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Economic Reform:
Report on the functioning of Community product and capital markets

Presented by the Commission in response to the conclusions of the Cardiff European Council

CONTENTS

I. INTRODUCTION

This report responds to the call from the Cardiff European Council for reinforced Broad Economic Policy Guidelines and for their development as an effective instrument of economic policy co-operation. With this in view, the Council agreed that the Member States and the Commission should produce annual reports within their areas of competence on product and capital markets. The European Council also agreed that, on the basis of these reports, the Commission will produce a further report on structural issues and policies, for consideration by the Ecofin and other formations of the Council. This new procedure is intended to ensure that in the preparation and consideration of the Broad Economic Policy Guidelines, the Ecofin Council has an integrated view of macroeconomic, labour market and other structural issues. The Cardiff process thus completes the Growth and Stability Pact and the multilateral surveillance of national employment action plans within the European Employment Strategy agreed at the Luxembourg European Council. This exercise will reinforce and accelerate the reforms necessary at both national and Community level to make the Single Market and Economic and Monetary Union function optimally. The Ecofin's commitment to review progress regularly on economic reform will encourage Member States to work towards a better integrated and more efficient European economy, and provide a co-ordinated framework for the efforts of other relevant Councils.

Economic reform is not an end in itself: its purpose is to achieve growth, stability and above all, create jobs for Europe's citizens by improving supply-side policies. Sound fiscal policies have brought about the birth of the euro and Monetary Union. But to ensure the sustainability of Economic and Monetary Union, economic performance needs to be improved at both national and Community levels. The Single Market represents the fundamental pillar of Economic Union. Improving the functioning of the Single Market and more efficient and flexible domestic markets, are therefore the two key components of economic reforms essential for the success of EMU. By contrast, economic reforms, allied to the potential of the new technologies and trans-European networks, offer the opportunity of creating a dynamic, high-performance and knowledge-based economy, the benefits of which are shared between all regions of the Community and all sectors of society[1]. In this way, the Single Market contributes to the overall objective of economic and social cohesion.

The present report is selective: it identifies priority areas where immediate action is necessary to remedy current weaknesses. Although the Member States devoted more space to innovation, retail and small business policies, the Commission has taken account of national reports, in particular on those issues that affect the functioning of the Single Market. Issues concerning national regulations and policies (and their impact on the functioning of the national markets) are also addressed even though they are extensively dealt with by the national reports.

Economic integration and monetary union

The Single Market has already proved to be a spur to structural change and economic reform. With the advent of EMU, market flexibility and efficiency take on a new

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1 C.f. the forthcoming sixth periodic report on the social and economic situation and development of the regions of the Community.

dimension. In the years ahead, economic reforms will play a crucial role in securing benefits which could not be achieved in the absence of a single currency, and in turn the Single Market will play a crucial role in encouraging these economic reforms. In particular, economic reform should:

- **increase market flexibility and mitigate the impact of asymmetric shocks**. With EMU, exchange rate realignments are no longer available as an instrument to tackle the consequences of asymmetric shocks. In this new context, the Single Market becomes a very useful policy instrument for bringing about economic reform. First, it makes markets more efficient and flexible and should allow adjustments to take place via prices instead of output reductions and job cuts. Secondly, economic integration and structural reform should foster intra-industry trade, thus increasing the diversity of European economies and making them more resistant to asymmetric shocks.

- **facilitate the integration of financial markets**, building on capital mobility within EMU. There is already a high degree of capital mobility inside the Union. Nevertheless, substantial differences remain in the spread in interest rates and equity returns. There is thus substantial scope for efficiency gains from further integration. Elimination of exchange rate risks provides the ideal conditions for integrating financial markets in order to cushion disturbances which impact on local financial systems. Economic reform and further integration will enhance the performance of financial markets throughout Europe.

The objective and instruments of economic reform

To achieve growth and further employment we need to improve the efficiency of the European economy, by making our markets more flexible and improving manufacturing and service sector performance. To do this we must improve the regulatory framework in which our firms operate; develop a more entrepreneurial European economy, with more efficient capital markets and fewer barriers to easy entry/exit to markets; open protected markets to competition while securing affordable access to services of general interest and eliminate anti-competitive behaviour by firms or by the public sector.

In pursuing these objectives, consumers' interests, environmental protection and social cohesion must, as established in the Treaty, be fully integrated. Striking the right balance between these different policy objectives will be crucial even if at times it demands difficult political choices.

How can this objective be achieved?

The economic and regulatory framework for most firms (and SMEs in particular) is heavily dependent on purely national regulations which can vary considerably in response to national customs, traditions, history and ideas. However, the Single Market affects national authorities, and therefore contribute to the process of economic reform, in two significant ways. First, since the Single Market increases market openness and integration, it facilitates contacts between different national economic structures. Secondly, the Cardiff process itself will influence the design of national economic policies via the Broad Economic Policy Guidelines. The aim is not to dismantle national regulations but to improve the economic efficiency of these regulatory environments.

The Cardiff process calls for a co-ordinated effort of economic reform at the EU and national levels, which requires close monitoring of the economic performance of both domestic markets and the Single Market. In the past, the Scoreboard has provided information on the implementation of Single Market legislation. In order to deliver a maximum of economic benefits in terms of growth and job creation, it is necessary to monitor economic performance to assure an optimal allocation of resources and economic efficiency.

Special attention should be paid to the role of public authorities. They produce legislation and regulations having a direct impact on the market conditions in which firms and consumers operate, and thereby on overall market efficiency. EMU demands close economic monitoring of the performance of European markets to ensure that the legislative and regulatory environments meet certain common standards required to achieve high levels of employment, sustainable economic growth and international competitiveness.

The following policy areas which were also identified in Member States' national reports, are particularly relevant in this context:

(1) The quality of the regulatory environment: The Single Market remains a key instrument for economic reform at the EU level.

(2) Flexible, responsive markets will ensure that the European economy delivers the best value for money. However, we need to remove the remaining obstacles to trade in goods

(3) We also need to improve further the performance of the services sector.

(4) The elimination of anti-competitive behaviour by firms and the public sector is essential for boosting economic performance and adjusting to economic shocks; unnecessary rigidities and costs, for instance in the utilities sector or in public procurement, call for continued efforts to encourage economic efficiency.

(5) A more coherent tax structure is essential for future economic reform of the European economy. The relevance of taxation policy to promoting employment in a context of increased capital mobility will accelerate the need for tax reform in the Union. The threat of harmful tax competition has already stimulated political progress.

These policy areas are discussed in detail in chapter III.

II. TOWARDS INTEGRATED AND EFFICIENT MARKETS

Further economic integration is an essential precondition to improving the functioning of our goods, services and factor markets. This section describes the progress made towards market integration and gives some indication of the level of market efficiency achieved, even though this is difficult to assess (future reports will pay particular attention to this aspect).

A. Indicators of economic integration

- Trade in industrial products

Trade between Member States has grown almost every year since 1993. In 1997, intra-EU trade in industrial products was valued at 31.5% of GDP (26.5% in 1993). However, most of that growth took place between 1993 and 1995, probably stimulated by the 1985 Single Market Programme: between 1995 and 1997, the annual rate of growth in intra-EU trade dropped with respect to previous years (figure I).

FIGURE I: THE IMPORTANCE OF INTRA-EU TRADE IN GOODS RELATIVE TO GDP (1992-97)

	1992	1993	1994	1995	1996	1997	1992-97
Belgium-Lux.	85.0%	80.9%	82.0%	86.0%	89.7%	93.8%	86.5%
Denmark	36.5%	33.7%	35.7%	38.7%	37.8%	40.0%	37.2%
Germany	26.7%	22.2%	23.0%	24.2%	24.5%	25.6%	24.4%
Greece	22.9%	20.4%	20.2%	21.6%	18.5%	17.9%	20.1%
Spain	18.7%	19.2%	22.7%	25.8%	27.0%	27.3%	23.6%
France	25.7%	21.7%	23.6%	25.2%	25.3%	26.8%	24.8%
Ireland	72.7%	72.6%	77.5%	83.5%	81.1%	79.8%	78.4%
Italy	18.7%	18.8%	20.9%	23.8%	22.0%	22.4%	21.1%
Netherlands	66.5%	60.7%	64.6%	70.3%	70.9%	74.1%	68.2%
Austria	36.4%	32.8%	34.1%	38.1%	38.6%	40.8%	37.0%
Portugal	41.3%	37.0%	40.3%	42.1%	45.0%	45.4%	42.0%
Finland	26.4%	28.1%	30.2%	33.7%	34.1%	35.1%	31.7%
Sweden	26.7%	30.2%	33.3%	40.0%	37.5%	39.5%	34.7%
United Kingdom	22.3%	22.9%	24.0%	26.4%	26.6%	24.6%	24.5%
Large Member States*	**23.4%**	**21.3%**	**22.9%**	**24.9%**	**24.8%**	**25.2%**	**23.8%**
Small Member States**	**49.1%**	**47.7%**	**50.1%**	**54.4%**	**54.3%**	**56.3%**	**52.2%**
EU 15	**28.4%**	**26.5%**	**28.3%**	**30.9%**	**30.8%**	**31.5%**	**29.5%**

Source: Eurostat and Commission services
* Germany, France, Italy, UK and Spain (ranked according to GDP average 92-97)
** All other Member States
As of 1993 a revised methodology has been used for the collection of EU trade data, which explains the discontinuity in the time series between 1992 and 1993

Market integration may modify trade patterns increasing inter-industry trade, in which case Member States specialise further in their relatively most efficient sectors and/or intra-industry trade, i.e. increasing trade in similar products without dominating flows in one direction. Since 1970, there has been a clear trend towards increased intra-industry trade for most Member States (figure A.1). This is particularly striking for the traditionally less-economically developed regions (Portugal, Spain and Ireland, although for the latter, intra-industry trade has decreased somewhat since the early 1980s) which were previously concentrated in low value-added activities. However, Greece maintains a substantially different trade pattern given its significantly different industrial structure. The general trend probably reflects the major restructuring of the domestic industry and indicates a steady convergence of national industrial structures, an important development in the context of a smoothly functioning monetary union.

In view of the qualitative analyses set out in chapter III, there are grounds for believing that there is still scope to increase intra-EU trade in goods. Eliminating remaining barriers and improving enforcement of Single Market legislation should increase integration and improve market performance.

- Services: cross-border supply or establishment

The intensity of cross-border competition is much more difficult to assess in the services sector. The statistical information available does not allow meaningful conclusions to be drawn but there is, as yet, no evidence of increased integration as a result of cross-border trade in services (figure A.2). Trade mainly takes place by physically establishing an actual presence in another Member State, as demonstrated by the increased foreign direct investments in services since 1992 (figure A.3). However, there is evidence of increased integration in the service sector since the share of services in intra-EU FDI inflows has increased considerably from 64.5% in 1993 to 71.3% in 1996. Financial services have been a traditional target for FDI, but its relative share in total FDI activity in services is declining as new sectors (such as business services and retailing) experience sharp increases in intra-EU FDI.

- Capital movements and foreign direct investment (FDI)

Cross-border provision of financial services, free movement of capital flows and a single currency are the three pillars of integrated capital markets. Several indicators show the gradual emergence of an integrated capital market within the EU. Reductions in the correlation between domestic savings and investment plans can be an indication of progress. In 1997, the relationship between domestic investment and savings was weaker than in 1992. This is consistent with increasingly integrated EU capital markets (figure A.4).

An important element of capital movements, cross-border FDI, is also an important indicator of market integration, as firms can supply non-domestic markets not only by trade, but also by locating production in those markets. There are clear indications that FDI inflows have grown more strongly than other comparable transactions (figure A.5). Despite fluctuations, intra-EU FDI inflows have increased significantly in absolute figures but not too much as a percentage of GDP. The size of the Member State tends to determine the volume of FDI inflows. Some small Member States with commensurately small domestic markets (Benelux countries, Ireland) seem increasingly to serve as production sites for distribution across Europe, in that intra-EU FDI represents more than 3% of their GDP (figure A.6). The Benelux countries receive some 30% of total intra-EU FDI.

- Free movement of labour[2]

With the advent of the euro, intra-EU labour migration is likely to receive more attention, especially in sectors where the supply of labour is relatively inelastic. There is a low - though increasing - level of cross-border migration which is reflected in the percentages of non-nationals in the EU labour force (figure A.7). This can be attributed to different factors: cultural and linguistic barriers; increasingly similar employment situations between Member States; and regulatory barriers, real or perceived (e.g. recognition of professional and vocational qualifications (figure A.8), access to public sector employment, social security and taxation). These explain the EU's relatively low labour mobility over large distances compared to the USA. There is some evidence to suggest that strong "push" or "pull" factors (such as skill shortages/ high unemployment) can trigger movement.

Several initiatives have been launched to reduce barriers to labour mobility, notably search costs, and to secure improvement in the information available on job opportunities. These include the Commission's Action Plan on free movement of workers[3], EURES network and

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2 The present report confines itself to a discussion of free movement of labour. Discussion of labour market structural issues will be incorporated in the forthcoming Commission report on structural issues and policies.

3 COM (1997) 586 of 12 November 1997. This was presented in the framework of the European Employment Strategy.

the 'Citizens First' initiative (now 'Dialogue with Citizens and Business') which have already begun to provide qualitative data on the remaining obstacles to mobility which will be of considerable use in subsequent reports.

B. The impact of integration on market performance

It is difficult to measure the dimensions of the positive impact that increased market integration has on markets performance and efficiency.[4] Price convergence and price reductions in certain markets directly affected by the Single Market and the level of industrial restructuring through mergers and acquisitions are the only indicators that provide some (indirect) indication of that impact.

- Price convergence and evidence of price reductions

In principle, reduced price differentials can be attributed –in part at least- to increased competition, which in turn should improve market performance. The elimination of geographic market barriers to trade should erode market power thus reducing the potential for price discrimination across EU markets. Therefore, in the absence of new collusive behaviour, increased integration should normally result into more active head-to-head price competition. Price convergence is, however, a very rough indicator of market integration and performance.

The "Single Market, single price" rule is subject to many adjustments stemming from, inter alia, differences in indirect taxation, exchange rate fluctuations, national preferences for different products, differences in the market structure of retail and wholesale trading, transport costs. EMU is expected to produce more price convergence through increased transparency in price comparisons. Even though consumer prices may vary to a certain extent even within fully integrated economies. The persistence of large (pre-tax) price disparities in longstanding national markets can serve as a useful monitoring tool, particularly in high-value/low bulk markets.

The spread in price differentials for final consumption across the EU is significantly smaller than in 1985 (figure II). But it has remained stable between 1993 and 1997 at around 16%[5]. This is partly explained by the widening in price dispersal for government consumption and capital investments, which seems to result from consistently lower import penetration ratios for public procurement sectors. Relatively high price levels are observed in Sweden, Denmark (mainly for consumer goods) and Germany (government final consumption and construction) while price levels in the southern Member States and the UK are relatively low across the board. Increased competition had been expected to lead to lower and converging prices, given that efficiency gains would be passed on to consumers in the form of price reductions (or increased product diversity).

FIGURE II: DEVELOPMENTS OVER TIME IN EU PRICE DISPERSION (COEFFICIENT OF VARIATION)

	1985	1993	1996
Private final consumption	21.9%	15.9%	15.9%
Government final consumption	25.4%	25.9%	27.2%
Gross fixed capital formation	12.8%	14.5%	13.5%

4 Future reports will have to develop more direct and reliable measurements.

5 These results have to be assessed with reference to some benchmarks, as even within perfectly integrated markets spatial price differentials will continue to exist. A comparison showed that on average the degree of price dispersion in the EU was 40% above that in the US. For a subset of items typically found in food shops, the degree of EU price dispersion was more than twice as high as in the United States.

Construction	19.2%	23.6%	22.0%
Machinery and equipment	9.1%	6.7%	7.7%
Gross Domestic Product	20.1%	16.2%	16.3%

Source: Eurostat/OECD
Unweighted, including excise and value added taxes

The Commission will pay particular attention to these developments in future reports. There is at present anecdotal evidence from individual sectors showing that new entry and the elimination of unduly restrictive regulation has imposed increasing pressures on price-cost margins, thus ensuring that cost reductions are passed on to consumers and downstream users. This has particularly been the case in services sectors, as evidenced by large decrease in telecommunication charges and lower air transport fares on routes with multiple carriers (figure A.9).

- Industrial restructuring

Although undoubtedly influenced by globalisation trends, changes in market structure as recorded by mergers and acquisitions can also indicate changes in market performance. After a relative lull between 1991 and 1994, merger activity resumed in 1994 and reached a new peak in 1997 with 7065 mergers and acquisitions involving EU firms (figure A.10). This period was characterised by an increase in cross-border mergers, particularly those involving non-EU firms, accounting for 47% of the total in 1996-1997, (34% in 1991-1992) and a decline in importance of purely domestic mergers. Dutch, Swedish and UK companies were relatively the most active as bidders in mergers and acquisitions, while Greece, Spain, Italy, Portugal and Germany were significantly less active (figure A.11).

Restructuring of services industries (in particular wholesale distribution, retail distribution and banking) is now as intense as in industry. The banking sector, strongly affected by the advent of EMU, is illustrative of recent, common trends in Mergers and acquisitions activity: a smaller number of deals, of greater size: a predominant, though declining, proportion of domestic deals; an increasing number of deals involving non-EU firms; and a significant trend towards horizontal integration, with M&As involving banks and non-bank providers of financial services (figure A.12). However, it is difficult to determine the extent to which such concentrations improve market performance through industrial restructuring and rationalisation.

III. The Single Market's regulatory framework

In order to enhance the Single Market's capacity to function as shock absorber, the regulatory framework within which the product and capital markets function should have clearly identified objectives and its effectiveness in achieving them should be regularly reviewed. Regulations should produce benefits that justify their costs; be clear, simple and practical for users; and be enforced in a uniform way across Member States so as to promote integration and minimise market distortions. Key aspects of the Single Market legislative framework are next assessed from the twin perspective of their effectiveness and the potential for their further reform.

A. The quality of the regulatory environment

The EU's regulatory environment comprises Community and national legislation. Although considerable efforts have been made to cut back on Community level legislation (see the "Better Lawmaking" report[6]), the same cannot be said for Member States. A recently conducted business survey [7] demonstrated that the major obstacle to doing business within the Single Market was seen as stemming from Member States' continuing desire to maintain a national or regional "frame of reference" for product legislation. The application of Directive 98/34 (which consolidates the 83/189 procedure)[8] has demonstrated that the level of national regulations shows no sign whatever of diminishing. Although this may in part reflect weaknesses at an EU level (as in the construction products area) or pressure to raise the quality of national products (as in the foodstuffs area), the level of national regulations far exceed, in number, volume and complexity, the measures adopted at Community level.

➤ ***Member States need to set up coherent and transparent programmes to ensure that national regulation is supportive of a competitive environment in the relevant market and is fully compatible with the EU competition and trade policies whilst appropriately safeguarding the public interest. Member States need also to develop mechanisms to assess the impact on the Single Market of national regulations in order to anticipate any potential threat to market integration.***

The great majority of EU rules require transposition into national law. Although those Member States who are the first to implement may reap advantages earlier than competing economies elsewhere in the EU[9], the full benefit of market opening and liberalisation can only be achieved if all Community legislation is fully and effectively applied in all Member States. A necessary but not sufficient condition is that all directives are transposed into national law on time. Despite the significant progress made under the Single Market Action Plan[10] the percentage of Directives still awaiting transposition in at least one Member State (the fragmentation factor) remains at the unacceptably high level of 13.9%.[11].

➤ ***All Member States, in particular those shown in figure III as having made less progress must commit themselves to eliminating this transposition deficit, for example by making better use of transposition timetables in planning national procedures, even after the expiry of the Action Plan.***

Uniform enforcement of Single Market rules is also crucial in generating confidence. There are many complaints of over-zealous application of national rules by public authorities and lack of familiarity on the part of those authorities with the applicable rules as major sources

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6 Better Lawmaking 1998 – A shared responsibility, COM (1998) 715 final

7 As part of the Single Market Scoreboard, SEC (1998) 1889 – October

8 Under Directive 98/34 (formerly Dir. 83/189), the Commission and the Member States have a minimum period of three months to make comments or raise objections. The object is to ensure that the text finally adopted is consistent with Single Market obligations.

9 A recent study (Anders N. Hoffman, *The gains from Partial Completion of the Single Market*, Danish Ministry of Business and Industry, Working Paper N° 3/98, May1998) .indicated that Denmark, a frontrunner in implementing Single Market legislation, was enjoying ceteris paribus an extra income of $220 million each year only because of more steady implementation of EU Directives. Most Member States seem to have captured the benefits of early liberalisation, as recently evidenced by the decision of almost all Member States to exceed.the electricity directive's requirements in terms of market opening (26%): over 64% of EU electricity demand can be expected to be open to free competition in February.,

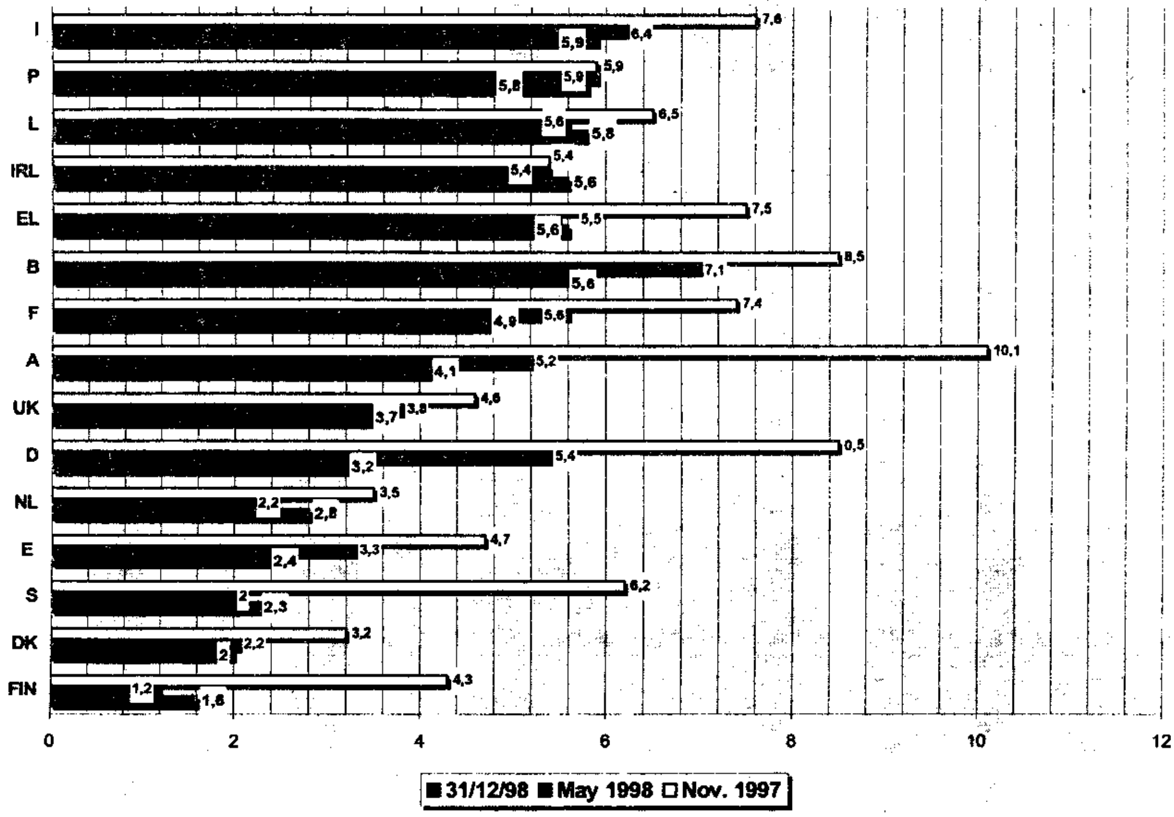
10 CSE(97)1 final, 4 June 1997

11 Of 1389 directives, 193 are still awaiting transposition in at least one Member State However, substantial progress has been achieved since the fragmentation factor stood at 35% in June 1997.

of obstacles The rising number of infringement proceedings opened by the Commission, in connection with an alleged failure to apply Single Market rules supports this perception[12]. Businesses also view the absence of efficient problem-solving mechanisms as a disincentive to cross-border activity: faced by a barrier to doing business in the Single Market, two thirds of companies (67%) took no action to overcome it[13].

➢ ***The Member States must ensure that appropriate administrative and judicial means exist to enforce Single Market rules properly, including adequately staffed and trained market surveillance and enforcement authorities and that adequate means of redress and appropriate sanctions are available and sufficiently known to economic operators.***

FIGURE III: PROGRESS IN IMPLEMENTATION OF SINGLE MARKET DIRECTIVES



The Single Market legislative framework needs streamlining to avoid unnecessary regulatory burdens on business, particularly on SMEs which sometimes bear disproportionate compliance costs and administrative burdens. Efforts at Community level, notably through the SLIM initiative, the launch of the Business Test Panel and the Commission's proposals for an Action Plan following the BEST Task Force report, have been pursued alongside a number of initiatives identified in national reports. Some Member States have already set up special simplification or better regulation units.

➢ ***A simpler and better quality legislative framework is needed, achieved by:***

12 Enforcement problems of this kind appears to be concentrated in certain Member States (5 Member States accounted for some 65% of proceedings). See table B.1 in annex.

13 This survey was conducted in the framework of the last edition of the Single Market Scoreboard (Nov. 1998).

- *Reviewing existing regulations in a more systematic way to ensure that they continue to meet their objectives efficiently. Member States could, for example, apply the SLIM methodology to national regulations;*
- *Integrating regulatory impact assessment into the development of new national legislation;*
- *Developing a systematic approach, to regulatory reform at all levels of government, in particular by promoting the creation of central simplification and better regulation units.*
- *Implementing the relevant recommendations of the Action Plan following the BEST report*[14]*.*

B. Removing obstacles to trade in goods

- The removal of technical barriers to trade

The legislative and technical infrastructure of the Single Market in goods is largely in place and has proved to be an effective means of integrating product markets. Yet concerns remain that it takes too long to develop European standards and about the possible market-fragmenting effect of national conformity marks.

(a) Mutual recognition

Economic operators remain concerned about the various conformity requirements: 41% of businesses complained about the additional costs of rendering products or services compatible with different national specifications and 34% considered unusual testing, certifications or approval procedures as constituting barriers to cross-border operations.[15] To meet such concerns and to provide greater legal certainty, the Commission is preparing a Communication to improve the practical effectiveness of the principle of mutual recognition[16].

(b) The New Approach

Under the New Approach to technical harmonisation[17], progress has been made with the main standards in place in a number of sectors (with the exception of construction products), and further standards in the course of delivery (figures B.2 and B.3). Concerns have been expressed by businesses and some Member States that standards are not being delivered in time to meet evolving needs. The Commission has invited the European standards bodies to come forward with concrete measures to increase efficiency and a major conference will be organised under the German Presidency to discuss the future of European standardisation.

Where conformity assessment is required, it is carried out by testing and certification bodies ("notified bodies"), which can compete with each other (figure B.4). The credibility of the system depends on the competence of these bodies. Accreditation provides one means of

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[14] COM(98) 550 of 30.09.98

[15] C.f. footnote 13

[16] This Communication will also cover the issues relating to the principle of mutual recognition principle in the area of services.

[17] Under the New Approach, Community legislation confines itself to laying down these requirements which are essential for the protection of the public interest and more detailed technical solutions are then developed by standardisation bodies.

guaranteeing this. The European Co-operation for Accreditation[18] has put into place agreements on mutual recognition based on peer assessment, thereby creating greater confidence in test and certification bodies across the EU.

(c) European Standardisation

European standardisation, even though voluntary, is in itself a motor of integration. Progress in this field strengthens the Union's position in negotiating standards in global markets. Failure to agree standards within the Union may reduce Europe to the role of standard taker. The standardisation work under the New Approach accounts for less than 30% of European standardisation activity, the major part being market driven by the economic operators and other interested parties. The degree to which standardisation activities have moved to the European level gives some insight into the integration of product markets, both in terms of trade and economic co-operation. Today, work on national standards has almost disappeared, and some 90% of standards development concerns European standards (figure B.5 relating to the activities of national non-governmental standardisation bodies).

➢ ***The Commission, Member States, industry and the standardisation bodies must be strongly committed to increasing the efficiency of the instruments currently aimed at tackling technical barriers to trade and to promoting the emergence of a common technical environment over the coming years. Particular emphasis should be put on:***

- ***Increasing the effectiveness and efficiency of the mutual recognition principle: promoting the mutual recognition of certificates and tests and providing better information from the relevant local and national authorities are essential components of a standardisation policy. This will be addressed in a Commission communication. Member States should keep under review whether the costs and benefits of conformity assessment procedures are compatible with social concerns and scientific risk assessment.***
- ***The development of European standards which should be made more efficient by concentrating on priority areas and by streamlining the internal procedures of standardisation bodies.***

- Other distortions to trade in goods

The success of the Single Market programme in dismantling the most disruptive barriers to trade means that other differences (notably in the fiscal and regulatory environment) exercise a relatively stronger influence on commercial conditions. They could also lead to parallel trade. In some cases, parallel trade can be seen as a correcting mechanism, enforcing discipline on suppliers. However, in other cases, parallel trade may simply be symptomatic of policy distortions. In this respect, two product markets are the focus of much commentary.

(a) Motor vehicles

There is some evidence of price convergence during recent years on the basis of car price data collected by the Commission. However, following a substantial reduction in price dispersion between May 1995 and November 1996, there was little further convergence between November 1996 and November 1998 (figure B.6).

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[18] So far, the European Co-operation for Accreditation (EA) mutual recognition agreements[1] have been signed by most countries for calibration and testing (Greece and Luxembourg are the only countries who have not signed the agreements) while for certification, 4 Member States (Greece, Luxembourg Austria and Portugal) still have to sign the agreement.

The introduction of the "EC Whole Vehicle Type Approval system" and the arrangement on car exports concluded between the EU and Japan[19] (providing for the progressive liberalisation of the formerly restricted EU markets) have made an important contribution to a functioning Single Market in the automotive sector. These developments went hand in hand with considerable progress in the harmonisation of safety and environmental requirements.

However, differing taxation systems that are based on varying technical criteria has led manufacturers to produce different specifications for the same model or has been a factor in the application of different sales prices . Major differences in taxation persist (e.g. purchase taxes range from relatively low levels in Germany, Sweden to rates of almost 200% in Denmark – figure B.7). Moreover, as taxation is increasingly used to pursue legitimate Community and national objectives, such as the reduction of road congestion or vehicle emissions, we must make sure that the realisation of such objectives does not in itself increase market distortion.

- ***The promotion of a Community framework for a more coherent and co-ordinated vehicle taxation system is essential for a more effective functioning of the Single Market in this sector.***

(b) Pharmaceuticals

The legislative framework covering the development, testing, approval, production and marketing of pharmaceutical products and the centralisation of the evaluation of new products at the European Medicines Evaluation Agency (EMEA) offers fast access to the Single Market. Legislation on intellectual property provides sufficient time to develop pharmaceutical products, by extending market exclusivity beyond the normal patent period.

Nevertheless, the wide diversity in the way pharmaceuticals are regulated within national health care systems and Member States' reliance on price controls can create problems at EU level Where price regulations results in widely divergent prices, parallel trade is possibly benefiting consumers by increasing price competition, but it also creates dynamic inefficiencies since most of the financial benefits accrue to the parallel trader rather than to the health care system, the patient or the company that develops the product.

- ***The Commission has already identified[20] various options including greater reliance on market mechanisms which could meet regulatory objectives and develop increased competition, in the context of national health systems. Normal market mechanisms could be introduced in those market segments where this could be achieved without compromising either access to medicines at an affordable cost for patients or the Member States' ability to meet public expenditure objectives.***

C. Improving the performance of the services sector

Market integration in many service sectors lags behind that observed for products: in large part this reflects the essential characteristics of services which are still seen as being less tradable than products and as needing physical proximity to the customer. Thus, service providers who are anxious to expand their markets, often have to do so through widening

19 Which expires at the end of 1999.

20 Communication on the Single Market for pharmaceuticals, COM (98) 588

their network of outlets. Internationalisation of service markets has therefore relied predominantly on establishment of branches and subsidiaries. Our approach has therefore been to seek to facilitate cross-border implantation of companies without the need to set up a new legal entity.

The information revolution will increasingly change the business and economies of service markets[21]. The needs of consumers can now be served equally effectively over information networks. This is particularly true for consumers' information needs (e.g. financial advice). Entry barriers and costs to electronic commerce are low[22] and thus competition is likely to increase significantly in most segments of the distribution sector as well as downstream. However, the emergence of these new technical means brings other legal and jurisdictional issues into play, including the need for a fair and neutral taxation system, in particular for indirect taxation. Given that consumers are not always able to assess the implications and risks of the transaction, regulatory authorities have naturally placed the emphasis on consumer protection. This has resulted in provisions which differ across Member States, sometimes at the expense of an efficiently functioning Single Market.

➢ ***Electronic commerce will promote trade, enhance cohesion, stimulate innovation and entrepreneurship and create sustainable jobs, particularly in SMEs. It is therefore crucial that an early adoption of the proposed directive establishing a coherent legal framework for the development of electronic commerce is secured. This would make a substantial contribution to the development of a pan-European market for services that can be provided by electronic means. Member States need to define and implement a programme of precisely targeted measures rapidly to eliminate any restriction that is incompatible with the development of a pan-European service market. To enhance consumer confidence of the benefits of these programmes of regulatory reforms, an adequate level of consumer redress and complaints handling for customers should be guaranteed.***

(a) Retail financial services

The situation of retail financial services provides a telling illustration of such issues. National authorities have traditionally imposed detailed information requirements and conditions on the manner in which financial service suppliers can market, negotiate and conclude contracts with consumers. While this approach is motivated by a desire to safeguard the interests of consumers (and indeed may for some areas such as insurance, be specifically authorised by directives), it may sometimes result in disproportionate obstacles to cross-border sales of financial services. Blanket enforcement of local consumer protection rules seems unjustifiable in the case of consumer acting in a professional capacity. Tax discrepancies further complicate the picture (such as in the case of complementary pensions, or in the case of life insurance where payments in respect of a policy purchased in another Member State are not necessarily deductible from income tax obligations in the country of residence).

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21 C.f. "*The follow-up to the Green Paper on commercial communication in the Internal Market*", COM (98) 121 final, and "*A European initiative in electronic commerce*", COM(97) 157 final.

22 However, whilst information can be cheaply and efficiently provided electronically, it must be acknowledged that customer traditions and reputational barriers may represent more enduring entry barriers.

In the insurance sector, this combination of legal and fiscal obstacles serves to fragment the Single Market for life and non-life insurance (figure B.8). In the banking sector, cross-border loans to non-banks averaged 4.6% in 1996 (figure B.9).[23]

➢ ***The Commission has tabled a detailed analysis of the extent and nature of obstacle to an integrated market for retail financial services[24] In the context of the recently instituted Financial Services Policy Group Member States and the Commission will examine pragmatic ways of providing consumers with access to competitive financial services on an EU-wide basis while upholding high levels of consumers protection. Concrete orientations for furthering these objectives (for example through creation of ombudsman networks to expedite settlements of cross-border litigation) will form an important part of a report to be forwarded to the Cologne European Council.***

(b) Integrated securities and derivatives markets:

There are currently 33 regulated (securities or derivatives) markets in the EU, policed by 18 different supervisory agencies. However, remaining technical and legal barriers drives a wedge between the prices of equity in different national markets. This degree of fragmentation of securities markets also entails heavy dynamic costs (the underdevelopment of some financing techniques, low levels of capitalisation of EU equity markets[25] and the difficulties individual, innovative and fast growing firms face in gaining access to flexible and competitive financing). These deficiencies have serious consequences. An exclusive dependence on debt-financing[26] can lead to over-indebtedness (a recent survey revealed that only 10% of small and medium-sized European companies were financed by equity) and result in the underdevelopment of the fledgling status of Europe's risk-capital markets for small listed companies[27] and the slow development of specialised exchanges for SMEs for companies which want to take the step of being listed on exchanges (although here the situation is changing more rapidly). There is also an increasing trend to escape funding constraints within Europe by raising capital on international and particularly US markets[28].

The emergence of a single money and a single government-debt market will underpin the emergence of integrated securities and equity markets as companies will now seek to list on the markets offering the most competitive terms. The markets themselves are alert to these

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23 The sizeable share of cross-border transactions in some countries (B, UK) probably reflects lending conditions in the home market and a more aggressive attitude to doing business overseas and suggests that cross-border banking is a commercial prospect in the single market.

24 Financial services: Building a framework for action, (COM(1998)625, 28.10.98

25 The capitalisation of the Italian equity market is 23% of GDP, Germany's 32% and France 41%. The UK (163%) and Netherlands (130%) are alone among EU countries with levels of stock market capitalisation similar to the US which reflects in part different national culture and traditions.

26 Reliance on debt financing as a proportion of corporate borrowing, reaches heights of 80% in Italy and runs at over 70% in Spain, France and Germany (compared to a figure of 20% in the US).

27 US venture capital funds mobilise over four times the level of funding for start-up companies which was raised by their EU counterparts: 3471 million euro versus 818 million euro in 1996 (and most of this in UK and NL). US venture . capital funds are also more successful in channelling this investment towards high-tech firms in their infancy.

28 The number of European companies listed with NYSE and NASDAQ has increased nearly fivefold since 1990 (250 companies on 1998 with a cumulative capitalisation of 300bn$).

changes and are seeking to accommodate these demands[29]. Existing EU legislation to allow investment service providers to trade across exchanges and to permit listing of stock on partner country markets is hampered by trading rules, supervisory practice, information requirements and corporate governance and as a result makes it very difficult for companies to raise equity finance on a pan-European basis.

Equity financing is also impeded by investment restrictions. In some Member States, institutional investors (eg : insurance companies and pension funds) are severely limited in the quantity of private securities in which they can invest and are forced *de facto* to invest massively in government bonds despite traditionally lower returns[30].

- ***As part of the Council's response to the Commission's Framework for Action, efforts are needed to encourage the emergence of an integrated platform which will permit EU-wide trading of securities on the basis of a single-listing (if the full benefits of the single currency are to be reaped). While market forces are driving change, there is a role for co-ordinated action at EU level to deal with technical bottlenecks and remaining legal obstacles. Closer collaboration among supervisory agencies, already underway, will be increasingly important.***
- ***The Commission will develop a clear statement of priority actions to complete a single financial market in full collaboration with the Financial Services Policy Group and will respond to the European Council's request to report back to the Köln European Council. In parallel, work will continue on a number of fronts. For example the Commission will issue a Communication making proposals for a prudential framework which will enable pension funds to take fully advantage of the euro-zone and ensure that the rights of future pensioners are appropriately protected.***
- ***Member States must also take the necessary arrangements to implement without delay the provisions of the risk capital action plan[31].***

D. Competition and liberalisation in key areas

- Ensuring free competition

The removal of non-tariff barriers does not in itself guarantee that economic integration leads to efficiency gains. Member States, producers, distributors and consumers must adjust to the new market conditions and not turn to practices aimed at counteracting the effects of Single Market measures.

(a) Vertical/horizontal integration

Production of goods and services has to be accompanied by a competitive distribution system if consumers are to benefit from competitive market price. Arrangements between producers and distributors in the manufacturing sector can also be used to maintain the segmentation of the market, excluding new entrants. With regard to motor vehicles,

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29 Witness recent efforts spearheaded by London and Frankfurt to pave the way for easy access to each others listings

30 For instance, German insurance companies and pension funds (« Pensionskassen ») can only hold 30% of their investment portfolio in equities. Studies show that over the period 1983 to 1997, in Germany, equities have outperformed bonds by 6.86 % (source : Pragma Consulting).

31 Risk-Capital: a key to job-creation in the EU, SEC 98 (552), 31.03.98

distribution and servicing are regulated by block exemption[32] according to which parallel imports cannot be limited. However, the Commission has had to deal with many complaints about obstacles to buying cars, in particular in Finland, Denmark and the Netherlands[33]. In these countries, dealers often refused to sell to non-residents or requested a price supplement, particularly in the case of UK residents seeking to purchase right-hand drive cars abroad. Other submissions concerned the termination of dealer contracts, notably in Germany. There is a need to examine whether the Regulation is respected in practice.

(b) State intervention

The liberalisation process has been accompanied by changing patterns in state intervention, either through state aids or ownership. Privatisation occurred particularly in those sectors that were still sheltered from competition in the early 1990s and subsequently liberalised. Direct state intervention in banking, either through ownership, credit guarantees or state aids, is also changing. Banks which are owned or strongly supported by the state (for instance mutual and co-operative banks) have traditionally played a very significant role in France, Italy, Germany and Spain amongst others. Nevertheless, direct State ownership of banks has been reduced in a number of countries such as Austria, Belgium, France, Italy and Portugal.

State aid expenditure remain one of the major sources of distortions within the Single Market. Even if the amount of approved State Aids has slightly declined since 1990, it still amounted to over bn 83 euro a year (1.4% of GDP) between 1994 and 1996. This figure nevertheless underestimates the reality as, for example, it does not include aid to the agricultural sector.

TABLE IV: TOTAL AMOUNT OF (NON-AGRICULTURAL) STATE AIDS (1995 PRICES)

(million euro)

	Manufacturing		Coal		Services		Total	
	1992-94	1994-96	1992-94	1994-96	1992-94	1994-96	1992-94	1994-96
Austria	-	448	-	0	-	656	-	1.104
Belgium	920	1.149	555	0	1.605	1.570	3.083	2.721
Denmark	539	671	0	0	606	527	1.162	1.207
Germany	19.851	16.639	9.309	5.734	10.796	11.649	39.976	34.039
Greece	722	662	0	0	253	316	976	978
Spain	1.311	2.101	1.179	1.004	2.017	1.857	4.601	5.024
Finland	-	365	-	0	-	48	-	416
France	4.931	3.740	2.449	758	6.805	8.225	14.218	12.755
Ireland	198	215	0	0	187	167	396	394
Italy	10.320	9.760	0	0	7.310	6.899	17.739	16.748
Lux	55	46	0	0	203	85	258	131
NL	694	686	0	0	1.091	1.336	1.827	2.062
Portugal	467	382	7	2	196	331	673	720
Sweden	-	318	-	0	-	1.079	-	1.404
UK	1.431	1.513	293	983	1.304	1.810	3.051	4.328
EU15	**41.439**	**38.695**	**13.792**	**8.481**	**32.375**	**36.555**	**87.961**	**84.032**

32 Regulation 1475/95

33 XXVIIth Report on Competition Policy (1997), SEC(1998) 636 final of 15.04.98.

Source: *5th and 6th survey on state aid in the European Union* COM(98)417 final and Commission services

Of the aid measures that focus on the manufacturing industry, about 50% comprises regional aid. However, a rather worrying trend has been the rapid increase of ad hoc state aids to individual enterprises during the 1990s, i.e. aids not covered by any authorised scheme and mainly intended to accompany restructuring. Because such aids are concentrated on a small number of firms often operating in oligopolistic markets, they represent a serious risk of distortion of competition. For instance, in financial services, state aids have been concentrated in one Member State, France; in coal, four Member States granted state aids; and in the air transport sector, state aids doubled from a yearly average of 660 million euro in the period 1992-94 to 1370 million euro in 1994-96. We should be careful that the 'one stop last stop' approach to air transport aid over the 94-96 period is fully respected in order to guard against any future distortions to competition.

➢ ***The Commission will remain particularly vigilant with regard to the strict and rigorous application of competition policy. Member States should consider the level and appropriateness of public intervention in market activities, by fixing precise objectives and a timetable for the reduction of overall aid budgets. Member States should also modify the structure of remaining state aids to redirect them away from ad hoc and sectoral aids and towards aids pursuing aims of common interest..***

- The liberalisation of the utilities sector

The degree of liberalisation in utilities varies significantly between sectors and Member States. In general, the degree of competition is highest in telecommunications and non-reserved postal services and much lower (often non-existent) in water and rail. Between these extremes are energy (electricity and gas), other transport services and reserved postal services. Broadly speaking, liberalisation is most advanced in the UK and the Nordic countries, and least advanced in Southern Europe for a series of reasons, including agreed derogation to EU legislation for some sectors.. Low price and high quality utilities are essential for the growth and competitiveness of European industries and for the standard of living of European consumers. Further efforts are required to allow them to reap the benefits of integrated and efficient utilities,

(a) Access to the network

Licensing can be carried out at Community level, as in transport, with the application of home country control, or at national level, as in the telecommunication sector. Both approaches appear to be functioning well. Although some concerns have been expressed with regard to the conditions surrounding the delivery of licences, a rapid increase in licensed operators has been experienced across a range of services in the telecommunications sector[34]. Some decrease in the market power of incumbents is beginning to emerge in the fixed market while an even more dramatic fall was experienced in the liberalised mobile market).

[34] At present, around 218 operators are authorised to provide national public voice telephony in the EU. As far as international voice services are concerned, 284 operators are authorised while a total of 77 national mobile licences have been granted. C.f. Figure B.10 in annex

Fair and non-discriminatory access and interconnection must also be guaranteed to all operators and service providers in the EU, especially in the early years of liberalisation, as incumbent operators are normally able to retain a certain degree of monopoly power. Careful monitoring will be needed during the phase of implementation of the electricity directive to ensure that the essential mechanisms for facilitating cross-border trade are put in place (such as cross-border tarification and payment mechanisms)[35]. In the telecommunication sector, interconnection charges in several Member States have dropped substantially. However, the deviation from the best practice charges proposed by the Commission in its Recommendation on interconnection charges is still significant (figure B.11).

Licensing rules and interconnection conditions may be insufficient to open up the market where physical access to the network is a precondition for providing the service. This is especially the case in transport. Slot allocation at peak hours in the vast majority of congested airports may still prevents new entrant from operating on competitive terms with the incumbent[36]. Rail transport is marked by very limited rights of access, low levels of technical interoperability, which means that intra-Community transport of goods by rail is still largely organised along national lines.

(b) The role of regulatory institutions

Some degree of regulatory oversight must accompany progress towards full liberalisation to deal with potential bottleneck problems or act as a dispute settlement mechanism. A variety of regulatory institutions and procedures are acceptable provided they refrain from arbitrary actions, especially the promotion of national interests. In the telecommunications sector, several concerns have been expressed about the functional independence of the National Regulatory Authorities (NRAs) from network operators and service/equipment providers. The Commission has therefore urged Member States to ensure that NRAs are fully resourced and equipped and have the necessary degree of independence from the incumbent.

(c) Universal service obligations

A major concern in the liberalisation of network markets has been the maintenance of a minimum set of services of specified quality (universal service). This is essential to ensure affordable access to everyone: all citizens must enjoy the benefits of market liberalisation in the form of higher quality services. In a Single Market framework, this requires a common framework of universal service obligations and a fair and correctly administered mechanism for sharing the net cost of these obligations amongst operators, as is proposed in the telecommunication sector[37]. Such considerations will play an important role in future negotiations on further market development in postal services and railways.

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35 The Commission will remain vigilant and address this issue in the next report on implementation of the electricity directive.

36 Incumbents have often more than 50% of the total number of slots in their respective hubs (and most peak hours slots) while the second biggest slot holder has a share between 5 and 10 per cent.

37 Such schemes for financing universal service have been set up in only a limited number of Member States. Concerns have nevertheless been expressed about the calculation of the amount of the contribution from market players.

> ***National reports indicate that liberalisation of utilities linked to the preservation of universal public obligations is still an area of continuing political commitment. The EU legislation provides the framework for full or partial liberalisation in the vast majority of those sectors. Member States should therefore endeavour to ensure that the opening up of formerly protected markets (e.g. rail transport) delivers tangible benefits for industrial users and final consumers in terms of lower prices and better quality services, without delay and unduly long transition periods. This implies, among others, a clear commitment to separate competitive activities from regulated utility networks, and to guarantee access to all market entrants on a transparent and non-discriminatory basis while respecting public service obligations.***

- Public Procurement

Although there is little comprehensive information to provide a true picture of the economic impact of public procurement policy, the EU's efforts to promote greater competition in this field are failing to meet initial expectations in a market worth well over euro 800 billion (11% of GDP) in 1997 (Figure B.12). The opening up of national public procurement markets to competition seeks to ensure value for money for taxpayers and efficient allocation of resources, thereby enhancing the quality of public services, and to improve economic growth, competitiveness and job creation.

The poor record in transposition of the directives is part of the problem. None of the Directives in question can yet be considered to have been fully and correctly implemented by all the Member States. Local preference and a reluctance to change suppliers continue to inhibit companies from serving a wider non-domestic market[38]. They believed that purchasers are still awarding contracts on the basis of criteria other than price and quality. Small firms, in particular, complain that their access to procurement markets is hindered by the lack of publication of calls for tender.

To improve the situation the Commission has recently proposed a series of measures and is committed to a programme of actions[39] including both legislative proposals to improve the legal framework and interpretative documents aiming to clarify existing rules. Moreover the Commission encourages collaboration in arrangements made by Member States to facilitate wider access to procurement opportunities, for instance through the introduction of fully fledged electronic procurement. This should enable the procurement process to take place more swiftly and will significantly reduce transaction costs.

The Commission will also identify key economic indicators, with a view to monitoring the economic impact of public procurement policy. The first results will be analysed in a report to be published next year. In this process, the Commission will also assess the adequacy of the current statistical reporting requirements.

> ***Given the potential benefits of open and transparent public procurement to the EU economy, the Commission calls for renewed commitment from the Member States to the current legal framework and support for its programme of actions, which will contribute to improve the efficient functioning of the public procurement market.***

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[38] The survey, conducted in September 1997 among more than 3500 business executives by an independent contractor on behalf of the European Commission, accompanies the Single Market Scoreboard

[39] Communication on Public Procurement in the EU. COM(98)143 final, of 11 March 1998.

E. Taxation.

The neutrality and efficiency required by an integrated Single Market are difficult to achieve in a market with 15, largely unco-ordinated taxation systems. The persistence of incompatibilities between national tax systems in some areas and of harmful tax measures gives rise to obstacles to trade and a certain level of fragmentation within the Single Market, hence a suboptimal allocation of resources. Moreover, the relevance of taxation policy to promoting employment in a context of increased capital mobility will accelerate the need for tax reform in the Union.

Taxation systems respond to historical and national policy options constraints. Differences in the level and structure of public expenditure are also reflected in the way taxation systems are designed. Furthermore, in a social market economy, market efficiency is not the sole criteria to be considered. In fact, at some stage, taxation systems have to counteract market failures or the pernicious effects of market mechanisms on social policies. Hence an increased co-ordination is required in order not only to avoid incompatibilities and market distortions but also to allow the effective freedom of movement while preserving the diversity of taxation systems in the EU.

Increased mobility of certain production factors such as capital has led Member States to increase the tax burden on relatively less mobile factors, labour in particular. Between 1980 and 1996 the average spread in the implicit tax rate on labour has increased considerably (table B.13). With the introduction of the euro and the corresponding increase in capital mobility, the risk of the pernicious effects of harmful tax competition on the tax structure will be even greater.

The implicit rate of taxation on consumption mainly through VAT and excise duties has remained broadly stable since the early 1990s. The VAT arrangements agreed in 1992 have required political decisions for some narrowing in VAT rates (figure B.14) across Member States. But the present system, largely based on the destination principle and special regimes, does not allow market forces to further reduce the divergences. Consequently, there remain major sources of concern for economic operators confronted as they still are with various specific and complex regimes. The difficulties faced in the handling of VAT procedures have been repeatedly confirmed by the different business surveys undertaken over recent years. This is also true for excise duties where wide differences between the highest and the lowest national rates for the same products (see section on motor vehicles) and the non taxation of certain competing products continue to distort the single market.

Tax competition may lead to tax measures which significantly affect, or may so affect the location of business activity within the Community and may then constitute harmful tax competition. This matter is currently being addressed by the Code of Conduct Group[40]. In order to assess the impact on the Single Market of existing differences in effective corporate taxation in the Community and the policy issues that such differences may give rise to, the Commission will undertake a study. The study will also highlight remaining tax obstacles to cross-border economic activity in the internal market. In effect, Member States' tax systems are in the main, still nationally oriented and may include discriminatory provisions which can restrict access by non-residents to domestic markets. Examples are the double taxation

40 C.f. in particular the conclusions of the ECOFIN Council of 1 December 1997 and the first annual report on the implementation of the code of conduct for business taxation and fiscal state aids – COM (1998) 595 final.

of cross-border income flows, the discrimination between the tax treatment of domestic and foreign-source income for companies (notably in the field of tax relief for dividends) and the tax obstacle to the transformation of national legal entities into local branches of a European legal entity. The adoption of the proposals concerning the European Company Statute, interest and royalties payment and the consolidation of losses would assist in overcoming the legal obstacles still preventing the emergence of integrated business units on an EU-wide scale.

Finally, with the disappearance of exchange risks, disparities in tax treatment of capital and financial transactions will increasingly emerge as a significant distortion on the allocation of resources. Such disparities, discussed above, concern mainly the tax treatment of capital income, harmful tax measures in favour of some financial tax centres, substantial variations between tax systems for life insurance and pension funds and varying regulations on the deductibility of interest. These influence both the provision of services on a cross-border basis and the localisation of financial intermediaries. Often, they also hamper the free movement of workers.

➢ ***The higher economic integration which will be triggered by the monetary union will increasingly lead to an increased interaction between national tax systems. Greater co-ordination at an EU level should allow a more efficient allocation of resources through a more healthy process of tax competition. It would simultaneously contribute to the smooth functioning of the Single Market and the employment and competitiveness strategy while respecting public finance objectives. Nevertheless, legislative action at the Community level remains necessary to achieve a VAT system based on a single place of taxation, to remove all remaining obstacles to cross-border business integration and to allow a real single market for financial services. Member States should attach, as a matter of urgency, the greatest priority to these issues within the Council.***

IV. CONCLUSION

A successful and properly functioning Single Market will underpin the success of Economic and Monetary Union. No longer able to adjust exchange rates and interest rates within the euro area, Member States need to ensure that their product and capital markets[41] are sufficiently flexible to absorb asymetric shocks. Equally, the single currency can be expected further to deepen the integration of national markets: the removal of the exchange risk and increased price transparency are likely to trigger a new flurry of cross-border activity similar to that which was observed after the implementation of the Single Market Programme in 1992.

While the present report focuses on product, service and capital markets within the Union, it is clear that the Single Market must be viewed in the context of the globalisation of the world economy. Any weaknesses in the Single Market that remain will carry with them efficiency losses for firms and consumers and reduce the capacity of markets to absorb shocks. Within their respective spheres of competence, the Community and the Member States must co-operate to maximise the benefits of open, flexible markets, while ensuring adequate protection for workers, consumers and the environment. A fully effective Single Market demands that commitment.

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41 And their labour markets, which fall outside the scope of this report.

While the Single Market may not yet have attained a degree of integration achieved by national markets, it has nevertheless reached a certain maturity. Thus the task is no longer one of "completing" the Single Market by a particular target date, but, for the foreseeable future, a task of management and development. It comprises four strands:

- monitoring market developments to identify areas in which adjustment may be required,
- enforcing the rules effectively;
- developing new policies to meet fresh challenges where necessary; and
- taking decisive action to deal with barriers within the Single Market and unnecessary constraints on economic activity.

Monitoring

In addition to the process of which the present report forms part, the Community has developed a number of instruments for monitoring the Single Market. These include the extended twice-yearly Single Market Scoreboards transparency mechanisms to assess national technical legislation and new legislation for information society services, and feedback from citizens and business (the Dialogue). Further monitoring of the progress made on structural reform over the years also implies a stepping up of the collection of relevant data and statistics, with the active support of Member States, as well as regular feedback on and stocktaking of the degree of efficiency and flexibility of both national and Community markets. Access to up-to-date information on market functioning is essential to the shaping of policy and business strategy.

Enforcement

Effective enforcement starts with the timely and correct implementation of Single Market directives in national law. But much more is required. Under the principle of subsidiarity, the Member States have primary responsibility for ensuring that Single Market rules are respected. Structural reform begins at home and must involve national administrations more closely in the daily application of Single Market rules. Steps have been taken under the Single Market Action Plan to strengthen co-operation between Member States on enforcement and problem solving. Member States must now commit themselves to ensuring that all levels of their administrations are fully aware of the Single Market dimension of their work and apply Single Market rules, as a matter of course, fairly and openly. The utilities sector provides examples where the success of liberalisation now depends essentially on effective enforcement by each Member State: the benefits of liberalisation could be negated by inefficient, discriminatory or restrictive application of the agreed rules.

Meeting new challenges

This report has identified certain areas where the existing framework should be improved. These include financial services, where the Framework for Action responds to the new challenges created by the introduction of the euro and the globalisation of capital markets; public procurement; and operation of the mutual recognition principle. The development of electronic commerce opens up new opportunities for transactions in goods and services, but urgently requires the clear legal framework recently proposed by the Commission for urgent adoption by the Parliament and Council.

Dismantling the remaining barriers

The report also identifies policy areas coming within national competence which deserve examination to ensure that they function in a way that optimises the benefits of the Single

Market. (For example, in the motor vehicle and pharmaceutical sectors, Member States might consider how national policies - on taxation and healthcare respectively – could be better reconciled with the integrating effect of Single Market harmonisation measures).Questions of taxation on a broader level will increasingly come to the fore as the integrating effects of the euro feed through. In the longer run, this requires extensive cooperation between Member States to help eliminate substantial tax obstacles to the optimum performance of an integrated Single Market. State aids is another area where Single Market disciplines have yet to be brought fully to bear.

In addition to the contribution that this report is intended to make to the Broad Economic Policy Guidelines, its findings will assist the Commission as it considers new medium-term priorities for the Single Market, following the successful implementation of the Single Market Action Plan. The Commission will give high priority to the development of such Single Market priorities in preparation for the Cologne European Council.

ANNEXES

FIGURE A.1: INTER/INTRA INDUSTRY TRADE (GRUBEL-LLOYD INDEX, 1970-97)

	1970	1980	1987	1995	1996	1997
Belgium-Luxembourg	0.69	0.76	0.77	0.77	0.80	0.81
Denmark	0.41	0.52	0.57	0.65	0.65	0.67
Germany	0.73	0.78	0.76	0.80	0.80	0.80
Greece	0.22	0.24	0.31	0.27	0.27	0.27
Spain	0.35	0.57	0.64	0.72	0.73	0.72
France	0.76	0.83	0.83	0.86	0.86	0.87
Ireland	0.36	0.61	0.62	0.53	0.53	0.53
Italy	0.63	0.55	0.57	0.61	0.61	0.60
Netherlands	0.67	0.73	0.76	0.61	0.60	0.61
Austria	:	:	:	0.71	0.71	0.75
Portugal	0.23	0.32	0.37	0.52	0.55	0.55
Finland	:	:	:	0.51	0.48	0.50
Sweden	:	:	:	0.69	0.69	0.70
UK	0.74	0.81	0.77	0.80	0.80	0.80

Source: Eurostat and Commission services

: = not available

The closer the indicator to one, the more a Member State's trade with its partners is intra-industry in nature, and so the more comparable their industrial structures.

FIGURE A.2: THE IMPORTANCE OF INTRA-EU TRADE IN SERVICES RELATIVE TO GDP (1992-96)

	1992	1993	1994	1995	1996	**1992-96**
Belgium-Lux	18.1%	18.4%	19.7%	16.6%	17.3%	**18.0%**
Denmark	:	:	:	:	:	**:**
Germany	4.7%	4.6%	4.5%	4.7%	4.9%	**4.7%**
Greece	:	9.0%	9.5%	8.4%	8.4%	**8.8%**
Spain	5.7%	7.5%	8.0%	8.0%	8.5%	**7.5%**
France	6.7%	6.4%	6.1%	4.8%	4.7%	**5.7%**
Ireland	:	:	:	:	:	**:**
Italy	5.2%	5.7%	5.7%	5.9%	5.8%	**5.7%**
Netherlands	15.1%	14.8%	14.7%	14.1%	14.3%	**14.6%**
Austria	16.3%	16.9%	16.1%	17.2%	18.2%	**17.0%**
Portugal	:	10.5%	10.4%	10.8%	10.7%	**10.6%**
Finland	:	7.4%	7.3%	8.1%	7.7%	**7.6%**
Sweden	:	:	:	:	:	**:**
UK	4.5%	4.7%	4.9%	5.2%	5.4%	**4.9%**

Source: Eurostat and Commission services.

: = not available

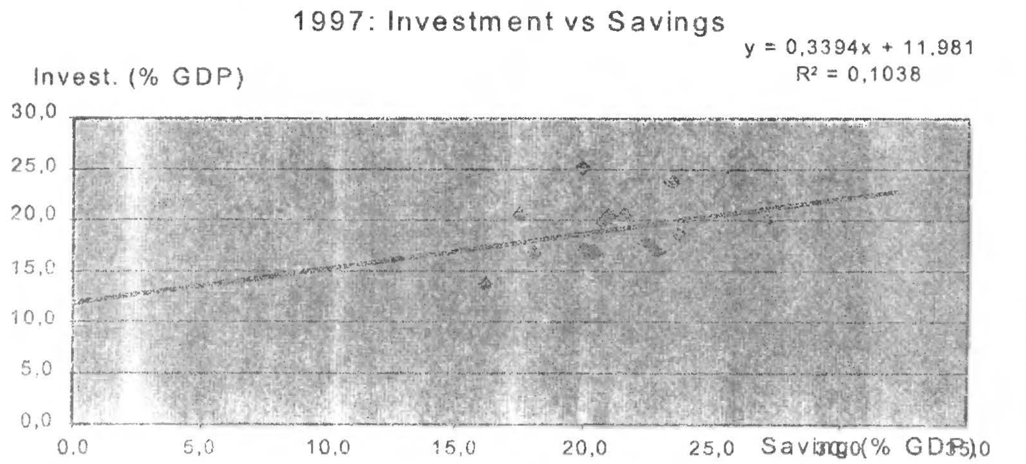
These figures should be treated with due caution as services data are relatively unreliable.

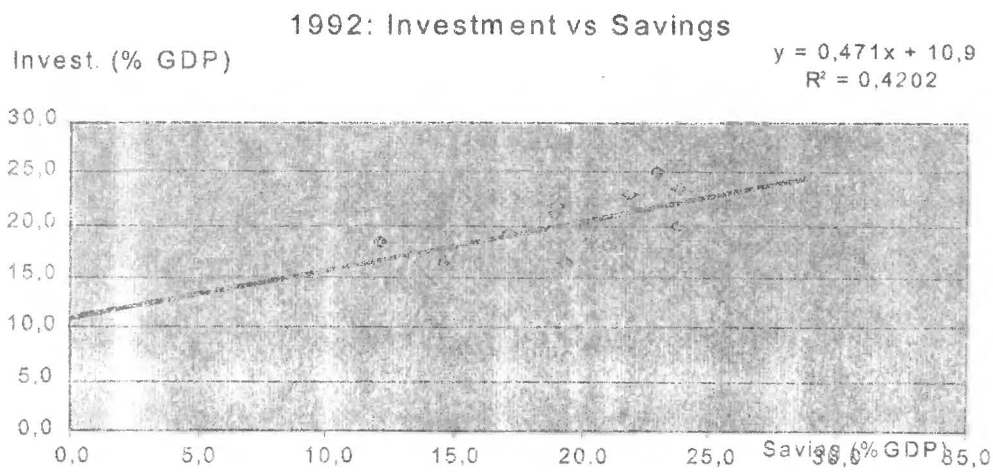
FIGURE A.3: THE SHARE OF MANUFACTURING AND SERVICES IN INTRA-EU FDI INFLOWS (1992-96)

	1992	1993	1994	1995	1996	1992-96
Manufacturing	**33.6%**	**30.7%**	**28.1%**	**28.4%**	**21.9%**	**28.2%**
Services	**65.6%**	**64.5%**	**65.7%**	**70.9%**	**71.3%**	**67.9%**
Financial intermediation	35.1%	27.1%	27.4%	23.5%	16.8%	25.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Eurostat and Commission services

FIGURES A.4: DOMESTIC INVESTMENT VERSUS DOMESTIC SAVINGS (1992-1997)





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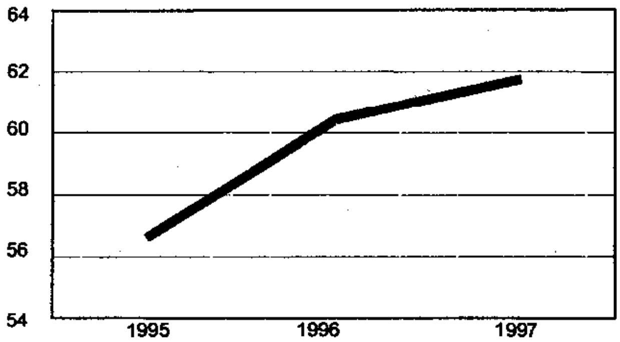
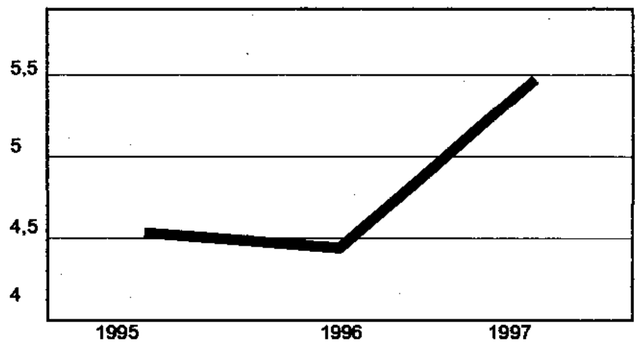
Source: Commission services
Each point represents a Member State.

FIGURE A.5: IMPORTANCE OF INTRA-EU FDI





Source: Eurostat and Commission services

FIGURE A.6: INTRA-EU FDI INFLOWS (1992-97)

	Intra-EU FDI IN Euro bn					Intra-EU FDI as % of GDP			
	1992	1995	1997	1992-97	1992-97 in % of total	1992	1995	1997	1992-97
Belgium-Lux	7633	5864	12172	**44246**	**13.7%**	4.2%	2.6%	5.3%	**3.5%**
Denmark	712	1788	649	**5529**	**1.7%**	0.6%	1.4%	0.5%	**0.7%**
Germany	7123	5876	9251	**39567**	**12.3%**	0.5%	0.3%	0.5%	**0.4%**
Greece	387	398	188	**1883**	**0.6%**	0.5%	0.5%	0.2%	**0.4%**
Spain	5020	2540	2770	**22393**	**7.0%**	1.1%	0.6%	0.6%	**0.9%**
France	6812	5445	8513	**38843**	**12.1%**	0.7%	0.5%	0.7%	**0.6%**
Ireland	1713	1934	914	**9473**	**2.9%**	4.3%	3.9%	1.4%	**3.2%**
Italy	3190	4128	4735	**22071**	**6.9%**	0.3%	0.5%	0.5%	**0.4%**
Netherlands	7673	12467	9566	**53801**	**16.7%**	3.1%	4.1%	3.0%	**3.1%**
Austria	325	1826	837	**6999**	**2.2%**	0.2%	1.0%	0.5%	**0.7%**
Portugal	1226	449	1268	**5452**	**1.7%**	1.7%	0.6%	1.5%	**1.2%**
Finland	270	599	776	**3135**	**1.0%**	0.3%	0.6%	0.7%	**0.6%**
Sweden	1223	1125	3026	**15656**	**4.9%**	0.6%	0.6%	1.5%	**1.4%**
UK	5957	9179	17396	**52878**	**16.4%**	0.7%	1.1%	1.5%	**1.0%**
EU-15	49264	53618	72061	**321926**	**100.0%**	**0.8%**	**0.8%**	**1.0%**	**0.8%**
EU-12						**0.9%**	**0.8%**	**1.0%**	**0.8%**
Large Member States *						0.6%	0.5%	0.7%	**0.6%**
Small Member States **						1.8%	2.0%	2.0%	**1.9%**

Source: Eurostat and Commission services

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*   Germany, France, Italy, the UK and Spain
**   All other Member States

FIGURE A.7: INDICATORS OF INTRA-EU LABOUR MOBILITY

	Annual Inflow non-national EU citizens			
	Absolute Number (1000s)			% Change
	1989	1993	1996	1989-96
Austria	:	:	:	:
Belgium	22,4	26,3	28,7	+27%
Den.	3,2	4,3	7,3	+126%
Finland	0,6	0,4	1,3	+120%
France	10	14,4	7,1	-29%
Germany	121,5	117,1	172,5	+41%
Greece	5,9	4	4,7	-21%
Ireland	:	:	13,3	:
Italy	6,7	:	11,3[2]	:
Lux.	6,9	7,1	6,9	+1%
NL	15	18,9	19,2	+21%
Portugal	:	1,7	2	:
Spain	6,5	4,1	5,1	-21%
Sweden	11,6	5,8	7,9	-31,6%
UK	29,4	22,4	51,8	+76%
EU	**233,4[1]**	**225,1[1]**	**311,1[1]**	**+33%[1]**

	Non-national EU labour force 1996	
	Absolute Number (1000s)	% of total labour force
Austria	42	1,3
Belgium	247	5,9
Den.	24	0,9
Finland	3	0,1
France	616	2,4
Germany	786	2,8
Greece	8	0,2
Ireland	42	2,9
Italy	12	0,1
Lux.	80	36,3
NL	124	1,8
Portugal	9	0,2
Spain	54	0,3
Sweden	88	2,1
UK	397	1,5
EU	**2532**	**1,7**

Source: OECD, Eurostat

: = not available

[1] Excluding Austria, Ireland, Italy and Portugal for due to lack of data and/or to ensure comparability

[2] 1995 figure

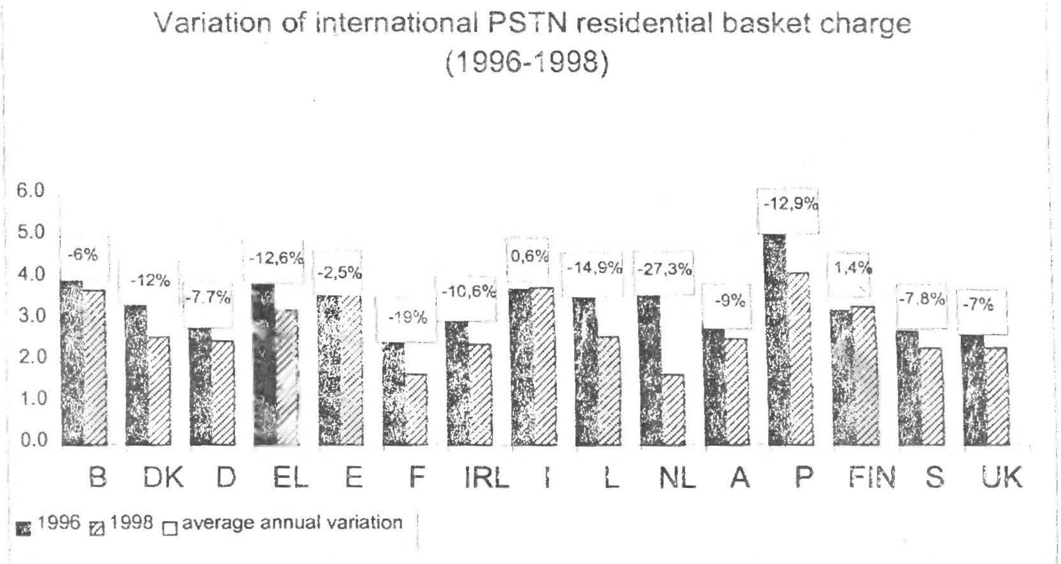
> This table does not cover other important categories of workers, which are internationally mobile: temporary workers (such as posted workers), cross border workers, as well as further unregistered labour flows.

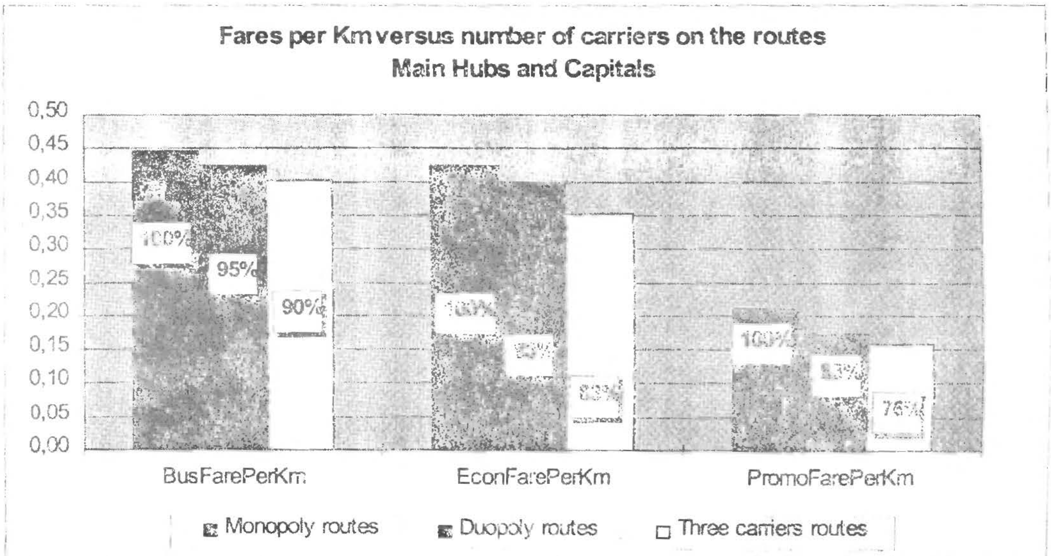
FIGURE A.8: NUMBER OF DIPLOMAS RECOGNISED IN EEA COUNTRIES (AS REPORTED TO THE EUROPEAN COMMISSION)

Profession	Period covered	Total Number	Main Host Member States and main figures	Main Member States of origin
Doctors	1995/96	18336	4645 UK, 3536 Belgium, 1486 France	UK, France, Spain
Nurses	1995/96	3598	1806 UK, 415 NL, 119 Belgium	Ireland, UK, NL
Dentists	1995/96	952	571 UK, 121 Spain, 26 Belgium	UK, Italy, Spain
Midwives	1995/96	324	107 UK, 85 Ireland, 78 NL	UK, Ireland, NL
Architects	1994/95	299	114 France, 88 Belgium, 27 Spain	UK, NL, Belgium
Veterinary Surgeons	1993/94	1988	774 UK, 374 France, 331 Belgium	Belgium, Ireland, Germany
Pharmacists	1993/94	708	309 UK, 133 Belgium, 123 Ireland	UK, Belgium, France
Teaching inc. higher education	1995/96	1544	903 UK, Spain 243, 141Germany	Spain, UK, Germany
Physiotherapy	1995/96	1015	413 France, 359 Germany, 77 Austria	NL, Belgium, Germany
Lawyers	1995/96	311	126 UK, 75 Germany, 29 Italy	Ireland, France, Spain
Others	1995/96	2345		

Source: Commission Services

FIGURE A.9: PRICES IN THE TELECOMMUNICATIONS AND AIR TRANSPORT SECTORS





Source: Commission Services

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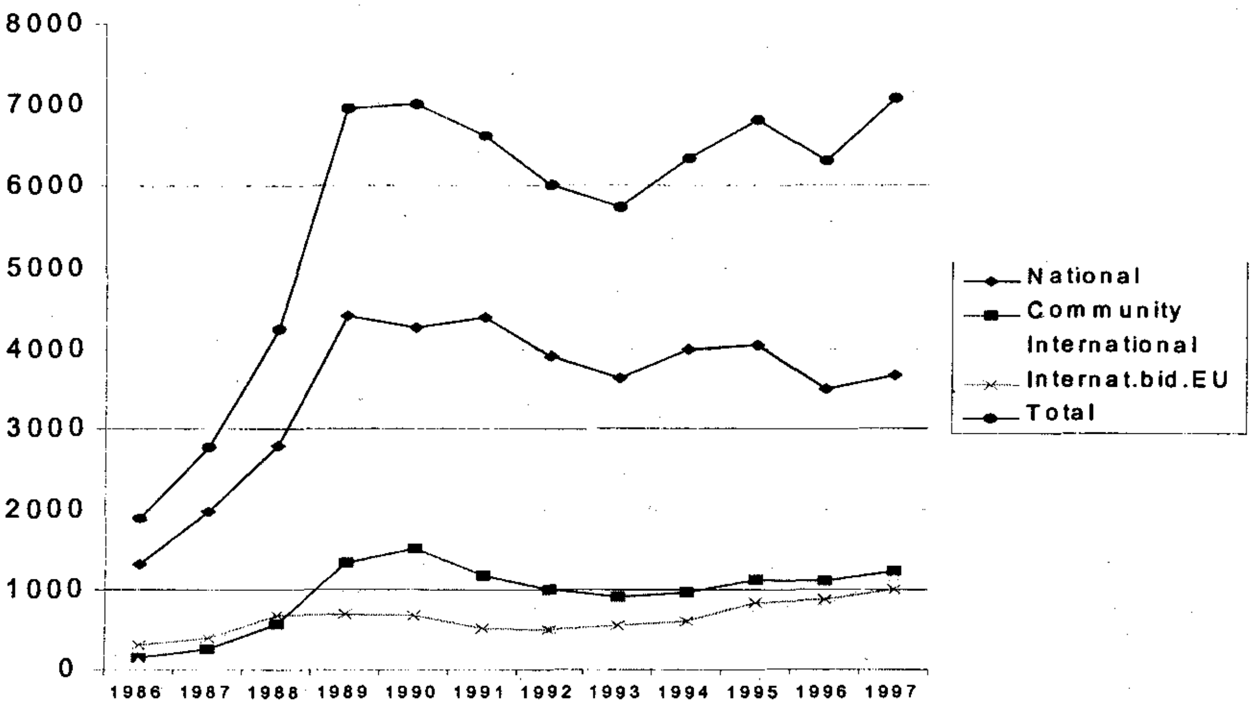
FIGURE A.10: NUMBER OF COMPLETED MERGERS INVOLVING EU FIRMS (1986-1997)



Source: Acquisitions Monthly
National: mergers between firms based in the same Member State
Community: firms of different Member States
International: EU firms acquired by non-EU firms
Internat. bid. EU: non-EU firms acquired by EU firms

FIGURE A.11: CROSS-BORDER MERGERS AND ACQUISITIONS INVOLVING EU FIRMS - PERCENTAGE SHARE BY MEMBER STATE AND RELATIVE TO SHARES OF EU GDP 1995-1998

	Target (acquired company) %	Bidder (acquirer) %	GDP as % of EU total (1996)
Belgium	4.4	3.3	3.1
Denmark	3.2	4.7	2.0
Germany	20.8	14.3	27.4
Greece	0.4	0.2	1.4
Spain	5.6	1.7	6.8
France	14.4	14.6	17.8
Ireland	1.3	3.3	0.8
Italy	7.5	3.2	14.1
Luxembourg	0.6	1.0	0.2
Netherlands	7.2	12.4	4.6
Austria	2.2	1.6	2.7
Portugal	1.1	0.4	1.3
Finland	3.8	3.1	1.5
Sweden	4.9	8.1	2.9
United Kingdom	22.6	28.4	13.4
EU	100	100	100

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Sources: Acquisitions Monthly and Eurostat

FIGURE A.12: NUMBER OF MERGERS AND ACQUISITIONS INVOLVING EU FIRMS IN BANKING (1987-NOV 1998)

	Domestic	Intra-EU	Non-EU bidder (target EU)	Non-EU target (bidder EU)	**Total**
1987-88	116	26	14	26	**182**
1989-90	464	95	31	48	**638**
1991-92	467	99	39	45	**650**
1993-94	401	71	24	56	**552**
1995-96	375	94	37	86	**592**
1997-Nov 1998	261	70	59	107	**497**

Source: Acquisitions Monthly

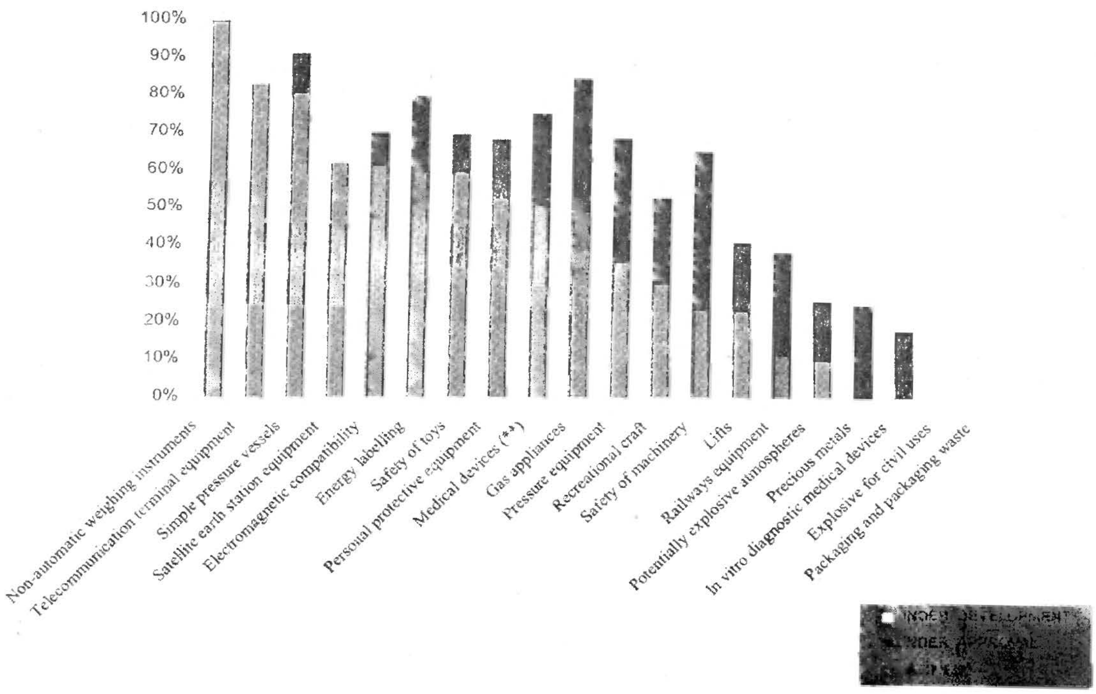
FIGURE B.1: INFRINGEMENT CASES FOR INCORRECT APPLICATION OF SINGLE MARKET RULES BY SECTOR AND MEMBER STATE (OPENED BETWEEN SEPT. 1997 AND SEPT 1998.)

	B	DK	D	E	EL	F	IRL	I	L	NL	A	P	FIN	S	UK	EU
Free movement of persons	4	2	4	5	4	8	1	5	1	2			2			**38**
Free movement of goods	4	2	8	19	7	35		8		9	1	5	3	3	3	**107**
Establishment and provision of services	4	1	3	1	3	6	1	10	1		2	1	1	1	1	**36**
Transport		1		1	1	2		3								**8**
Telecommunications					4			2				1	1			**8**
Taxation	1		3	1	3	10		4			5	2	3	2	2	**36**
Public Procurement	2		7	1	5	4	1	14		2	2		1	2	3	**44**
Intellectual and commercial property	1					1	1	1				1				**5**
Environment	5	1	6	2	3	2	3	2	3	1	1	4	1	1	4	**39**
Total	**21**	**7**	**31**	**30**	**30**	**68**	**7**	**49**	**5**	**14**	**11**	**14**	**12**	**9**	**13**	**321**

Source: Commission services

The figure should be interpreted with caution when used as an indicator of the functioning of the Single Market; although 5 Member States account for 65% of proceedings, this to an extent can be accounted for by volume of economic activity, especially levels of intra-EU trade. It also reflects the propensity to the use the system of redress and other such behavioural factors.

FIGURE B.2 PROGRESS OF STANDARDISATION ACTIVITIES IN THE FRAMEWORK OF THE "NEW APPROACH" *



Source: *Efficiency and accountability in European Standardisation under the New Approach* COM(98)291
* excluding construction products. Most standardisation mandates have been forwarded to CEN; a full standardisation programme is still under development.

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** including active implantable medical devices.

FIGURE B.3: PRODUCTION OF MANDATED STANDARDS (JUNE 1997)

	Mandated	Ratified	Pending Approval	In preparation
CEN total	2182	633	847	702
CENELEC total	231	103	33	95
ETSI	143	86	29	28
Public Procurement	349	92	172	85
TOTAL	**2905**	**914**	**1081**	**910**

Source: Commission Services

Standardisation work under the "New Approach" accounts for less than 30% of European standardisation, the major part is market driven by economic operators and other interested parties.

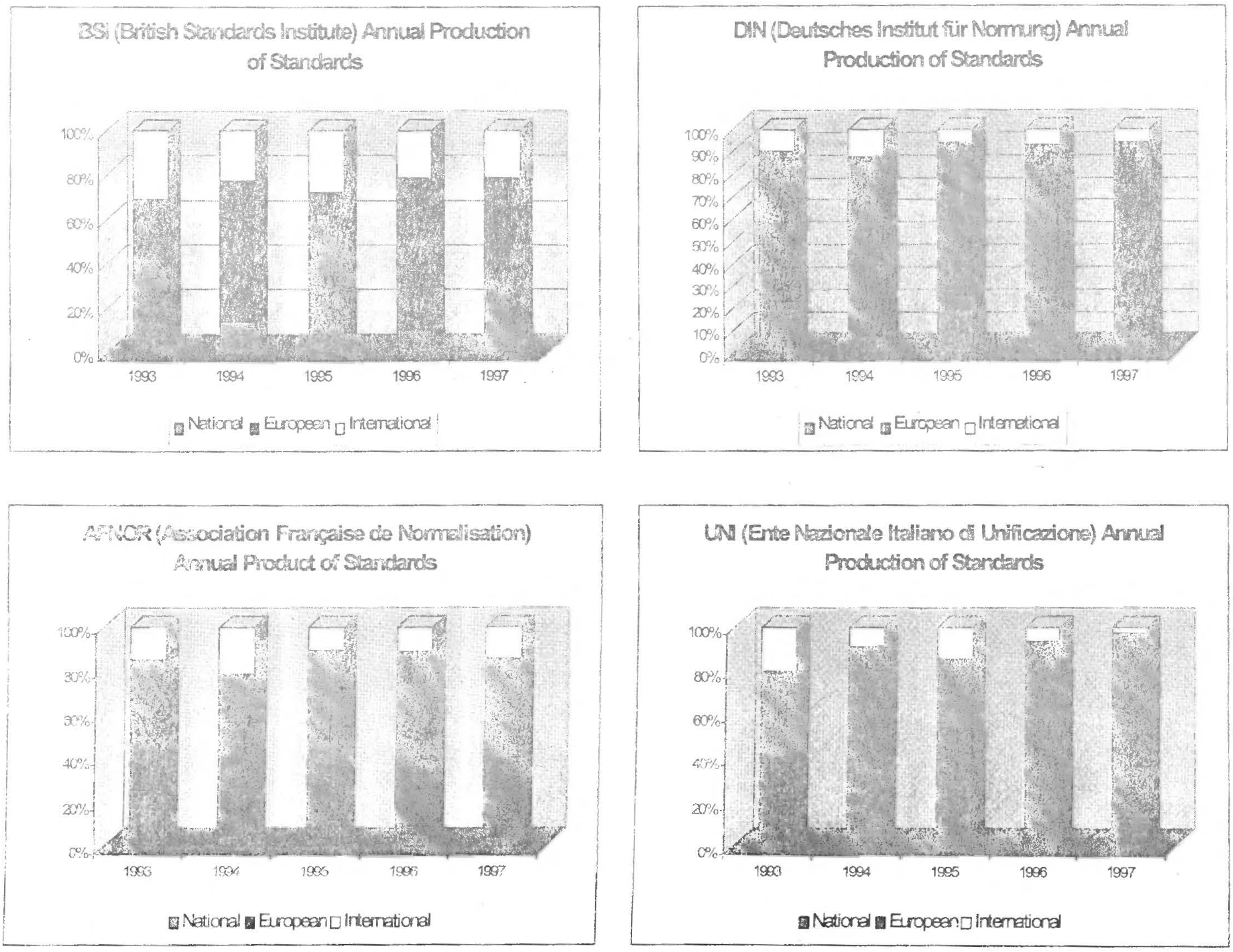
FIGURE B.4: NUMBER OF ACCREDITED BODIES IN EU COUNTRIES (OCT. 1998)

	Calibration Laboratories	Testing Laboratories	Inspection Bodies	Certification of products	Certification of quality systems	Certification of personnel
Belgium	13	112	11	2	23	0
Denmark	59	130	28	6	6	2
Germany	212	948	2	49	204	24
Spain	60	123	22	0	8	2
Finland	32	138	10	3	6	1
France	294	598	61	37	9	4
Ireland	16	63	0	0	2	0
Italy	86	192	1	13	34	4
NL	72	177	42	47	93	8
Portugal	32	165	173	32	165	173
Sweden	97	448	1937	10	11	13
UK	640	1473	72	17	58	3

Source: EUROLAB France, October 1998.

The table shows that there is a good range of notified bodies available in the Member States and also how notifications reflect the industrial infrastructure of a Member State: if a Member State has an important presence in a given sector it is more likely to have notified bodies in that sector.

FIGURES B.5: ACTIVITIES OF NATIONAL STANDARDISATION BODIES



Source: CEN

The figure demonstrates the steady increase in concentration by standardisation bodies on work on European standards.

FIGURE B.6: PRE-TAX CAR PRICE DIFFERENTIALS IN THE EU (MAY 1995-NOV 1998)

	May 1995	November 1996	November 1998
Largest price difference between two Member States (as % of the lower price)	147,9% (Fiesta)	137,8% (Corsa)	136,6% (Mondeo)
Model with the minimum price dispersion across Member States*	7,2% (Laguna)	4,6% (BMW 316i)	5,1% (Corsa)
Model with the greatest price dispersion across Member States*	12,8% (Fiesta)	10,4% (Corsa)	10,1% (Fiesta)
Average price dispersion for all the models sampled across Member States*	10,2%	7,1%	7,2%

Source: Services of the European Commission
Sample of 15 models for 12 Member States (excluding countries with the highest automobile taxation)
*Price dispersion as measured by standard deviation

Figure B.7: Automobile taxation

Tax instruments available include:

- Registration taxes (payable at the time of acquisition or first putting into service of a vehicle) are charged according to various criteria, such as engine capacity, horsepower, fuel type, region of registration etc. The levels imposed in different Member States ranges currently between 0-200% of the car price excluding taxes.
- An annual circulation tax (payable in connection with use of the vehicle) is levied in all Member States on both passenger cars and commercial vehicles. Their levels vary considerably. For example the amount of circulation tax due on a large petrol driven car of 2300cc in motor size ranges from just below 100 to 1000 euro per year. Most Member States apply systems where cars with higher average fuel consumption face higher circulation tax rates.
- Motor fuel is subject to a number of different taxes, including VAT, excise duties, storage and security levies, and environmental taxes. Leaded petrol is subject to a higher excise duty than unleaded petrol and the tax rate on diesel is normally lower than on petrol. Rates currently applied vary from 331 to 639 euro per 1000 litres on unleaded petrol and from 247 to 653 euro per 1000 litres on diesel.

FIGURE B.8: EU CROSS-BORDER PROVISION OF SERVICES IN THE INSURANCE SECTOR (1996)

	Life insurance (% of total Gross premiums written)		Non-life insurance (% of total Gross premiums written)	
Home country for supervision	Provision of services through branches established abroad	Free provision of services across borders	Provision of services through branches established abroad	Free provision of services across borders
Belgium	2.08	0.04	34.21	4.13
Austria	:	:	:	:
Denmark	:	0.14	0.26	0.39
Germany	0	.05	0.72	0.13
Greece	:	:	:	:
Spain	2.96	0	1.22	0
Finland	:	:	0.19	0.28
France	0.14	0.01	1.92	0.10
Ireland	3.61	:	7.82	14.75
Italy	1.65	0.01	4.56	0.56
Luxembourg	0	88.15	1.19	12.19
Netherlands	2.49	0	1.36	.23
Portugal	:	:	:	:
Sweden	:	:	:	:
UK	:	:	:	:

Source: Eurostat

Absence of cross-border business in life insurance can largely be attributed to fact that tax deductibility is restricted to insurance policies purchased locally. The notable exception is Luxembourg where the very substantial volume of life insurance conducted cross-border is, in fact, investment business where tax relief loss is not significant.

FIGURE B.9: INTERNATIONAL CROSS-BORDER BANKING PENETRATION (1996-97) (bn $)

	1996 loans to non-banks			1997 loans to non banks	
	Domestic credit	Cross-border assets	Cross border as % of total	Cross-border assets	% change 1997/1996
Austria	255.6	6.0	2.3	7.2	20.0
Belgium	365.1	39.8	9.8	44.0	10.6
France	2,074.1	72.6	3.4	85.1	17.2
Germany	3,075.5	79.8	2.5	102.6	28.6
Italy	930.8	34.6	3.6	28.8	-16.8
Netherlands	467.6	30.3	6.1	31.3	3.3
Spain	661.6	10.7	1.6	11.5	7.5
Switzerland	494.2	25.7	4.9	28.4	10.5
UK	1,324.3	145.1	9.9	151.4	4.3
	1996 liabilities to non-banks			1997 liabilities to non-banks	
	Domestic money	Cross-border liabilities	Cross-border as % of total	Cross-border liabilities	% change 1997/1996
Austria	177.5	5.5	3.0	5.1	-7.3
Belgium	222.1	32.4	12.7	34.5	6.5
France	997.5	28.2	2.7	25.8	-8.5
Germany	1,355.3	98.5	6.8	103.2	4.8
Italy	565.3	10.3	1.8	13.0	26.2
Netherlands	295.4	31.3	9.6	25.3	-19.2
Spain	563.4	18.4	3.2	16.3	-11.4
Switzerland	337.6	79.6	19.1	79.6	0.0
UK	1,099.9	128.4	10.5	132.7	3.3

Source: Bank of International Settlements

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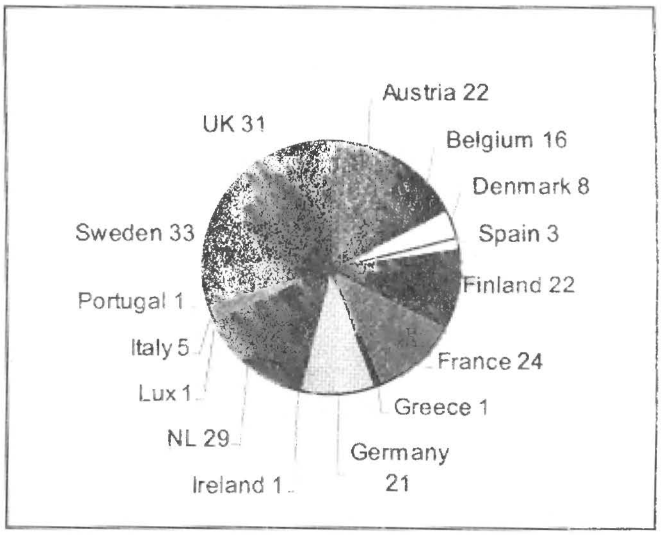
Intra-EU data is not available, so these figures are indicative only of a hypothetical ceiling for intra-EU banking activities.

FIGURE B.10: NUMBER OF OPERATORS AND INCUMBENT MARKET SHARE IN EU TELECOMMUNICATIONS MARKET

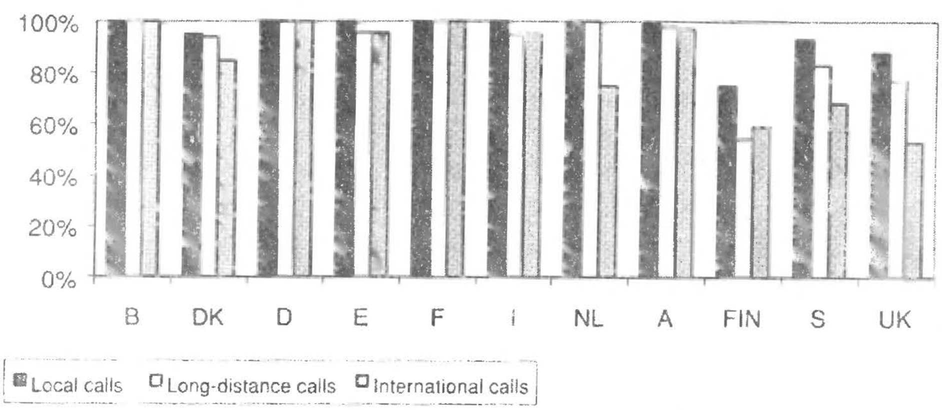
Source: *Fourth Report on the Implementation of the Telecommunications Regulatory Package* COM(98)594

a. Number of operators authorised to offer national public voice telephony (August 1998)



Total EU: 218

b. Incumbent's market share for fixed voice telephony (estimate 1997-98)



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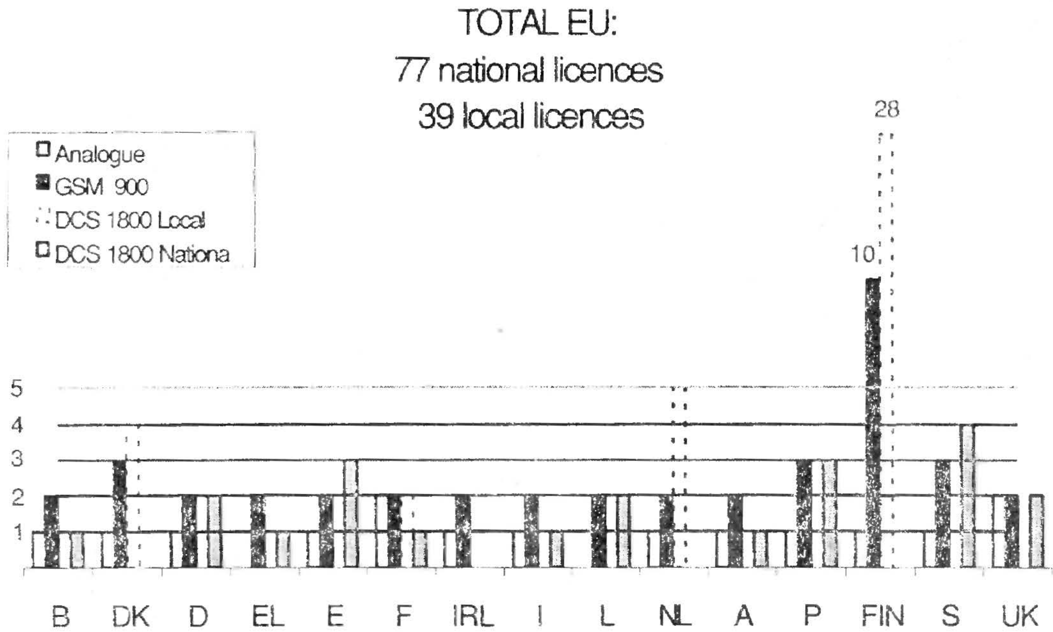
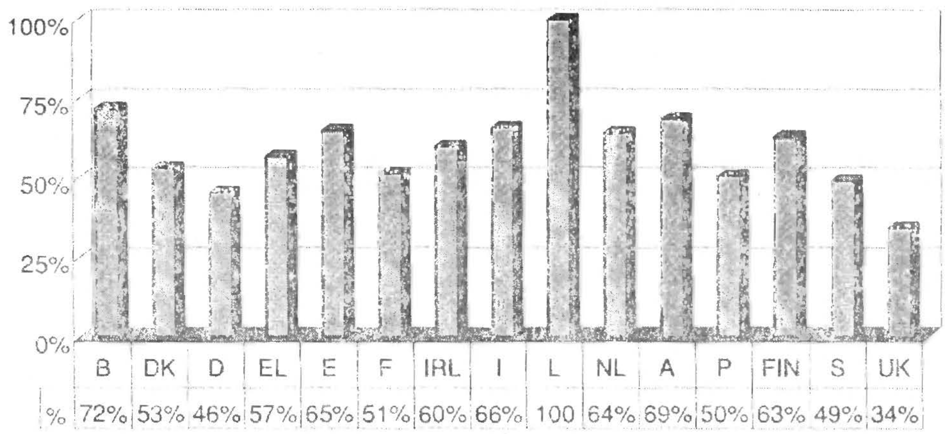
c. Number of mobile licences granted (August 1998)



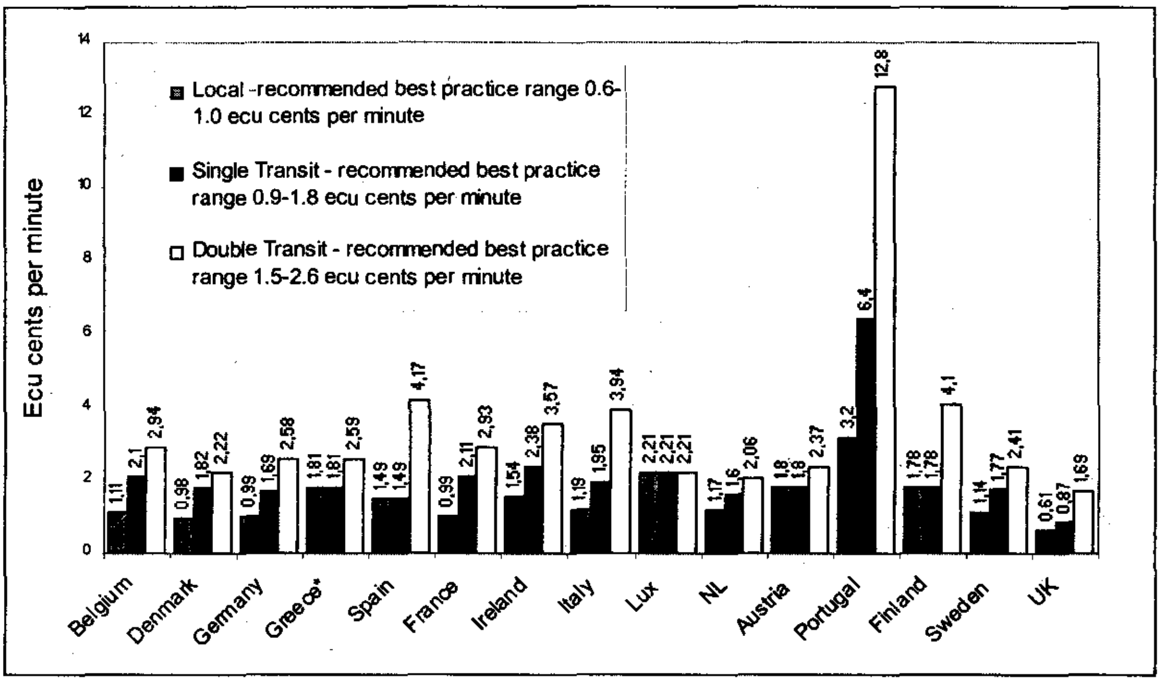
The number of mobile licences granted may not coincide with the number of mobile operators, since in many cases the same operator has been granted more than one type of licence.

d. Digital mobile market share for leading operators (August 1998)



Digital mobile market includes both GSM and DCS1800. Apart from Germany, Greece and the United Kingdom, the leading mobile market operator is a subsidiary of the incumbent fixed operator.

FIGURE B.11: INTERCONNECTION RATE FOR CALL TERMINATION IN THE EU15 (SEPT 1998)



Source: *Fourth Report on the Implementation of the Telecommunications Regulatory Package* COM(98)594
* Greek data refers to mobile-to-fixed interconnection

FIGURE B.12: ESTIMATED SIZE OF PUBLIC PROCUREMENT MARKET IN EU AND NOTICES ISSUED (1993-97)

	Total Procurement euro bn[1]	All notices	Tender notices	Award notices
1993	688	67192	39397	21118
1994	722	96370	56180	31046
1995	750	127770	77310	38855
1996	789	140576	81216	46598
1997	831	155185	87757	53377

Source: Commission Services
[1] Based on calculations by Commission services from available data

The number of calls for tender published in the supplement to the Official Journal of the European Communities has more than doubled between 1993-97. The subsequent publication of award notices have also increased, by more than two and a half times in the same period, although award notices are still only submitted for about 60% of published tenders.

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Figure B.13: Implicit tax rate within the EU (1980-96)

		1980 EU-9	1990 EU-9	1990 EU-12	1996 EU-9	1996 EU-12	1996 EU-15
Consumption	Implicit rate	**13.5**	13.9	**13.8**	14.3	14.2	**14.4**
	Standard deviation	**15.0**	14.2	**12.7**	14.3	12.9	**11.8**
Labour	Implicit rate	**34.9**	38.0	**37.7**	42.0	41.8	**42.6**
	Standard deviation	**13.3**	17.1	**16.3**	19.0	15.6	**15.0**
Other factors	Implicit rate	**42.1**	38.3	**36.3**	37.6	35.2	**35.6**
	Standard deviation	**27.6**	21.4	**29.3**	14.2	29.2	**27.8**

Source: Commission Services

The figures are weighted by national share in GDP. Due to the difficulty in comparing national accounts the table is drawn up at high degree of aggregation. The category "other factors" covers capital in its broadest sense (such as financial capital, energy and land). Thus mobile and less mobile factors are combined. However, comparing the lines on taxation on consumption (VAT, excise duties) and labour, a relatively low and stable rate of taxation applied to consumption (consisting to a large degree of tradables, such as goods) is observable, whilst on labour, which is less mobile, the trend is upwards.

Figure B.14: Variation of VAT rates within the EU (1992 and 1998)

	All VAT rates min-max across EU15	Spread	Normal VAT rates Min-max across EU15	Spread
1992	1% → 38%	37	13% → 30%	17
1998	1% → 25%	24	15% → 25%	10

Source: Commission Services

Between 1992-1998 VAT rates have tended to converge; the standard rates, which are applied on the production of the most of the goods and services liable for VAT, now display a spread of 10 percentage points between the highest and the lowest rates in the EU.

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