



Department  
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**UK non-paper: Deepening the single  
market in goods and services**

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# UK non-paper: Deepening the single market in services and goods

In advance of the Commission publishing its strategy for deepening the single market in goods and services, this non-paper sets out UK proposals for measures that the Commission should bring forward in its autumn package.

## Updating the single market

Technology and globalisation have changed markets forever. Global value chains are becoming ever more integrated so rarely can one country (or business) claim full credit for an end product.<sup>1</sup> Manufacturers are reliant on high-performing service providers to remain competitive. When they sell their goods they're now often packaged with a service – and services represent about 40% of the value the EU adds to its exported products.<sup>2</sup> This is particularly the case for sophisticated, high-value-added products, those that are in demand from Europe in the rest of the world. E-commerce, the sharing economy, 3D printing and ever-more-powerful software are radically altering production and consumption patterns and generating new business models.

The single market has achieved great things in the past, adding over 2% to EU GDP since its inception in 1992.<sup>3</sup> But times have changed, and Europe needs to raise its game. Our continued prosperity requires high productivity and competitiveness at the global level. The single market, if used effectively, should be one of our most powerful tools for achieving this goal because of the innovation, competition and resource efficiency it can deliver.

Where the single market is most obviously failing to fulfil its purpose is in services. Services make up 70% of Europe's economies and generate over 90% of new jobs, but account for only 20% of intra-EU trade.<sup>4</sup> Uncompetitive services markets are the most significant driver of the EU's productivity gap with the US.<sup>5</sup> The IMF, World Economic Forum, OECD and the European Parliament all agree that strengthening the single market is key to securing Europe's place at the forefront of the global economy.<sup>6</sup> It would also drive down economic disparities within the EU. Progress in services should happen across all sectors but we should prioritise action in those areas where there is high potential for

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<sup>1</sup> The proportion of foreign value added in EU exports has increased from 19.2% in 1995 to 28.2% in 2011, from the OECD TiVA database.

<sup>2</sup> How trade policy and regional trade agreements support and strengthen EU economic performance, European Commission, 2015

<sup>3</sup> 20 Years of the European Single Market, European Commission, 2012

<sup>4</sup> Regulating Services in the European Union, Hatzopolous, V., 2012

<sup>5</sup> Beyond Austerity: A Path to Economic Growth and Renewal in Europe, McKinsey Global Institute, 2010

<sup>6</sup> For example: the IMF (The EU Services Directive: Gains from Further Liberalization, 2014) states that "although well-functioning services are key for growth, they are not yet delivering their full potential"; the World Economic Forum (Rebuilding Europe's Competitiveness, 2013) notes that "full implementation of the Single Market, including services and sectors that until now have remained protected at the national level, could make markets work better for Europe."; the OECD (Economic Surveys European Union, 2014) recommends that the EU "improve the implementation of the Services Directive, in particular by eliminating unjustified and disproportionate restrictions to the cross-border provision of services and to the establishment of businesses" and the European Parliament (2015) maintains that "a further deepening of the 'classic' single market could still yield very significant additional gains for EU consumers and citizens."

economic gain, including knock-on positive effects on the wider economy, as well as the political will to move forward.

If we try to postpone the implementation of necessary reforms or to shelter ourselves from global competition, we will see global markets moving on without us. The need for reform will not go away.

## The economic benefits

The evidence base for the importance of open and competitive services markets is growing all the time. Full implementation of the Services Directive could add 1.8% to EU GDP<sup>7</sup> and, as the European Parliament estimates, creating a fully functioning single market in digital services could add a further 3%.<sup>8</sup> Additional growth would result from increased trade in cross-border services in a huge range of sectors, from cloud computing to engineering and accounting. A number of studies, including from Banque de France<sup>9</sup> and the Italian Finance Ministry,<sup>10</sup> have underlined the fact that uncompetitive services markets hold back manufacturers, particularly the most productive firms that compete at a global level. Studies have also highlighted the important role played by specific sectors in supporting manufacturing, such as professional services.<sup>11</sup>

An effective single market will benefit every Member State, but to secure these benefits every Member State must be willing to make reforms and to take on vested interests. As the crisis has made absolutely clear, we must exploit the potential of services market reforms if we want to secure our future prosperity.

The Commission must propose ambitious reforms that deliver three objectives:

- **An innovative market:** Making the single market fit for purpose in the digital age, including supporting the growth of e-commerce, preventing Member States stifling the development of the sharing economy, and taking action on unjustified price discrimination.
- **A high-productivity market:** Increasing productivity and helping EU firms compete in the global marketplace by improving enforcement and proposing new measures to remove barriers to cross-border trade, better integrating EU value chains. The Commission should prioritise sectors that drive wider productivity, particularly in manufacturing industries.
- **A market for SMEs:** Helping small businesses make the most of the single market by opening up procurement markets, improving their access to finance and investment, and providing them with better information on how to operate across borders.

The EU's aim must be to establish a genuinely competitive single trading area in which new businesses – offering goods or services, or both – can operate across borders in the same way as they do at home.

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<sup>7</sup> The Economic Impact of the Services Directive: A first assessment following implementation, European Commission, 2012

<sup>8</sup> Mapping the Cost of Non-Europe, 2014-2019, European Parliamentary Research Service, European Parliament, 2015

<sup>9</sup> Does product market regulations in upstream sectors curb productivity growth?, Banque de France, 2013

<sup>10</sup> Deregulation and Growth in Italy, Ministry of Finance Italy, 2014

<sup>11</sup> *Op. cit.* Banque de France, 2013; Barone, Cingano; 'Service Regulation and Growth: Evidence from OECD countries', September 2011.

## An innovative market

The digital era has transformed the economic landscape for European consumers and businesses. Disruptive, innovative business models in the sharing economy are revitalising parts of the economy, creating new jobs and providing new products. There is strong growth potential for the EU not only for platforms, but also for microbusinesses and peer-to-peer providers. Estimates of the value of the global sharing economy in 2014 were around £9bn, expected to rise to £230bn by 2025.<sup>12</sup> Creating the right conditions for growth will create scale-up and export opportunities for businesses across the EU.

But this potential is put at risk by national regulatory systems that are often outdated – bureaucracy quickly thwarts the growth of new international business models. Why, in a connected world, should people have to pay tax in person at the town hall or provide physical documents for so many processes that could be digital? Incumbents are protected at the cost of consumers and entrepreneurs, which is bad for innovation and growth. Regulation needs to enable new technologies to come forward and consumers to get a fair deal online.

The digital single market package published in May has already presented an inspiring and ambitious vision for a connected Europe. The Commission understands that we need to act fast and aim high. We must build on this by making sure that the next generation of businesses are able to start up and scale up across the single market.

The Commission should:

- **Take measures to ensure that the sharing economy thrives** by stopping Member States banning or imposing unfair rules on new business models where this fragments the market or imposes excessive burdens. We need to protect against abuses that threaten people's safety, but must also avoid punitive national regulation that stifles innovation.
- **Take action on unfair price discrimination.** Unjustified price discrimination based on geographic location should be stopped. Internet Protocol or payment card addresses should not be used to block access to special offers and lower prices. Factors like national tax rates, content licensing arrangements and postage costs are of course legitimately reflected in price differences, but large businesses should be transparent about why consumers in one place are being offered a different deal to those in another.
- **Make life easier for online businesses** by extending the VAT Mini One Stop Shop concept to simplify business obligations, removing national restrictions on sales promotions and domain names, and ensuring that they only have to go through one digital process, wherever they're based, to set up and operate across the EU.
- **Support the digitisation of industry, in particular by facilitating standard-setting and interoperability.** Breakthroughs in the car industry are already making

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<sup>12</sup> The sharing economy – sizing the revenue opportunity, PwC, 2014

European industry more competitive. By backing standard-setting in an open and competitive way, the EU can strengthen the links between European supply chains, increasing efficiency and consumer choice.

## A high-productivity market

We need to create a business environment in the EU that fosters productive firms that are efficient enough to compete in the global marketplace. The EU has many strong industrial champions. But only 17% of the world-leading innovators in ICT come from the EU, compared to 52% from the US.<sup>13</sup> Productivity, in terms of output per hour worked, was higher in 2013 in the US than in the UK, France and Germany, and according to OECD data, EU productivity is only 70% that of the US.<sup>14</sup>

The drivers of productivity are well understood: a dynamic, open and enterprising economy, supported by long-term public and private investment in infrastructure, skills and science. It demands investment in the primary research behind the innovations of tomorrow, and regulatory flexibility to allow firms to adopt and exploit this technology.

A regulatory environment that encourages innovation by allowing new competitors to enter and expand into markets is a key part of delivering a productive economy. For example, in the decade to 2002, opening up the UK market to new providers of international telephone calls led to a decrease in prices of up to 90%.<sup>15</sup> And the simplification of regulatory requirements can free up resources for businesses to put to more productive uses, raising long-run productivity and growth.

Much of our regulation isn't appropriate for emerging business models. It was designed to protect consumers in a world without instant online feedback, user accounts and profiles that record the progress of a purchase or monitor the delivery of a service, or digital tools to report faults or problems.

The Commission should:

- **Publish a professional business services and construction action plan** to open up these markets across the EU, including:
  - Development of a business-friendly mechanism such as a **services passport** to advance mutual recognition in these sectors.
  - Abolishing unnecessary rules on **company ownership** for professionals.
  - Introducing measures that support access to **professional indemnity insurance**, working with the insurance industry to develop non-regulatory solutions (e.g. sign-posting and creation of an underlying reinsurance platform) and investigating the potential for the application of mutual recognition.
  - Rolling out **Common Training Frameworks** and the **European Professional Card** to construction and all professional business services sub-sectors to help professionals in these sectors work in other Member States.

<sup>13</sup> New ICT sectors: Platforms for European growth?, Bruegel, 2012

<sup>14</sup> OECD Databank: <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>

<sup>15</sup> The Benefits from Competition: Some illustrative UK cases, Department of Trade and Industry, 2004



- Supporting the development of advanced technologies (like Building Information Modelling in the construction sector) by supporting the introduction of **industry standards** at EU level.
- Take a more rigorous approach to **enforcing single market rules**, to ensure national legislation is not undermining the single market, by:
  - Focussing on **economically significant barriers** by ring-fencing resources within the Commission and allocating ownership of the enforcement agenda to a Vice-President.
  - Introducing an explicit **proportionality test** to guide Member States on what national measures are disproportionate barriers to trade, using the test to challenge existing barriers across all sectors, in particular legal form and shareholding and minimum and maximum tariffs.
  - Working with **national bodies** that are responsible for single market functions to identify barriers to trade and support the Commission in taking enforcement action.
  - Revising the process for **notifying national measures under the Services Directive**, ensuring the process applies to draft laws and that the measures are subject to a standstill period and greater transparency, including from business, and building in an escalation process if there are concerns that the measures are too restrictive.
  - Making **goods regulation fit for the digital age** by allowing businesses to upload e-compliance documents online and provide e-labelling at the point of sale, reducing the reams of paperwork currently required.
- Make **European industry** more competitive by:
  - Assessing whether the Single Market is working to **facilitate the integration of EU businesses into industrial value chains**.
  - Working with industry to develop **standards for automated communication** between production lines.
  - Ensuring the **implementation of the recent package of better regulation measures** announced by First Vice-President Timmermans, in particular proposals on impact assessments.

## A market for SMEs

We need a diverse and dynamic economy, where every business has the opportunity to succeed, from large corporations that compete on a global scale, to individuals who – thanks to new technology – can now become entrepreneurs on their own terms without even leaving home. New businesses can now get established faster and more easily than ever before because online platforms give them access to ready-made markets, and online government services make registration or paying taxes easier. The EU must ensure fair competition between large and small players, but remain ruthless in preventing the introduction of any new barriers motivated more by a fear of change than the economic evidence.

EU businesses have a particular problem in scaling up. In the three decades after 1976, the US produced 25 Fortune 500 companies, and Europe only three.<sup>16</sup> Small and medium businesses often can't get the funding they need to grow and are overly reliant on bank finance. They struggle to cope with regulation designed for much larger firms, and they lack the information required to scale-up and operate across borders within Europe. They can also be disproportionately affected by differing and often disproportionate national and local enforcement approaches.

The Commission should:

- Increase **access to finance** by improving EU venture capital frameworks for SMEs following publication of the recent Capital Markets Union package, in particular by encouraging the return of safe securitisation. The EU should also make sure that the European Fund for Strategic Investment and the forthcoming mid-term review of Horizon 2020 help channel funding to SMEs.
- Set up a network of **Digital Single Gateways**, operated by each Member State, to help businesses to start up, scale up and trade across borders by providing information in a clear and efficient way and offering access to online procedures.
- Introduce **exemptions for microbusinesses** where possible and look at ways to lighten the regulatory load on innovative companies while they're scaling up.
- Ensure **public procurement** takes place online and is more accessible to small businesses and businesses from other Member States.
- Streamline and improve the consistency of **market surveillance** in the single market for goods, including potentially implementing a scheme similar to the UK's **primary authority** programme to reduce burdens on businesses.

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<sup>16</sup> The Demographics of Global Corporate Champions, Bruegel Working Paper, Véron, N., 2008



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