

## Briefing Paper: The Single Market

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With reference to the European Union (Amendment) Bill Debates – House of Commons

### Brief history

The Treaty of Rome (1957) set out the 'four freedoms' that should characterise the internal market – or 'Single Market'. They were:

- The free movement of goods.
- The freedom to provide services.
- The free movement of persons (including the freedom of establishment, the right to practise a trade or profession).
- The free movement of capital.

Though the Rome Treaty provided for the removal of tariff barriers to the internal market, many non-tariff barriers remained. The Single European Act (SEA) (1986) sought to remove these, considerable, non-tariff barriers.

By the Lisbon Summit (March 2000) it was, however, clear that there were still problems with the functioning of the Single market. These problems fell into three groups:

- EU member states' failure to respect Single Market rules. This is a perennial problem.
- The market was not 'complete' – for example in the areas of telecoms, energy, financial services and general services (not elsewhere included). Since Lisbon, there

has undoubtedly been some progress towards a single market in these areas. But problems remain in, for example, the area of energy policy where attempts to reform Europe's energy market seem to be losing out to protectionism. In addition, the Services Directive was only passed in 2006 after the original proposals to open markets were diluted at French, protectionist, insistence.

- The market was over-regulated and the regulations were costly, which will be discussed next.

### **Costs and benefits of the Single Market**

The Single Market has always tended to promise more in terms of benefits than it has actually delivered. The Cecchini Report<sup>1</sup>, for example, claimed that the internal market would add around 5% to the GDP of the European Community's member states, reduce prices by 6%, raise growth by 4-7% and create several million extra jobs ("in the space of a few years"). This ambition was, not only, not achieved. A period of relatively poor growth and high unemployment followed.

Current estimates of the costs and benefits of the Single Market are available from Commission sources. Günter Verheugen (Vice-President of the European Commission, responsible for enterprise and industry) has put the cost of complying with EU regulations at as much as €600 billion a year.<sup>2</sup> This is equivalent to 5.5% of EU GDP – the size of the Dutch economy.

Meanwhile the benefits are much lower than the costs. According to the Commission's up-to-the-minute website:<sup>3</sup>

*"Over the last 15 years the Single Market has increased the EU's prosperity by 2.15% of GDP. In 2006 alone this meant an overall increase of €240 billion - or €518 for every EU citizen - compared to a situation without the Single Market."*

The Treasury/DTI quoted a slightly lower figure, which was an earlier Commission estimate. They stated that,

*"...the Single Market has created an additional 2.5 million jobs across the European Union and boosted prosperity by €225bn in 2006."<sup>4</sup>*

But whether the latest Commission figure is taken or the Treasury's figure from last year, it is clear that the costs vastly outweigh the benefits by a factor of about 2 ½ to 1.

As Ruth Lea, Director of Global Vision, has said in oral evidence to the House of Lords' *Inquiry into the European Commission's Review of the Single Market*:<sup>5</sup>

*"Really my main point is that we have got to a point here where the costs of regulations vastly outweigh the benefits, according to Commission figures. Can this be right? The answer to that for me is 'No'."*

## Costs and benefits: the Financial Services Action Plan

The very extensive Financial Services Action Plan (FSAP, intended to open up the Single Market in Financial Services) is one specific set of measures that is proving costly to implement, without any guarantee of the benefits outweighing the costs for the UK. According to an estimate by Open Europe, the Plan could cost the British economy at least £14bn to implement by 2010. But there has been no comprehensive cost-benefit analysis on its potential benefits.

As Ruth Lea, Director of Global Vision, has written in the *Daily Telegraph*:<sup>7</sup>

*“The FSAP is monumental and comprehensive. It covers both the retail sector and the global wholesale markets, which are crucially important for London. It comprises 42 detailed measures. Frankly, it is a monster.”*

## The Single Market: the current state of play

The Single Market’s problems identified at Lisbon (2000) have not gone away. One of the most useful documents analysing the current state of play is the (aforementioned) paper by the Treasury/DTI, which was their response to the Commission’s recent Review of the Single Market.<sup>8</sup>

The Treasury’s conclusions were:

- For Europe to rise to the new challenges and benefit from globalisation, it needed to adopt a new, modern and more flexible approach to the Single Market.
- The tradition model for the Single Market – one that seeks to achieve integration through legislation and harmonisation of rules – needed to be rethought.
- In an era of dramatic change, the Single Market would never be ‘complete’.
- The EU needed to move on from the old approach based on legislation, regulation and ‘gap-filling’ and prioritise action in those areas where the economic benefits were greatest.
- The EU needed to embrace a wider range of policy tools, including **more pro-active use of competition policy**, central to achieving a well-functioning Single Market. (Global Vision’s bolding.)
- Where there was a need for further regulation, better regulation principles were needed which should be risk-based. There should also be a greater use of more flexible forms of regulation and lighter-touch alternatives.

Suffice to say the Commission’s conclusions to its own review of the Single Market were vapid. Rather than getting to grips with the need, for example, for a more effective competition policy and/or greater flexibility it talked in vague tones about “empowering customers” and “promoting the quality of social services across the EU” etc.<sup>9</sup>

## The retreat from competition

But of more profound, negative, significance to the future success of the Single Market is the transfer of “free and undistorted competition” from the list of the EU’s key objectives into a protocol, at French insistence, in the Lisbon Treaty.<sup>10</sup> As the Treasury has correctly pointed out (see above), the EU should be looking to a pro-active use of competition policy to improve the functioning of the Single Market. The Lisbon Treaty is therefore a major retrograde step.

One particularly vocal critic of the removal of the competition principle from the Treaty proper into a protocol is Alan Riley, Professor of Law at the City University. In a paper for the Centre for European Policy Studies (CEPS) he said:<sup>11</sup>

- “...far from being a minor technical adjustment... there is a real danger that in future EC competition law will be cribbed, crabbed and confined”.
- “...if the competition principle is not restored to its position as one of the key interpretative articles of the Treaty, the development of competition law and the competitiveness of the EU will suffer.”

The downgrading of competition tends to go hand in hand with the protectionism which is all too often the default mode in the EU. Mention was made in the ‘Brief history’ section (above) to the protectionist barriers to the true development of a Single Market in energy and the protectionist dilution of the Services Directive. The Common Agricultural Policy (CAP) remains, of course, one of the most shameful protectionist policies of them all.

## Single Market: additional points

Firstly, the EU has plans for a ‘single market’ in *healthcare*. The EU’s proposals state that EU citizens should be entitled to healthcare anywhere in the EU if the treatment is allowed in their own member state. The proposals are partly in response to an ECJ ruling (2006), which stipulated that patients should be reimbursed for receiving care abroad if there were “undue delays” in getting treatment in their own country.<sup>12</sup>

Secondly, many *businesses* find the regulations associated with the Single Market burdensome and believe they outweigh the benefits. For example, according to an Open Europe poll of 1,000 Chief Executives (September 2006):<sup>13</sup>

- 52% of respondents thought that the EU was “failing”.
- 54% thought that EU over-regulation “outweighed” the benefits of the Single Market.
- 60% thought that the UK should renegotiate to reduce its involvement in the EU to one of free trade only.

Thirdly, the *euro’s* impact on trade within the Single Market seems to be negligible and the UK is losing few benefits, if any, by staying out of the euro. For example, the Centre for Economic Policy Research (CEPR) found that the UK and the other two ‘out countries’ (Sweden and

Denmark) had not suffered any significant loss of trade into the eurozone since 1999. Furthermore, trade creation among the eurozone countries had been modest. The CEPR concluded that the exports of the 'out countries' would experience only "very small effects" if they joined the euro.<sup>14</sup> And a report from the Conseil d'Analyse Economique concluded that "...no sudden burst in the trade of goods and services has been observed...since the euro was introduced in 1999."<sup>15</sup>

## References

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