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From:	European Commission
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Competitiveness Check-up: linkages between Internal Market and industrial competitiveness (a sectoral perspective)

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Delegations will find in Annex a European Commission paper on Competitiveness Check-up: linkages between Internal Market and industrial competitiveness (a sectoral perspective), in view of the meeting of the High Level Working Group on Competitiveness and Growth on 26 April 2018.

**Competitiveness Check-up: linkages between Internal Market and industrial competitiveness  
(a sectoral perspective)*****EU Industry and the Internal Market – rationale and new developments***

Designed to bring greater competition, increased consumer choice and an environment for firm growth and competition, the function of the internal market has evolved in the context of accelerating globalisation, industrial digitisation and other mega-trends.<sup>1</sup> Against the background of increasing shares of global value chain trade in total trade and shifting global demand to emerging economies, the internal market facilitates EU companies' integration in European and global value chains and strengthens their internal and external competitiveness overall.

At the political level, the last European Council of 12 March 2018 recognised these trends in its conclusions, by reiterating the fundamental role of a fully functioning internal market in the digital age for strengthening industrial competitiveness and highlighted the importance of enforcement and implementation of the internal market rules in that context. It called for a long-term strategic approach to ensure a regulatory environment in support of future-oriented investments and to remove remaining unjustified or disproportionate barriers, including in the area of services. It called on the Commission to present, by December 2018, an assessment of the functioning of the Internal Market and remaining barriers in intra-EU trade of goods and services.

These changes justify notably a closer look at how the internal market can impact value chain integration and industrial competitiveness. In particular, the HLG meeting could provide an opportunity to address the following key questions:

- To what extent has Single Market integration contributed to increasing the internal and/or external competitiveness of EU economies overall, and of manufacturing and other sectors of the economy in particular, and through which transmission channels?

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<sup>1</sup> See also European Commission, *Reflection paper on harnessing globalisation*, COM(2017) 240, 10 May 2017

- What conditions need to be in place to ensure a positive impact of Single Market integration on competitiveness and value chain integration, and what other factors are of relevance (such as e.g. EMU, innovation, standards, trade)?

### ***EU Industry and the Internal Market – linkages and sectoral dimensions***

Against this background, the Commission has been examining the concrete impact, in terms of value added, productivity, innovation, trade or other relevant competitiveness indicators, of the internal market on the EU industrial base and on specific economic sectors and their productivity and competitiveness, according to their levels of integration.

Some of the main findings so far show in particular that:

- internal market integration has a positive impact on productivity and economic performance, including through market opening and institutional change; sound institutions and well-integrated markets facilitate productivity increases and the availability of modern infrastructure and a sound legal system ensuring the presence of an impartial judiciary have been found to be significant determinants of economic performance, favouring path dependence and within-sector productivity growth;
- the internal market has promoted geographic clustering and specialisation patterns that have led to a strong intensification of intra-EU bilateral trade relationships overall;
- due to the guaranteed free movement of goods, services and investments and accompanying regulations and competition rules, the internal market has acted as a reinsurance mechanism against protectionist tendencies and supported convergence and resilience;
- by facilitating intra-firm trade and fostering integration in global value chains, the internal market enables EU companies to respond to changing global production and demand patterns, thus helping EU companies maintain market shares and value added shares in global value chains despite overall declining trends;

- the internal market is a basis for firm development, notably *born global* companies in high-growth, high-innovation sectors, which benefit significantly from cross-border networks, research cooperation and market access in their economic development;
- undue restrictions in specific markets, notably services, reduce the productivity of the manufacturing sectors which use those services as well as the economic performance of manufacturing firms specialising increasingly in services production (*servitisation*).
- Internal market integration hence can support productivity and competitiveness notably through:
  - structural policies designed to increase competition, promote innovation, attract investment and strengthen the efficiency, scale, and international competitiveness of domestic industrial sectors;
  - the removal of internal trade barriers and restrictions facilitating value chain integration, trade, European industrial specialisation and increased international competitiveness;
  - the Europeanisation of value chains, turning diverse specialisation patterns, different industrial models and pools of highly skilled human capital at national and regional levels into a competitive advantage;
- the size and strong external dimension of the EU Single Market.

At the HLG, the Commission will present current findings on the role of the EU in global value chain<sup>2</sup> and rank/cluster economic sectors at EU-aggregate level by linking their competitiveness performance with the state of single market integration. Finally, the Commission will provide detailed analysis for two sectors with respectively large and low increases in intra-EU value-added generation, respectively. The former can be considered as sectors benefitting from Single Market integration, while the latter have so far benefitted less, due to barriers that continue to weigh on competitiveness and the integration into European value chains or due to other factors.

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<sup>2</sup> JRC (2017), *The role of the EU in global value chains*.  
<https://ec.europa.eu/docsroom/documents/27928>

### *Questions for discussion*

1. *What is the available evidence that Single Market integration has contributed positively to value chain integration and competitiveness, and in which sectors?*
  2. *Which sectors show weaknesses or problems with regard to the functioning of the Single Market? What is the impact on the internal and external competitiveness and value chain integration of those sectors?*
  3. *What are the conditions that need to be in place for the Single Market to contribute positively to competitiveness? What other factors are relevant, and what is the relative importance of Single Market integration for overall competitiveness?*
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