European Commission

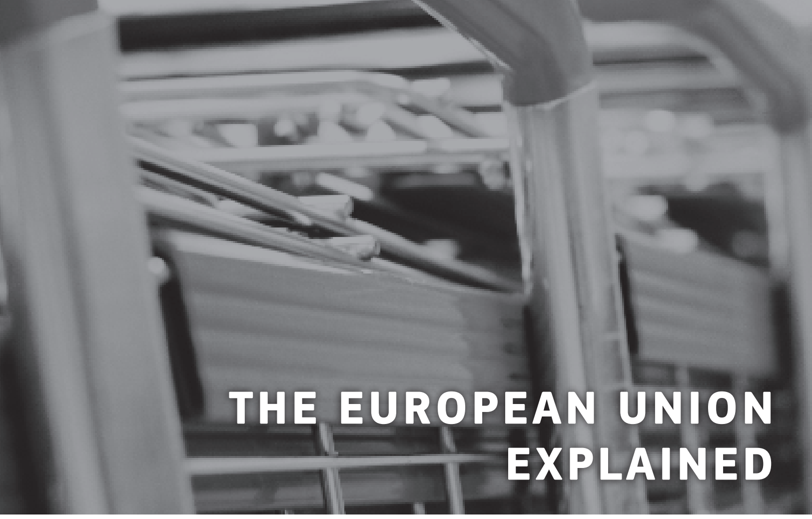
THE EUROPEAN UNION EXPLAINED

Internal market

From crisis to opportunity — putting citizens and companies on the path to prosperity

'A better functioning internal market is a key ingredient for European growth.'

Michel Barnier,
European Commissioner for
Internal Market and Services



THE EUROPEAN UNION EXPLAINED

This publication is a part of a series that explains what the EU does in different policy areas, why the EU is involved and what the results are.

You can see online which ones are available and download them at:
http://europa.eu/pol/index_en.htm

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The European Union explained: Internal market

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Why we need an internal market

The European internal market, also referred to as the single market, allows people and businesses to move and trade freely across the 28-nation group. In practice, it gives individuals the right to earn a living, study or retire in another EU country. It also gives consumers a wider choice of items to buy at competitive prices, allows them to enjoy greater protection when shopping at home, abroad or online and makes it easier and cheaper for companies large and small to do business across borders and to compete globally.

The four freedoms

The cornerstones of the single market are the free movement of people, goods, services and capital, known collectively as the 'four freedoms', which are enshrined in the EU Treaty. The same treaty empowers EU institutions to adopt laws (in the form of regulations, directives and decisions) which take precedence over national law and are binding on national authorities. The European Commission plays an important role in proposing EU legislation, upholding the EU treaties and ensuring that EU law is properly applied throughout the EU — by individuals, national authorities and other EU institutions.

A single currency to boost the single market

A market works better when everyone uses the same money. The first step towards a shared currency occurred on 1 January 1999 with the creation of the euro. Exactly 3 years later, euro notes and coins came into circulation. Today the euro is used by consumers and businesses in 17 member countries, known collectively as the euro area. The euro has proven resilient during the sovereign-debt crisis, retaining its purchasing power as the EU has come to the aid of high-debt countries. It is also widely used in international payments and is one of the world's major currencies, alongside the US dollar and the Japanese yen. At the beginning of 2014, Latvia will become the 18th country to adopt the euro.

An ever-growing single market

During its 20-plus years of existence, the single market has grown from 345 million consumers in 1992 to over 500 million today. Cross-border trade between EU countries has also grown from €800 billion in 1992 to €2.8 trillion in 2011 in terms of the value of goods exchanged. During the same time period, trade between the EU and the rest of the world tripled, from €500 billion in 1992 to €1.5 trillion in 2011.

Single market snapshot: facts and figures

- *Largest GDP of any economy in the world*
- *500 million consumers, 20 million SMEs*
- *28 member countries*
- *Symbol of European integration*
- *Largest global exporter and importer of food and feed*
- *7 % of the world's population*
- *20 % of global exports and imports*

The EU single market gives consumers a wider choice of items to buy at competitive prices when shopping at home, abroad or online.

An evolving policy

The Single European Act of 1987 was the first major revision of the 1950s' Treaty of Rome, which created what later evolved into the European Union. The overriding goal of the act was to add momentum to the European integration and the common market that already existed. The act amended the rules governing the operation of the European institutions and expanded their powers in certain fields. On this basis, the EU leaders agreed a famous plan with a timetable for a number of new rules in order to 'complete the single market'. This succeeded and on 1 January 1993, the single market became a reality for the then 12 Member States.

Today, the single market comprises 28 countries. Through agreements between the EU and Iceland, Liechtenstein and Norway, most single market rules also apply in these countries (as part of the European Economic Area), except for laws on fisheries and agriculture. Within the EU, passport-free travel without any border control is allowed in 22 countries belonging to the Schengen area.

But the single market is far from achieving its full potential. Today, during the crisis, it is more necessary than ever to address areas where the single market does not yet function as it should to the benefit of citizens and businesses. This can be done by improving regulation and oversight of financial services, the banking sector in particular.

There are also important socioeconomic factors at play. An ageing population highlights the need for more financial security, while growth in the use of IT tools and the Internet among all age groups means more people shopping online, and hence the need for appropriate legislation in these areas. In addition, more integrated and interdependent financial markets — and the spread of online banking and electronic transactions — demand stronger regulation and oversight at EU level.

The people speak

European citizens are, in general, satisfied that the single market offers a bigger choice of products, more jobs and fair competition, according to a 2011 Eurobarometer survey. On the other hand, the single market is still perceived by many as benefiting only big companies, worsening working conditions and not improving the lives of poor and disadvantaged people. The survey shows that the single market is still far from complete, and that more than a third of all Europeans (35 %) are not aware of the benefits it has to offer.

Moving beyond the crisis

The economic and financial crisis has hit the EU hard, causing six consecutive quarters of economic contraction and the jobless rate to soar to 19 million. The crisis has affected EU member countries differently — with five requiring emergency aid — and exposed structural weaknesses in several countries. It has also damaged public finances and shaken public trust in the banking sector.

But the crisis is not the end of the road. The EU can emerge stronger through better coordination between economic policies and a better functioning of the single market, and by putting the financial sector under a single supervisor and one set of rules. Completing — and restoring confidence in — the single market is an important element in the effort to put the EU back on the path towards economic recovery.

The euro is used as the single currency by consumers and businesses in 17, soon to be 18, EU countries, known collectively as the euro area.

How the EU manages the internal market

The European Commission has several tools at its disposal to ensure a well-functioning single market for all. Over the past 20 years, there have been two major developments on this front. Twenty years ago, the main ways of solving problems were through adopting new legislation or taking legal action against EU countries. Today's approach is more ambitious and practical, based on close cooperation between the Commission and EU countries, as well as with citizens and companies about how the single market works in practice. Also, IT tools and the Internet have transformed the way information is provided, so it is easier and quicker for the Commission to collect feedback from those affected by new rules and regulations.

After new legislation is adopted, authorities monitor how it is implemented and applied. To be effective, national authorities need to be connected with each other across borders so that they can work together to tackle any problems that arise. Feedback from each stage of the cycle is collected and evaluated so that policymakers can decide whether new legislation is needed or whether existing legislation should be adapted or repealed.

Consulting the public

When considering what direction to take, the Commission often seeks input from the public, businesses, trade associations, unions and others through what is known as an open consultation, usually conducted online. Interested parties can submit their experiences and suggestions in writing. The Commission takes these views into account when drafting new legislation, and then ensures that it is properly implemented and enforced throughout the EU.

The scoreboard shows whether EU rules are enforced

EU rules have to be 'transposed' into national law in order to work. Since 1998, the Commission has rated Member States' records in implementing and enforcing single market rules through an 'internal market scoreboard'. In the online reporting system, it is possible to see the best and worst performers by means of a chart using traffic lights — green for above average, yellow for average and red for below average, where countries have to beef up their efforts. Despite the present economic turmoil, the EU Member States continue to implement almost all EU rules — only 0.6 % of single market directives are not transposed into national law on time.

Taking legal action over infringements

Each Member State is responsible for the correct and timely implementation of EU law, and it is up to the Commission to ensure that they do so. Consequently, where a Member State fails to comply with EU law, the Commission has powers of its own to try to end the infringement and — as a last resort — may refer the case to the EU's Court of Justice in Luxembourg. There are several formal stages in the infringement procedure, which often begin with an investigation by the Commission in response to a complaint. The Commission can also launch an investigation on its own initiative if it believes that there is a problem.

If the matter is not solved in the exchanges of opinions between the Commission and the Member State government, the Court of Justice might be asked to deliver a judgment stating whether or not there has been an infringement. But the Court can neither annul a national measure found to be incompatible with EU law nor order the Member State to pay damages to an individual adversely affected by an infringement of EU law. It is rather up to the Member State concerned to take whatever measures are needed to comply. If the Member State still does not comply, then the Commission may return to the Court to request periodic penalty payments until the infringement is brought to an end, and/or request that a lump sum penalty be imposed on the Member State.

Rulings often set important precedents in clarifying points about existing legislation. An example is that the Court has repeatedly ruled against special 'golden share' voting rights in privatised companies, saying that such privileges hamper the free movement of capital.

A pro-consumer competition policy

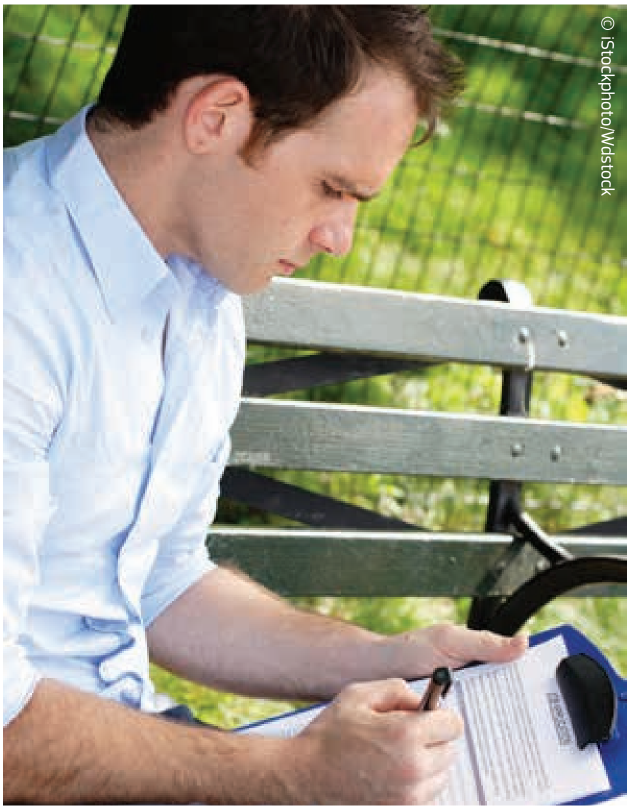
EU policies on competition and the single market go hand in hand, since the former policy is all about applying rules to make sure businesses compete fairly with each other. This creates a wider choice for consumers and helps improve prices and improve quality. There are a number of competition cases where the Commission's actions have resulted in a direct benefit for consumers across the single market. One example is in the telecommunications field, where mobile phone operators were overcharging to connect calls from another operator's network (up to 10 times more than for fixed lines).

In 2009, the Commission instructed EU telecoms regulators to ensure that these connection rates were based on their real costs. The Commission has fined individual operators for their anticompetitive practices, all of which has led to cheaper phone rates and a more transparent pricing system across the EU. For more information about the EU competition policy, see the 'Competition' brochure in this series.

Getting the word out

Informing citizens and businesses about the rights and opportunities offered to them by the single market is one of the European Commission's most important tasks. The Internet makes it easy to spread the word quickly and efficiently, and to give regular updates in all EU languages.

Looking for a job? Why not try working abroad? The single market guarantees all EU citizens the right to work and study in other EU countries.



The **Your Europe** portal provides user-friendly practical information for EU nationals and businesses, from travel documents and passengers' rights to opening a bank account in another EU country and what to do in case of unforeseen medical treatment while on a temporary stay in another member country. Businesses can also get a handle on taxes and accounts, and where to apply for funding from banks or venture capital funds supported by the EU.

Extending a helping hand

But the EU does more than just get information out to individuals and businesses. Through various channels, it actually helps them make the most of the single market and overcome real-life problems. Any EU citizen shopping for goods and services in other EU countries, Iceland or Norway who needs advice can contact the **European Consumer Centres.** Free of charge, the centres give practical tips on saving money and avoiding problems. They also provide expert help in filing consumer complaints, always starting with an attempt at an amicable solution.

In 2006, the **Consumer Protection Cooperation Network** was launched. This network links the national authorities of all EU countries and allows authorities to assist each other in preventing harmful commercial practices that contravene EU consumer rules in cross-border situations — for example by exchanging relevant information. Since its launch, the network has handled over 1 200 mutual assistance requests and over 200 alerts.

The **Solvit** network directly assists citizens and businesses to find fast and pragmatic solutions to problems caused by the misapplication of EU rules by public authorities. Some of the most common problems relate to recognition of professional qualifications, access to education, residence permits and social security.

Businesses seeking to provide services in more than one EU member country can also get information about relevant procedures and requirements through so-called **points of single contact** — single entry points they can access electronically either at home or in another EU country. Last but not least, European entrepreneurs can get a wide range of free business support, including expert advice on EU single market legislation from patents to taxation issues, from the **Enterprise Europe Network,** which has close to 600 member organisations in 50 countries.

What the EU does

Completing the single market is a priority for the European Commission as it seeks to reinvigorate the European economy after the crisis. That is the motivation behind the Single Market Acts I and II, a series of measures to boost the economy and create jobs.

Priority actions for new growth

In April 2011, the European Commission adopted the Single Market Act I. It set forth 12 projects to relaunch the European economy and open the door to greater growth, competitiveness and social progress. The Commission compiled the list after reviewing some 850 contributions submitted during 4 months of public debate as well as opinions and conclusions from other EU institutions. Each action was quickly followed up with concrete proposals for new legislation or rule changes to improve daily life for citizens, consumers, workers and businesses, particularly small enterprises.

One goal was to improve access to finance for start-up companies, which often lack the resources needed to recruit staff, launch new products or build up infrastructure, putting them at a competitive disadvantage. For this reason the Commission proposed a regulation setting uniform rules for the marketing of venture capital funds across Europe. As of July 2013, the new single rulebook should help these funds attract more capital commitments and become even bigger, opening up growth prospects for entrepreneurial enterprises.

Improving worker mobility in the EU was another priority of the Single Market Act I, in light of the fact that many posts for highly qualified personnel remain vacant. The Commission proposed to introduce a 'European professional card', which helps individuals to gain easier and quicker recognition of their qualifications across the EU.

European industry is more competitive when companies can sell their products all over the single market.

Keeping up the momentum

In October 2012, the European Commission put forward an additional 12 key actions as part of the Single Market Act II.

These actions can be grouped into four main drivers for growth. They are: integrated networks, cross-border mobility of citizens and business, the digital economy, and actions that reinforce cohesion and consumer benefits. 'This is our chance to use our golden asset, the single market, to see our social market economy be competitive and thrive again,' Commissioner Barnier said when announcing the initiative.

The Commission has followed up with concrete proposals in each area. In March 2013, it proposed new rules to slash the cost of rolling out high-speed Internet by 30 %. The rules are based on best practices already tried out in Germany, Spain, France, Italy, Lithuania, the Netherlands, Poland, Portugal, Slovenia, Sweden and the United Kingdom. However, the EU initiative leaves organisational issues largely to the discretion of member countries.

To boost consumer confidence, the Commission also proposed in February 2013 new safety rules for consumer products circulating in the single market, as well as stepped-up market surveillance for non-food products, especially those imported from outside the EU. The objective is to keep harmful products from getting into consumers' hands and to improve traceability so that they can be easily identified and quickly withdrawn from the market in the event of a problem. Once adopted by the European Parliament and the Council, the new rules will be enforced by national market surveillance authorities. These authorities will work more closely together to coordinate product safety checks, especially at the EU's external borders.

A single market for consumers

The single market exists for the benefit of the EU's 500 million consumers, who have the right to buy goods and services from any merchant (under the same conditions and contractual obligations everywhere). The more they can make informed choices, the greater the impact on strengthening the single market and on stimulating competition, innovation and growth.

The Internet

Although many individuals may take the Internet for granted, many of the networks and services that have developed over the past 20 years owe their existence to a proactive and flexible EU policy towards the Internet. The latest gadget or fashion may now be ordered from another European country and delivered to the front door. A company located at one end of the continent may join forces with one at the other end to offer a better service or greater selection of products. In this modern, online world, the buyer also has more power to influence service through e-mail or publishing a review online. But the Internet's impact goes well beyond just shopping and includes the cultural realm. Thanks to the EU's single market policy, the public can now access digital versions of European literature, films, paintings and other artistic creations through the Europeana.eu web portal.

More competition in the energy market

Through single market legislation introduced over the past decade and a half, in combination with competition enforcement, national markets are no longer controlled by state-owned monopolies but are open to suppliers from abroad. As a result, private households and businesses are now free to choose their suppliers. More cross-border trade in the energy sector also helps prevent supply disruptions and power cuts in EU member countries. Several European energy companies are also now active in more than one member country, increasing competition among service providers.

Thanks to single market legislation, households and businesses can now choose their energy supplier.

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EU single market directives establish EU-wide product safety and environmental requirements.

Studying and working abroad

Today, most educational diplomas and professional qualifications gained in one EU country are recognised in others, while EU programmes such as Erasmus and Leonardo enable hundreds of thousands of Europeans to study or train abroad every year. Besides offering personal benefits to individuals, these initiatives also boost the European economy. According to a Eurobarometer survey 56 % of citizens see the free movement of people as the most positive outcome of European integration. The majority also thinks that it benefits the economy.

Benefits for European companies

Every company in the EU has access to 28 national markets and 500 million potential customers. This allows larger businesses to benefit from economies of scale, while allowing small and medium-sized companies to tap into new markets. These entrepreneurial companies are particularly important to the European economy, creating 85 % of all new jobs in the EU. They are also among the EU's most innovative companies, key to coming out of the crisis. The advantages of the single market also help companies to compete in countries outside the EU.

There are a number of ways in which the EU's single market policy makes it easier to do business in Europe. One of these is through mutual recognition, which ensures that national technical rules do not stand in the way of the free trade of goods within the EU. Subsequently, a product lawfully produced or marketed in one member country may be sold in any other member country. It is estimated that single market laws have cut the administrative burden for EU companies by 25 % since 2007.

Sustainable and safe industry

Beyond the free circulation of goods, single market directives have also set EU-wide safety and environmental requirements for products across several categories. These laws not only enable products to circulate freely throughout the EU, but they have also led to huge benefits for European citizens. Products have become much safer. When consumers see a product with the 'CE' label or marking, this means that the manufacturer guarantees that it has met all applicable directives and that the product can be sold throughout the EU. This is good for businesses wishing to sell across borders as well as for shoppers, who can rest assured knowing that what they are purchasing is safe and up to standard.

Protecting innovation

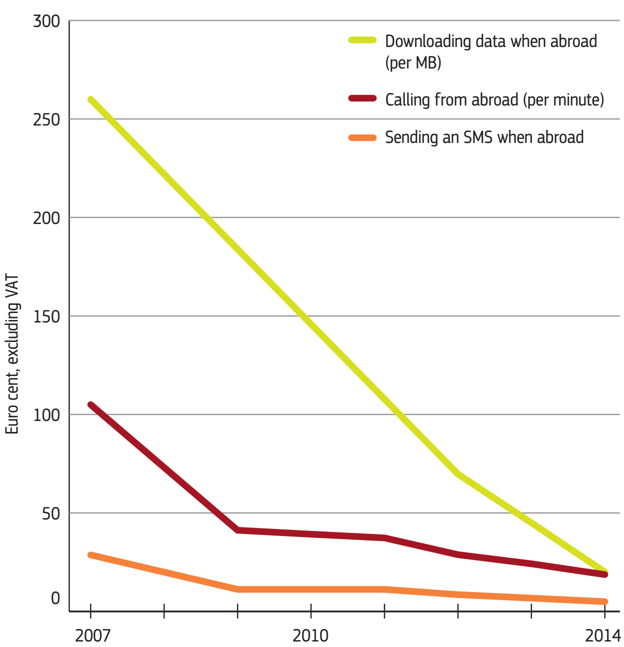
To create a genuine single market, restrictions on the freedom of movement and anticompetitive practices must be eliminated or reduced as much as possible, while creating an environment that fosters innovation and investment. Within this context, the protection of intellectual property is key to the success of the single market. To make it easier and cheaper for businesses operating in more than one EU member country, the Community trademark was established in 1993. In practice, this means that businesses pay less to register a trademark, with those filing their applications via the Internet able to save even more.

Companies will also soon be able to apply for a single patent for an invention, which will be valid in 25 EU Member States, instead of filing separate patent applications for each country. This will slash costs and red tape for businesses, especially smaller firms.

Financial services: better regulation and supervision

The financial crisis highlighted the need for better regulation, transparency and supervision of all financial actors, products and markets across the EU. Banks are increasingly doing business across borders, in line with the objectives of the single market and the free movement of capital. While this makes banks more efficient, regulation and supervision are still done largely at national level.

CHEAPER MOBILE ABROAD



Eurotariff is the maximum price allowed under EU law. It was first introduced in 2009, for data download in 2012.

The EU has achieved price reductions for roaming of over 80 % since 2007.

Restoring confidence in the financial system is one of the driving forces behind the planned banking union, with a single rulebook for euro-area banks.

Much has been achieved already. As of 1 January 2014, all banks in the euro area will be required to hold more and better capital, as defined in a revision to the EU's capital requirements directive. The new framework will make EU banks more solid and will improve their ability to adequately manage the risks linked to their activities and absorb any losses they might incur. The package also imposes new limits on executives' bonuses.

Other initiatives include new technical standards for derivatives traded outside of regulated exchanges, as laid out in the European markets infrastructure regulation, which entered into force in August 2013. There are also plans to expand the rules for investment services such as brokerage and portfolio management, and greater consumer protection through improved accessibility and transparency of bank accounts.

Regulation demands proper supervision at European level to deal with cross-border risks and issues. This was the motivation behind the creation of three Europe-wide bodies operational since 2011. They are the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority. A European Systemic Risk Board was also established to identify the type of risk that can spread to the whole financial sector and ensure they do not endanger financial stability.

Restoring confidence in banks

The euro-area debt crisis has highlighted the need for deeper reforms to break the vicious circle between banks and the treasuries of national governments. If a country accumulates too much public debt and its creditworthiness suffers, this drags down banks, which tend to be the largest holders of government debt. Inversely, if banks are doing poorly, the government may be forced to step in and spend money to save them.

To sever that link and to restore public confidence in banks, common rules are not enough. In particular for countries sharing a single currency, a deeper and more integrated approach to financial supervision is needed. This is why EU leaders committed to a 'banking union' in June 2012, with a single rulebook for all banks in the euro area. The vision was further elaborated upon in the Commission's blueprint for economic and monetary union in November 2012.

Beginning in late 2014, all euro-area banks and other lenders will be supervised by the European Central Bank under the so-called 'single supervisory mechanism'. EU countries outside the single currency area can also choose to join.

The mechanism is to be complemented by a 'single resolution mechanism' for dealing with winding down failed financial institutions at minimal cost to taxpayers and the real economy, as laid out in a proposal from the Commission from July 2013. Since August 2013, tougher EU state aid rules have also been in place, requiring cash-strapped lenders to go to their own investors first for support before requesting government aid.

A new European fund financed by the banking sector itself will, according to these plans, be set up in order to help restructure failing banks. Where funds from the bank's shareholders and creditors are insufficient, and if the new fund has not yet built up sufficient resources, a bank can exceptionally be directly recapitalised — that is, offered new capital as one element in rescue plans for banks that would otherwise go bankrupt. This can happen through the permanent European firewall known as the 'European stability mechanism' instead of going through national governments.

Establishing a safe, responsible, consumer-friendly and growth-enhancing financial sector in Europe will remain a priority, with several key proposals in the near-term pipeline. These include revised rules for occupational pension funds, a structural reform of banks and revised rules for innovative payment services including cards, Internet and mobile payments.

Although many details of the reforms still need to be refined, the will is definitely there among European leaders to usher in a new era of robust economic growth anchored by a strong and reliable financial sector.

Stable banks are important for citizens — particularly when buying a new home.

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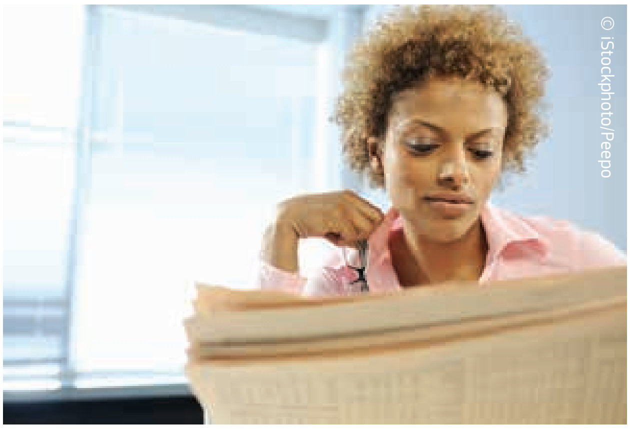
What's next?

Despite all that has been achieved so far, there are a still a number of gaps to be closed in the European single market, mainly in the areas of services and energy. These can only be dealt with at EU level to help individuals and companies make the most of the single market.

In the years ahead, the Commission also aims to contribute to the development of social enterprises in Europe — which serve the community's interest in terms of social, societal and environmental objectives rather than only seeking profit — and the social economy at large. The EU may also have a role to play in encouraging crowd-sourced funding, known as crowdfunding, via the Internet, to help fill the financing gap for small firms and start-ups. In June 2013, the Commission organised a first workshop to explore various issues related to crowdfunding, and is following up with a study into possible policy initiatives.



Europe needs new enterprises.

Find out more

- **For an overview of EU single market policy see the Commission's website at**: http://ec.europa.eu/internal_market/index_en.htm
- **For a list of public consultations**: http://ec.europa.eu/yourvoice/consultations/index_en.htm
- **For information on EU legislation and proposals governing financial services and capital markets**: http://ec.europa.eu/internal_market/top_layer/financial_capital/index_en.htm
- **For the Your Europe portal for citizens and businesses**: http://europa.eu/youreurope/
- **For a guide to services offered to small businesses by the Enterprise Europe Network and success stories about the entrepreneurs it has helped**: http://een.ec.europa.eu
- **Questions about the European Union? Europe Direct can help**: 00 800 6 7 8 9 10 11 http://europedirect.europa.eu

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