Single Market rules would enable monitoring of the Single Market, and provide benchmarks which could be used to develop the internal market pillar of the European Semester, notably in relation to the country-specific recommendations;
- **Enforcement** of the rules of the Single Market should be evaluated so as to further unlock its growth potential. Sanction-oriented enforcement may no longer be the most adequate way and inspectorate functions in the member states could be evaluated and modernised in terms of risk-based approaches;
- The principle of **mutual recognition** is important given the level of regulatory divergence between Member States. Evident benefits already been brought to several important areas such as the free movement of goods and the mutual recognition of professional qualifications;
- In the area of the free movement of services, further targeted actions for the removal of remaining unjustified or disproportionate requirements could be undertaken, via e.g. **proportionality assessment** of Members States' regulatory requirements on service providers;
- Further actions may be needed to promoting the transition to a fully functional e-procurement regime and the use of e-invoicing in Europe; unlocking the potential of a complete Digital Single Market and the implementation of the EU Digital Agenda.

References

- Andrea Renda, *The Digital Infrastructure as the Next 'EU Grand Project'*, Istituto Affari Internazionali, 2014.
- Aussiloux, V., Emlinger C. and Fontagné, L. (2011). 'What Benefits from Completing the Single Market?', *La lettre du CEPII*, No. 316, 15 December.
- Bertelsmann Stiftung. 20 years of the European Single Market: growth effects of EU integration, Policy Brief # 2014/02
- Campos N., Coricelli F., Moretti L. Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union using the Synthetic Counterfactuals Method, April 2014, IZA Discussion Paper No 8162, May 2014.
- Canoy, M. And Smith, P.M. (2008). 'Services and the Single Market', *Journal of Industry, Competition and Trade*, Vol. 8, pp. 319-347.
- CapGemini Consulting, *SEPA: Potential benefits at stake*, 2010.
- Checchini, P., Catinat, M., Jacquemin, A. (1988). 'The Benefits of a Single Market', Wildwood House.
- Civic Consulting (2011). 'Consumer market study on the functioning of e-commerce',
- Copenhagen Economics (2005). 'Economic Assessment of the Barriers to the Internal market for Services', Final Report, January.
- Copenhagen Economics (2007). 'Study on the economic impact of the Electronic Commerce Directive', Final Report, September.
- Copenhagen Economics (2010). 'European Digital Single Market' Final Report to EPC (European Policy Centre), March.
- Council of the European Union. Conclusions on Single Market Policy. Brussels, 2 and 3 December 2013
- De Bruijn, R., Kox, H. And Lejour, A. (2008). 'Economic benefits of an Integrated European Market for services', *Journal of Policy Modelling*, Vol. 30. Pp. 301-319.
- Decreux, Y. (2012). 'Completing Single Market II' in HM Government and CEPR 'Twenty Years On: The UK and the Future of the Single Market', Centre for Economic Policy Research.
- Eurobarometer (2011). 'Internal Market: Awareness, Perceptions and Impacts'. Special Eurobarometer No. 363, September.
- European Commission (2002). 'The Internal Market - Ten Years without Frontiers'.

European Commission (2003). 'First Report on the application of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce)', Brussels, 21.11.2003, COM(2003) 702 final.

European Commission (2004), 'Proposal for a Directive of the European Parliament and of the Council on services in the internal market', Brussels, 5.3.2004, COM(2004)2 final/3, 2004/0001 (COD).

European Commission (2004), 'Commission Staff Working Paper - Extended Impact assessment of Proposal for a Directive on Services in the Internal market', Brussels, 13.1.2004, SEC(2004) 21.

European Commission (2010). 'Towards a Single Market Act - For a highly competitive social market economy: 50 proposals for improving our work, business and exchanges with one another', COM(2010) 608 final/2, Brussels, 27 October.

European Commission (2010). 'Internal Market Scoreboard No. 21'.

European Commission (2011). 'Annex - Progress report on the Europe 2020 Strategy to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Annual Growth Survey 2012', Brussels 23.11.2011, COM(2011) 815 final Vol. 2/5 - Annex 1.

European Commission (2011). 'Overview of responses to the public consultation on the Communication 'Towards a Single Market Act' Accompanying document to the Communication of the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions A Single Market Act Twelve levers to boost growth and strengthen confidence - "Working together to create new growth', SEC(2011) 467 final, Brussels, 13 April.

European Commission (2011). 'Impact assessment accompanying document to the Proposal for a Directive of the European Parliament and of the Council amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation on administrative cooperation through the Internal Market Information System.', Parts 1 and 2., SEC(2011) 1558, Brussels

European Commission (2012). 'Communication from the Commission - Annual Growth Survey 2013', Brussels, 28.11.2012, COM(2012) 750 final.

European Commission (2012). 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Better Governance for the Single Market', Brussels, 8.6.2012, COM(2012) 259 final.

European Commission (2012). 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Implementation of the Services Directive: A partnership for new growth in services 2012-2015', Brussels, 8.6.2012, COM(2012) 261 final.

European Commission (2012). 'Commission Staff Working Document With a view to establishing guidance on the application of Article 20(2) of Directive 2006/123/EC on services in the internal market ('the Services Directive' accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Implementation of the Services Directive: A partnership for new growth in services 2012-2015', Brussels, 8.6.2012, SWD(2012) 146 final.

European Commission (2012). 'Staff working document, Online services, including e-commerce, in the Single Market, Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions A coherent framework to boost confidence in the Digital Single Market of e-commerce and other online services', Brussels, 11.1.2012, SEC(2011) 1641 final.

European Commission (2012). 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A coherent framework for building trust in the Digital Single Market for e-commerce and online services', Brussels, 11.1.2012, COM(2011) 942 final.

European Commission, Communication on Unleashing the Potential of Cloud Computing in Europe. COM(2012) 529 final.

European Commission, Impact Assessment accompanying the Proposal for a Directive of the European Parliament and Council on Alternative dispute resolution for consumer disputes (Directive on Consumer ADR) and Proposal for a Regulation of the European Parliament and Council on Online Dispute Resolution for consumer disputes (Regulation on Consumer ODR) - COM(2011) 793 final; SEC(2011) 1409 final.

European Commission, Reaping the benefits of electronic invoicing for Europe, December 2010, COM(2010)0712.

European Commission, The Consumer Conditions Scoreboard - Consumers at home in the Single Market, SWD(2013)0291.

European Consumer Summit, 2013. Towards a more efficient enforcement of EU Consumer Rights, http://ec.europa.eu/consumers/enforcement/docs/07032013_consumer_summit_discussion_paper_en.pdf

European Parliament (2010). 'Implementation of the Services Directive', IMCO, Directorate-General for Internal Policies, Policy Department A, Economic and Scientific Policy.

European Parliament. EAVA. The Added Value of the European Single Market, June 2013.

European Parliament. European Added Value Unit. 'Mapping the Cost of Non-Europe, 2014 -19', Second edition, July 2014

Izlkovitz, F., Dierx, A., Kovacs, V. And Sousa N. (2007). 'Steps towards a deeper economic integration: the Internal Market in the 21st century. A contribution to the Single Market Review', European Commission, European Economy, Economic Papers No. 271, January.

London Economics and PwC, The cost of non-Europe: the untapped potential of the European Single Market, April 2013.

Micus (2009). 'The Impact of Broadband on Growth and Productivity', Study prepared for DG Information Society and Media. European Commission.

Monteagudo, J., Rutkowski, A. And Lorenzani, D. (2012), 'The economic impact of the Services Directive: A first assessment following implementation', European Commission, European Economy, Economic Papers 456, June.

Monti, M. (2010). 'A New Strategy for the Single Market - At the Service of Europe's Economy and Society', Report to the President of the European Commission José Manuel Barroso, 9 May.

Muller P. et al. Better Governance of the Single Market: European Added Value Assessment, London Economics January 2013.

Notaro, G. (2011). 'European Integration and Productivity: Exploring the Early Effects of Completing the Internal market', Journal of Common Market Studies, Vol. 49, pp. 845-869.

Pelkmans (2011). 'Single Market: Deepening and Widening over Time', Intereconomics, Volume 46, Issue 2, pp 64-81, March.

Pelkmans, J. (2011). 'European Union Single Market: design and development',

The Conference Board, Unlocking the ICT Growth Potential in Europe: Enabling People and Business, January 2014.

Zuleeg F., Fontana-Reval R., Economic Rationale for a Digital Single Market, European Policy Centre, 2010.

Cost of Non-Europe Reports identify the possibilities for economic or other gains and/or the realisation of a 'public good' through common action at EU level in specific policy areas and sectors. This Cost of Non-Europe Report seeks to analyse the costs for citizens, businesses and relevant stake-holders of remaining gaps and barriers in the European Single Market, building on and updating the 1988 Cecchini Report, which quantified its potential benefits.

Based on results from work commissioned on further ways of completing the Single Market in a series of fields - public procurement, free movement of goods, free movement of services, digital single market and the consumer *acquis* - it is estimated that the potential GDP gain, to be realised over time, would be at least 650 billion euro per year.

This is a publication of the European Added Value Unit
EPRS | European Parliamentary Research Service
European Parliament



PE 510.981
ISBN: 978-92-823-5534-3
DOI: 10.2861/57536
CAT: QA-02-14-328-EN-N