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To: Permanent Representatives Committee/Council
Subject: *Preparation of the Competitiveness Council on 29 November 2018*
Presidency discussion paper - Future of the Single Market

Delegations will find in annex a Presidency discussion paper on the Future of the Single Market in view of the Competitiveness Council on 29 November 2018.

Presidency discussion paper on the Future of the Single Market

- (1) The aim of this note is to discuss ways of taking European Union's Single Market forward during the next 5 years, as well as to provide input for the European Council meeting taking place on 13-14 December 2018.
- (2) This year marks the 25th anniversary of the Single Market, which is without a doubt one of the European Union's greatest achievements and one that is at the very heart of the European Project. It has allowed European businesses and consumers to benefit from enormous opportunities, greater choice of goods and services, as well as lower prices. However, despite its success, more is needed. Driven by the urgency imposed by global competition, we need to seize the opportunities and address the challenges of digitalisation and achieve a future-proof and fair Single Market that delivers for citizens and entrepreneurs.
- (3) For this purpose, the High Level Group on Competitiveness and Growth, which was tasked to support COREPER in the policy coordination for competitiveness and growth, met on 8 November 2018 and discussed ways of framing the Single Market approach for the next policy cycle: the group deliberated on possible policy aims and actions, as well as ways how to foresee that appropriate steps are taken to enforce the Single Market rules¹.

¹ Doc. 13512/18 Presidency discussion paper of 24 October 2018 on "The future of the Single Market".

- (4) Firstly, the discussion outlined that **the future Single Market should concentrate on opportunities rather than shortcomings**. It is evident that completing the Single Market or removing remaining barriers are not objectives in itself but rather vehicles for achieving to a more unified and competitive EU². The participants seemed to appreciate the approach of shifting the rhetoric more towards aspects of the EU's external competitiveness. From this follows a new approach to Single Market policy making, one that is focused on concrete action to seize opportunities and deliver real results, putting entrepreneurs and citizens into the centre of our policy making process, and making current rules and instruments work.
- (5) Secondly, the discussion indicated the need for **a more holistic approach** to the future Single Market. Evidence was provided by the participants to underline this point. It is clear that the Single Market is much more than just goods and services, as it is affected by policies in transport, energy, health, telecoms, taxation, education, environment and other fields. However, if the greater aim is to foster EU's global competitiveness then one cannot draw artificial lines between different but intertwined policies of the EU. In particular, Single Market policy should bring together and highlight the interlinkages and implications between Single Market policy, digitalisation and industrial policy.

² Art 2 of the Treaty of Rome set an objective for the Single Market. „*The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.*”

- (6) In the first instance, it has been argued that the same rules need to apply both online and offline on an equal footing and that removing such a division would be an important step towards unifying the Single Market rulebook. The Digital Single Market strategy has contributed significantly to the development of the Single Market but since its birth, political realities and economic and social challenges have changed – **the feeling now is that there is no need for a Digital Single Market but rather for a digitised Single Market**. The realisation is that EU’s digital performance is not held back by digital single market issues but rather by the lack of an integrated approach to digitalisation, a lacking sense of urgency from fierce global competition and the non-functioning of the contemporary Single Market³.
- (7) The economy is moving more and more away from old-fashioned manufactured goods market and entering the digital era of goods intertwined with services and economies driven by data. This new economic reality is a challenge that needs to be addressed, as the more the market moves towards servitisation⁴ and data-driven economy, the more hampering the non-functioning of the Single Market will become. The question we have today is actually not only how to improve the functioning of the Single Market but also how to make sure that we maintain the current level of market integration⁵. This in turn will require **decisive action in two key areas: services and data**. It will be crucial to address the EU productivity challenge by fully exploiting the opportunities of the next digital tech wave.

³ ECIPE policy brief (2018) by Fredrik Erixon and Philipp Lamprecht on “The Next Steps for the Digital Single Market: From Where do We Start?”, p. 12.

⁴ Servitization means that „*goods and services are blending together, a process that some call “servitization,” “servicification,” or the “manuservice” economy.*” OECD, WTO and World Bank Group. Report prepared for submission to the G20 Trade Ministers Meeting Sydney, Australia, 19 July 2014 on Global Value Chains: Challenges, Opportunities, and Implications for Policy, p. 15.

⁵ „*The European economy has undergone profound structural changes, and as the economy has shifted profile, it has moved further into sectors and areas where there is very little of the Single Market. The more Europe’s economy grows dependent on services and the digital sector, the less Single Market there will be in Europe.*“ ECIPE working paper (2016) by Fredrik Erixon and Rositsa Georgieva on “What is Wrong with the Single Market?”, p. 19.

- (8) The progress in cross-border provision of services has regrettably stalled. This comes in the backdrop of clear facts which prove that **services markets are central to the EU economy** accounting for 71% of EU value added and 68% of EU employment and there are vast growth opportunities untapped therein as trade integration of services across the EU (at 6.6%) lags considerably behind that of goods (20.6%)⁶. We know the areas where action is needed the most, i.e. business services, construction and retail services, but fail to deliver results albeit witnessing the low competitive pressure, slow productivity growth, a lack of cross-border investments and trade and low labour mobility thereof⁷. This is not for the lack of trying or prioritisation, since the European Commission has proposed the services package in 2017, which aimed to improve the functioning of the Single Market of Services⁸. However, the results are not encouraging as less than half of the proposed initiatives have been taken forward by European Commission and Member States.
- (9) Additionally, a new layer of services is being created based on technological advancements and on data. In this regard, calls are being made for the establishment of the principle of **free flow of data** alongside the four current freedoms of the Single Market: not simply because data does not fit under any of the current four, but because of its underlying importance and linkages to most other sectors. As the ownership, access and usage of data becomes more and more relevant, key decisions need to be made on the competition and foreign trade policy aspects of it and awareness of its potential impact needs to be increased.

⁶ European Commission. European Semester Thematic Factsheet – Services Markets (2017).

⁷ *Ibid.*

⁸ A services economy that works for Europeans (2017) - http://europa.eu/rapid/press-release_IP-17-23_en.htm

- (10) But the notion of a holistic approach goes much further. In most cases, the detriments to the fully-functional Single Market come from outside competitiveness policy areas. This is an age-old conundrum that needs to be untangled at some point in time if a more holistic approach is to be achieved/implemented. In this regard, one of the ideas floated is the appointment of a **European Commission vice-president in charge of the Single Market** in order to guarantee a cross-cutting approach⁹.
- (11) Furthermore, it has been argued that the EU's policies should deliver real results to entrepreneurs, consumers and citizens and thus every **EU initiative should be user-centric from birth**. The criticism here is that it is not always evident what on-the-ground problems are being solved and what opportunities are being seized. This means setting the end-user experience (be it SMEs, start-ups or consumers) into the centre of any new initiative and thus leading to solving real problems and seizing real opportunities as experienced on the ground. For this to happen, more detailed and carefully focused economic analysis based on clear economic facts and evidence about the functioning of the markets is required in order to identify the opportunities and untapped potential as well as the major obstacles of the Single Market. By doing this, the legislators are forced to look at all aspects of the EU policies that affect the users, it would also induce legislators to look beyond their respective policy areas. This new approach can lead to more tailor-made solutions (e.g. per sector) and the use of a wider variety of tools and policy instruments.

⁹ WK 13467/2018 The Lisbon Council discussion paper (2018) on „Digital Europe: Next Steps - A European Agenda for the Digital-9+“, p.11.

- (12) One of the recurring themes in discussions about the future of Single Market is **the implementation, application and enforcement of the Single Market rulebook**, particularly in services. It is apparent that many of the obstacles present in the Single Market do not necessarily stem from outdated or insufficiently harmonised Union legislation but may instead be induced by scarce political ownership by Member States. In this regard, many ideas have been brought to the fore. One idea was that the Member States should be involved in the early stages of the decision-making process at a high level (i.e. ministers) before envisaging any future measures in order to induce political ownership and commitment later on. Additional dialogue at technical level should ensure that measures are future-proof and fit-for-purpose against the backdrop of existing solutions within the Member States. The Single Market Scoreboard and European Semester should be utilised more extensively to provide peer review and insights to some of the trends in the Single Market. One of the ideas is to build a more coherent problem detection and complaint system by linking mechanisms such as SOLVIT and the EU Pilot and provide additionally for a system for filing actual complaints directly with the European Commission. Last but not least, more emphasis on common standards' creation has been named as a possible avenue to be taken.
- (13) In addition, many of the studies on the future prospects of the Single Market promote the idea of **small-scale Single Market related experimentation initiatives**. It can take the shape of a group of frontrunners or simply piloting Single Market related experimentations¹⁰. As an outcome, the best practices could then be shared and rolled out more widely on the basis of such testing. This would create additional momentum, legitimacy and political ownership in the process.

¹⁰ The Lisbon Council (2018), *op.cit*, p. 11, 16; ECIPE policy brief (2018), *op.cit*, p.12.

- (14) Europe needs forward-thinking policies that can survive prospective technical changes, digital challenges, as well as leadership to implement and enforce such policies. The task for the new European Commission as well as the Member States is to find the middle ground between the different competing visions for the future and figure out how to maximise the opportunities of digitalisation, as well as of the new and emerging technologies for EU citizens and businesses alike.

Questions for discussion:

- 1. Bearing in mind the wide range of ideas about the future path of the Single Market, what are the three priority issues or concrete actions related to the Single Market that the next European Commission should focus on?**
- 2. It is not just the European Commission that is responsible for formulating a future Single Market agenda for the European Union. Therefore, what can the Member States do during the next 5-year period in order to facilitate a better functioning Single Market?**