The Single Market of the European Union-achievements, problems and challenges

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Abstract

The aim of this article is to discuss the main benefits of and problems with the creation of the EU single market and to indicate the main activities to eliminate the still existing barriers. The EU single market is the greatest success of European integration. It enables a free movement of people, goods, services and capital; for consumers, this means a greater choice in goods and services as well as lower prices. The EU single market also poses an opportunity for employees and businesses as administrative burdens involved in trans-border activity are decreased. However, in reality, there are a number of barriers hindering the smooth functioning of the single market. For the future of the EU single market, it is key to remove these barriers; therefore, it is with this purpose above all that the EU initiatives and activities for the market growth are undertaken. In addition, there are appearing new challenges connected with globalization, technological progress, the growing importance of services, the increase in unemployment in certain countries, and climate and the environment protection.

1. Introduction

A single market is a higher stage of integration in comparison with a free trade area and a customs union. It also involves, apart from removing duties, abolishing other barriers to mutual trade and developing common trade policy towards third countries, a free movement of production factors including capital, labour force and services.

The idea of the European single market could not have been realized without White Book of 1985 containing the program for removal of the basic physical, technical and fiscal obstacles to movement of goods, which allowed the four freedoms to be introduced. With the program for the single market presented in White Book, the ***founding Treaties of the European Communities*** were changed by signing the Single European Act on 17th February, 1986. The treaty stated that the Community would take all the necessary steps to create an internal market by 31st December, 1992. Most decisions concerning the internal market were also agreed to be made differently. A much greater number of the decisions were to be made by qualified majority and not, as until then, unanimously, which accelerated and facilitated work on legal acts. The basis of the functioning of the single market is defined in the 2009 Treaty on the Functioning of the European Union (TFEU) (Table 1).

Table 1: **Main regulations of the EU's internal market**

TFEU	Content
Article 18	A prohibitionof discrimination on grounds of nationality
Article 20	Citizenship of the European Union
Article 26	Realization of the idea of the single market understood as an area with the four freedoms: the movement of people, services and capital
Article 28	Customs union
Article 29	A free movement of goods from third countries after completing customs formalities and making customs payments, if these are required
Article 30	A prohibition of import and export duties in mutual trade
Article 34-35	A prohibition ofquantitative restrictions on the import and exportand on measures of similar nature
Article 36	Exceptions to the ban on quantitative restrictions – protection of morality,order, security, health and lives of people, animals and plants, of industrial and intellectual property as well as of cultural property of historical, artistic or archeological value
Article 45	A free movement of employees
Article 49	Right of establishment
Article 56	A free movement of services
Article 63	A free movement of capital and payments

Source: own study based on the Treaty on the Functioning of the European Union, consolidatedtext, O.J. C 83, 30 02.2010.

The aim of this article is to discuss the main benefits and problems concerning the building of the EU single market and to indicate the main activities to eliminate the still existing barriers to the movement of goods, people and capital.

2. Towards the EU single market – achievements and problems

One of the basic freedoms of a single market is a free movement of goods, the implementation of which involves removal of physical, technical and fiscal barriers. Physical barriers to free movement of goods are border controls between member states and various customs and transport documents; fiscal barriers are related to differences in tax systems and tax rates, and technical ones result from differences in national technical norms, in regulations on products placed on the market and in market surveillance. Technical barriers form the biggest obstacle to a free movement of goods. It is estimated that in 1985 there were over 100 000 various national technical specifications in the Community, every one of which was a potential obstacle in mutual trade. At the same time, 76% of the value of the trade in the Twelve EU Countries was subject to obligatory technical specifications (both national ones and the ones regulated by specific common regulations in the Community). When national technical specifications or other requirements for admission to trading varied across member states, exporters had to make a difficult decision whether to adapt products for foreign markets or to abandon exporting. Adapting a product involves additional production costs.

Eliminating delays at borders through removing physical barriers (removal of internal customs borders, controls and formalities) resulted in additional savings of at least ECU 400 mln.

The total cost of delays at borders and at the same of savings as they were removed was even bigger and was estimated to be ECU 1 mln (means of transport were used to a greater extent as a result of shorter transit; drivers no longer had to make stops at borders, etc.). The benefits of this are difficult to estimate, however, they are considerable. New enterprises and business ideas, such as European distribution or logistics centers, arose due to the fact that internal border controls were removed, the movement of goods streamlined and transport services liberalized. In the years 1987–1992 (the implementation of the single market regulations), logistics costs of businesses decreased by about 29%, on average, from 14,3% to 10,1% of the total revenue; the number of days between placing an order and receiving a consignment shortened from 21 in 1987 to 15 in 1992.

Removing technical barriers involves mainly technical alignment at the level of the Union, which takes the form of directives. Previously used old approach (OA) directives included detailed technical requirements concerning the manufacture of products. Preparing such directives at the level of the Community was very difficult and time-consuming, especially that a unanimous decision of the Council was needed for them to be accepted. In mid-80s, due to a need to accelerate work on implementing a single internal market, a new approach (NA) towards technical alignment and normalization was introduced. The new approach directives are of a different nature; they no longer recommend the time-consuming alignment of regulations with regard to technical specifications; they focus on basic requirements concerning security, health, consumer and the environment protection. Most of the new approach directives require a producer to introduce the "CE" label for products meeting basic requirements of the directives. Until now, twenty nine new approach sector directives on technical alignment and normalization have been accepted in over twenty industrial sectors. It is estimated that the value of the trade in the products from these sectors which fall under the new approach directives is EUR 1,5 trillion.

It takes longer to liberalize services across the EU than to introduce a free movement of goods because services are under more control in member states. Services are the driving force of the EU's economic growth since they generate approximately 65% of the employment (2012) and 73% of the value added (2013). After many years, the services directive was passed, however, it was a disappointment with regard to a fully free movement of services across the EU. It lacked the solutions to remove the basic existing barriers hindering a free movement of services, the so-called "Country of Origin Principle" in the case of cross-border provision of services, in particular. The application of the principle would mean that when services areprovided across borders, the applicable law is the law of the country of the service provider and not that of the country where the service is performed. This would allow service providers to be competitive if costs in the country where they are established are lower (e.g. salaries) than the ones in the country where they provide services.

The main principles of the directive contributed to the removal/reduction of the existing barriers in cross-border provision of services, however, to a different extent depending on a country and sector: considerably below 10% in Austria, Malta, and the Netherlands, 61% in Sweden and over 50% in Spain and Slovakia. Roughly speaking, on average, the scale of the reduction of the barriers after the services directive was implemented in member states is approximately 20%. The scale of reduction of the previously existing barriers varies depending on sectors and oscillates between over 80% in the case of travel agents or hotel services and 60% in that of accounting services.

Fiscal barriers, which are related to differences in tax systems and tax rates, form one of the main obstacles to the market integrationin all sectors, especially in financial services as well as in trans-border activity. Eliminating fiscal barriers by harmonizing indirect taxes was an important element of the formation of the single market as tax is a crucial ingredient of a price of a given product or service. Currently, the EU's institutions are allowed to determine only VAT rates (not lower than the ones agreed on in the EU) and minimal excise rates on harmonized excise products such as mineral oils (fuel), alcohol, tobacco products, and, since 2004, on electricity and energy resources used for heating purposes.

In the case of both trans-border transactions between tax payers, both commodity and service ones, the so-called B2B, it is a general rule to put on tax according to the law and rates of the country where a service recipient resides. Consequently, tax on services varies depending on whether a transaction is of national or inter-union nature. In the case of B2C (*business-to-consumer* – services provided by a business for a consumer), the provision of services is taxable in the country where the service provider is established, therefore, the buyer purchases services for gross prices. Since 1st January, 2015, there have been new rules concerning VAT tax on telecommunications services connected to TV and radio transmissions and on electronic ones provided for consumers. Regardless of in which country a physical person purchases an e-service, they pay the VAT tax according to the rates of the country where they live. The directive makes it impossible for service providers to escape to low VAT countries (tax rates in the EU range from 17% to 27%) and allows to tax service providers from third countries, e.g. from the US, who were not subject to VAT tax.

A free movement of capital is related to independent financial transactions whichdo not involve movement of people, goods or services. A free movement of capital refers to all its forms, such as direct investments, sale or purchase of securities, current accounts, bank deposits, credit and loan transactions, purchase of property. The Maastricht treaty forbids all limitations on movement of financial capital and payments in mutual relations or in relations with third countries. This rule has been effective since 1st January, 1994, the time when Stage 2 of the Economic and Monetary Union was started. Implementing a free movement of capital was beneficial not only to businesses which can place capital in the form of FDI or portfolio investments in other member states but also to the EU citizens and the Union's entrepreneurs. The latter were allowed to choose where they would like to open their bank account.

A broadly understood free movement of people involves mainly:

- a free movement of workers,
- mutual recognition of professional qualifications,
- civil rights (voting rights and a residence permit; the latter was originally intended only for workers but later covered the unemployed as well),
- coordination of social security systems.

The Schengen Borders Code of 2006 completed, at least formally, the formation of the common borderless area. This regulation stipulates that people crossing internal borders between member states of the EU should not be subject to border control and regulates rules for border control of people crossing external borders of the EU.

3. The single market – the main effects

In the integration theory, a few economic effects of a single market are noted, the most important of which are:

1. The commercial impact in the form of atrade increase between member states (thetrade creation effect) and a trade decrease with third countries (the trade diversion effect).
2. Dynamic effects – medium- and long-term ones in the form of higher efficiency of production. A single market is a premise for high efficiency of resource allocation and improved business competitiveness. The widening of a national market through an easier access to a larger market involves economies of scale and larger business profits. Businesses can optimize their processes by creating multinational production lines and using their comparative advantages.
3. Improved mobility of the workforce and access to a larger labour market as well as lower transaction costs due to liberalized capital flows.
4. The levelling of product prices (convergence) in member states.
5. A Long-term growth bonus and prosperity effects – improved competitiveness activates processes of restructuring, innovation, which involves a growth bonus resulting from technological and knowledge spillovers. Consequently, integrating economies move from complementarity tosubstitutability.

On 1st January, 2013, the single market celebrated its 20th anniversary. There are a number of both ex-ante and ex-post studies discussing the consequences of this event. According to the European Commission, the single market created additional jobs (2,77 mln in the years 1992–2008) and GDP growth (2,13% in the same period). The effects of a single, integrated market with four basic freedoms can be discussed in the context of the value of intra and extra trade in the total turnover of the EU countries ("the importance level" of the EU) or in the relation to GDP (the trade openness index) – the freedom of movement of goods and services; the share of FDI in GDP or the share of intra – EU FDI in total capital flows – the freedom of movement of capital; the share of workers from other member states – a freedom of movement of people.

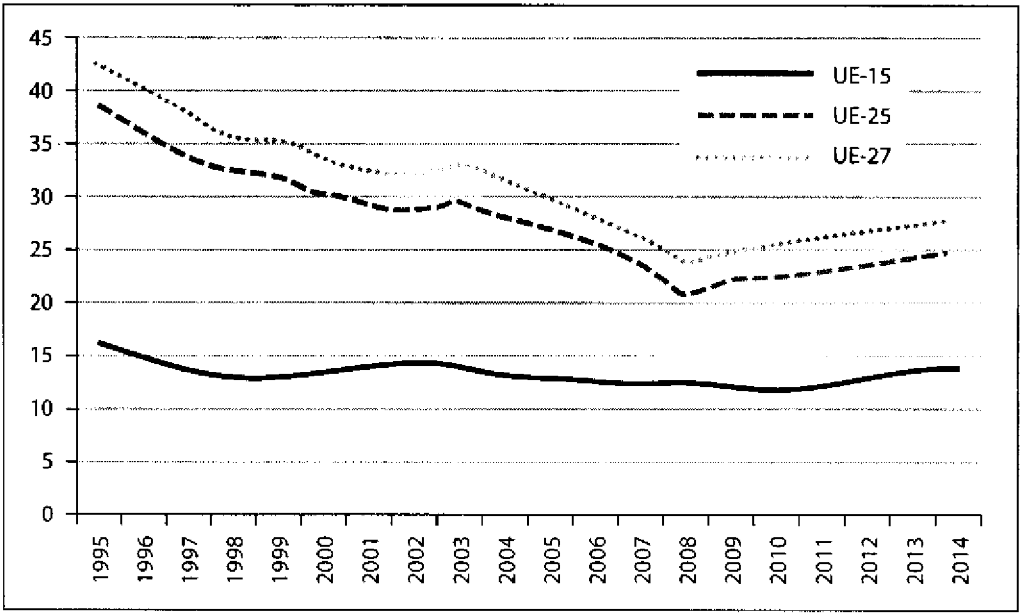
In the early 90s of the 20th century, i.e. from 1990 to 1992, the share if inter-union merchandise trade was at 65%–66% of the total export of the EU member countries (intra + extra) and at approx. 63% of the global import of the EU countries. From the second half of the 90s up to the enlargement in 2004, inter-EU trade decreased significantly in favour of the trade with Central and East European countries which were in the process of trade liberalization under the association agreements with the EUand with East Asian ones, especially with China, which joined the WTO in 2001. The EU enlargement in 2004 provided an impulse for increased intra commodity trade–67,6% in export and 66,2% in import. In recent years, the share of the intertrade, both in import and export, has fallen again (approx. 62%). Changes in inter-union trade cannot be discussed in isolation from the economic situation, trends in world economy or international trade. This is illustrated by a decrease in intra turnover in 2008 (the financial crisis) or increased significance of emerging markets (e.g. China). This is also the case with capital flows in the form of FDI. The significance of the EU internal market is best shown in the fact that in every member state, the value of inter-union trade in goods is higher than that of the trade with third countries – in recent years, there have also been exceptions: the UK (43% in 2013) and Malta (44, 3%). The following countries had the largest share in 2013: Slovakia - 82,6%, Luxenberg – 81%, the Czech Republic – 80,8%, Hungary – 76,4%, Poland – 74,8%.

If the degree of the single market openness, measured with the share of merchandise trade in GDP, is to be focused on, then for intra trade, it has increased from approx. 17% (the end of the 90s) to 22% in 2013; for extra trade, from over 8% to 13%, respectively. In the case of services, for intra trade, this index was 5%–6,5% and for extra trade: 3%–4.6%, respectively.

The share of outward and inward FDI in the EU's GDP has been decreasing since 2008: from 9.5% (outward) and 8% (inward) to less than 2% in 2013, and it has been on the increase in the years 2004–2007. Since 2002, the share of intra-EU FDI in total outward FDI of the EU's countries has been systematically falling: from 70% to 30% on average in the past few years. The decrease in the cash flow from investing activities in the EU is much more significant; in the past few years, the capital inflow to the EU from other member states has been less than 4% of the GDP, which means it has halved compared to the period before the crisis. The changes in the movement of intra-EU FDI resemble, as mentioned above, the tendencies in merchandise trade.

Figure 1 shows the price convergence indicator calculated as the standard deviation of consumption expenditure of households in the EU. Until 2010, the price dispersion of white goods in the EU had been on the decrease. Price convergence is greater in the Fifteen EU countries, especially in the second half of the 90s of the 20th century, which is after the single market was created (Figure 1).The accession of the Eastern European countries did not affect the price convergence significantly in these countries. Since the mid-90s, a decrease in price dispersion has been observed as well in the Twenty-Seven EU countries. However, in the past few years, the process of price convergence has slowed down both in the Fifteen EU countries and in the new member states, which was caused by the 2008+ financial crisis.

Figure 1: **Price convergence indicator (coefficient of variation of comparative price level index for final household consumption) in %**

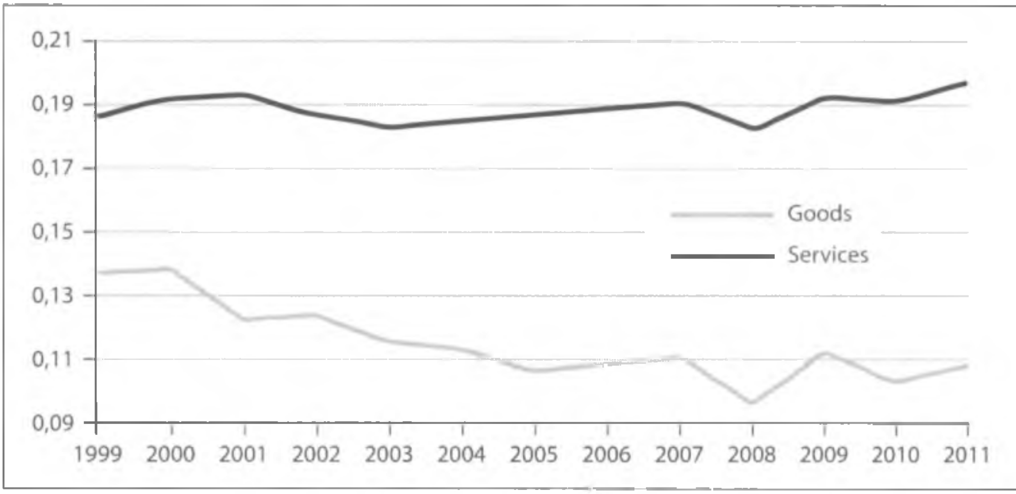


Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

The integration of the services market is at a considerably lower level than that of the goods market as the trade integration on the single goods market is at approx. 22% (approx. 17% in 1999) and onthe services one at approx. 5%.

The differences in the price dispersion of services result from the character of services (services cannot be warehoused or reexported), however, the differences in trends between prices of services and those of goods (in the case of goods, dispersion is on the decrease) might indicate an insufficient level of competition in this sector (Figure 2).

***Figure 2:* Price dispersion of goods and services in the EU (standard deviation)**



Source: European Commission (2012): Report to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank, State of the Single Market Integration 2013, Contribution to the Annual Growth Survey 2013, COM (2012) 752 final, Brussels, p. 5.

It is of note that mobile phone roaming charges in the EU are to be abolished on 15th June, 2017; the net neutrality principle makes it impossible for companies providing net access to discriminate against individual online services providers. Therefore, there is no threat that telecommunications service providers will put higher charges for the Internet access on selected subjects, especially on providers of specific electronic services.

The freedom to undertake employment in any member state did not affect the employee mobility in the EU15 countries. Until 2004, less than 2% of employees came from a different member state. The situation changed after the EU enlargement in 2004, mainly because of significant differences in income between the EU15 countries and the new member states. For fear of an influx of a considerable number of workers, the majority of the "old" member states decided to open their job markets gradually (within maximum 7 years). In the whole of the EU, these fears proved to have no grounds, however, increased regional migration could be observed. Approximately 70% of all emigrants from the EU Eastern Enlargement emigrated to the UK and Ireland and 80% of Romanians and Bulgarians to Spain and Italy. In the EU28, at the beginning of the second decade of the 21st century, the share of employees from other member states doubled in comparison with the beginning of the 90s when it was around 3%. In 2011, labour force resources of the EU27 were estimated at 236 mln, 7,2 mln of which came from other member states (in 2005 – 2,2%).

According to the European Commission, employee mobility in the EU is not satisfactory. This aspect of the free movement of people is significant in the conditions of unemployment, especially among the youth.

4. The deepening and development of the single market in the face of new challenges

The development of a single market is a continuous process. A single market must respond to processes in the world economy, and the social and demographic challenges, new technologies as well as priority issues must all be taken into account in creating the policy for its development.

Four drivers of the new economic growth of a single market can be differentiated:

1. Developing fully integrated networks in the Single Market (the single transport and energy market).
2. Fostering mobility of citizens and businesses across border.
3. Supporting the digital economy across Europe.
4. Strengthening social entrepreneurship, cohesion and consumer confidence.

They involve the most important directions in the deepening of the single market, such as:

- Monitoring and enforcing the implementation of European law. Legal proceedings in cases concerning violations of treaty regulations take too much time, especially if a dispute is heard by Court of Justice of the European Union, formerly European Court of Justice. Directives on the functioning of the single market can be effective only when they are fully and correctly transposed into national law. At the EU level, both the transposition deficit (the gap between the number of single market directives adopted at the EU level and those transposed in member states) and the compliance deficit (the number of incorrectly transposed directives) are monitored. Member states need more and more time (8 months on average) to transpose directives into their national legal systems.
- The services directive should be implemented consistently, and all the double regulations should be abolished just as the economic test which makes issuing a permit dependent on proving economic or market demand. In some member states, it is necessary to carry out a number of reforms as they still have not implemented the services directive fully. A more consistent implementation of the regulations of the directive would generate an additional GDP increase by 0,6% to 2,6% in the long term perspective.
- Forming an energy union for securing energy supply in Europe. A large concentration on energymarkets in some member states calls for specific action in this area. Especially high concentration (the market share above 75%) can be observed in Estonia, Latvia, France, Luxemburg and Slovakia. Therefore, there is a need for a single internal energy market, where on one hand power companies compete with each other on the EU energy market, and where, on the other hand, consumers are free to choose their energy suppliers. An integrated energy market will contribute to transmitting energy where it is needed; it will ensure improved energy security and enable to lower the emissivity of the existing energy systems. In order to create an integrated energy market, there is a need not only to liberalize regulations but also to modernize electrical grids and build trans-border connections.
- Opening up the national passenger market in rail transport for licensed transport companies from other member states and granting them the right to bid for public procurement contracts for services in open tender procedures. In the case of transport, one can talk of the

single market, however, with the exception of railway transport, hence the need to take such steps. This will contribute to more competitive railway services and to more attractive prices. A single market for maritime transport is also being built by removing administrative and customs formalities concerning the goods transported between the EU's ports. Currently, ships travelling between the EU's ports carrying goods released for free circulation leave the union's customs zone, hence the need to observe administrative and customs formalities. The European Commission presented the concept of a European borderless maritime transport area, whose aim is to simplify procedures in maritime transport, especially between the EU's ports. With time, a "Blue Belt" of free maritime movement in and around Europe will be created.

- A more effective, transparent public procurement.
- Increasing employee mobility; this is necessary for creating a true European labour market enabling to match employers and job seekers, which would eliminate the high unemployment rate in the EU countries. To serve this purpose, the EURES portal needs to be developed in such a way that it can become a truly European tool helping to find employment and conduct recruitment processes. European Employment Services were formed in 1993; their aim is to develop a European labour market and to facilitate employee mobility at the international and trans-border levels in the countries of European Economic Area.
- A single digital market in Europe. This involves investing in high speed broadband networks and benefiting from a common use of e-documents.
- Strengthening external EU borders and establishing an integrated external border management system as well as strengthening the mandate of Frontex, the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union, in the area of placing Rapid Border Intervention Teams at the border in cooperation with appropriate member states. This is an answer to the challenge of an increased influx of refugees to Europe in recent time.

5. Summary

In the evolution of the internal market, both negative and positive integration can be observed. The negative integration means removing the existing obstacles to trade, the movement of capital or people; the positive one in this case involves harmonization, alignment of regulations and the creation of common tools and institutions conditioning the functioning of the single market. The single market is the biggest achievement of the European integration. It enables a freer movement of people, goods, services and capital; for consumers, this means a greater choice in goods and services as well as lower prices. The EU single market also poses an opportunity for employees and businesses as administrative burdens involved in trans-border activity are decreased. The single European market involves additional costs as well. On one hand, these are the costs of excess regulation and inefficient bureaucracy, on the other hand, those of adjustment for the countries and regions where companies are less competitive than foreign ones.

However, in reality, there are a number of barriers hindering the smooth functioning of the single market. For the future of the EU single market, it is key to remove these barriers; therefore, it is with this purpose above all that the EU initiatives and activities for the market growth are undertaken. In addition, there are appearing new challenges connected with globalization, technological progress, the growing importance of services, the increase in unemployment in certain countries, and climate and the environment protection. The crisis showed that the European Union must take steps to improve economic growth, increase competitiveness and develop the single market. The single market is a key factor in economic growth. However, to benefit from it, regulations for its functioning must be correctly implemented and enforced.

In order to create a true borderless internal market, there is a need to take steps to build a single market for services, to implement the services directive more effectively and to remove the still existing barriers to trans-border activity. Special attention is paid to developing a single energy and transport market, which also means, apart from demonopolization and opening up markets for service providers from other member states, considerable investing in infrastructure. In the case of the free movement of people, the main aim for the next few years is to ensure geographical labour force mobility within the single market. A new challenge is a considerable influx of refugees into Europe, in the context of which there are more and more voices for reintroducing border controls, which would be against the Schengen Borders Code. There is a need to build e-Europe, e-administration, e-customs, which in turn necessitates improving access to and security of online services as well as investing in infrastructure.

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