



COMMISSION OF THE EUROPEAN COMMUNITIES

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COM(2000) 888 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE  
EUROPEAN PARLIAMENT**

**An Internal Market Strategy for Services**

# COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

## An Internal Market Strategy for Services

### 1. EXECUTIVE SUMMARY

The Lisbon European Council invited the Commission to propose a comprehensive Internal Market strategy to remove barriers to services. This communication is intended as to initiate a process of adapting the Internal Market to the fundamental changes in the way in which services are offered and taken up.

The Information Society has sparked a new dynamic in services, by cutting the cost of transmitting and acquiring information and accelerating the rate of diffusion of innovation across national borders. There is thus vastly increased potential for cross-border demand and supply of services in the Internal Market. Improving the conditions for the free movement of services should release the dynamism inherent in the Internal Market and so enhance competitiveness, growth and employment creation in our economy.

Our objective is to allow services to move across national borders as easy as within a Member State, this communication sets out a two step approach to achieve this objective. First, within the next 12 months, the Commission will accelerate a number of initiatives in specific problem areas, whilst, in parallel, rigorously analysing the persistent barriers to free movement of services across national frontiers. It will encourage the Council and Parliament to come to agreement early in 2001 on initiatives already scheduled.

Second, in 2002, the Commission will bring forward a further package of initiatives, setting a precise timetable for Member States to dismantle any specific barriers identified from the analyses carried out in the previous twelve months. This package will also comprise of non-legislative supporting measures, and specific or horizontal harmonisation instruments, together with additional legislative measures to dismantle remaining barriers and prevent the emergence of new ones, whilst ensuring a high level of protection of public interest objectives is maintained.

**The Commission invites the Parliament and the Council to endorse this two step strategy. The Commission would also welcome comments from all interested parties.**

## **2. THE NEED FOR A NEW SERVICES STRATEGY IN THE INTERNAL MARKET**

The European Council in Lisbon set a bold target for Europe: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. To achieve this, the Union must enhance the quality and competitiveness of its service industries, as these will determine the continuing success of the European economy. Technological change makes it imperative to remove any unjustifiable barriers to the free movement of services.

The policy instruments to make this happen already exist, given the concrete achievements in recent Internal Market policy – in particular following the implementation of the Single Market Action Plan in 1997 and the Strategy for Europe's Internal Market<sup>1</sup>. The present Communication will feed into all four of the key strategic objectives of that Strategy : improving the quality of life of citizens, enhancing the efficiency of Community product and capital markets; improving the business environment and exploiting the achievements of the Internal Market in a changing world. Moreover, the experience of developing the Internal Market has underlined the need to strike a balance between legislative and non-legislative activity and between harmonisation and mutual recognition. The present communication is presented as the start of a process to adapt the Internal Market to the fundamental changes in the way services are offered and delivered. The Commission invites the European Parliament and the Council to endorse this strategy for services and welcome comment from all interested parties.

### **Services are the drivers of the new economy**

The importance of the services sector scarcely needs to be restated. Companies' competitive edge increasingly depends on the successful design, management and integration of services into their operations and sales. Many manufacturing firms now offer services in addition to goods, in order to create value-added and distinguish themselves from their competitors. Efficient provision of services has thus become a major factor driving competition. Given the importance of services in household budgets, the availability of high quality, effective services clearly impacts on the quality of life of European citizens. It is therefore of concern, if there are unjustifiable and preventable barriers preventing services being bought or sold across borders.

The consequential effects of failings in the Internal Market for services are wide-reaching. Every company needs to use the services of other businesses as inputs into its own activities: for example, accounting, financial services, legal advice, consulting. If these are not provided efficiently or there are barriers to their use, every company, and ultimately every private individual, suffers.<sup>2</sup> By improving the conditions for businesses to offer their services across borders and for customers to take up services, we need to ensure the dynamism inherent in an Internal Market is spread throughout the EU's economy.

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<sup>1</sup> Com (1999) 624 final of 24/11/1999, see also 1996 communication to the European Council entitled "putting services to work". CSE (96)6 final of 27 November 1996.

<sup>2</sup> The significance of this dependency has been analysed in the Commission's 1998 communication on "The contribution of business services to industrial performance" COM(1998) 534 final of 21 September 1998.

## **The Information Society has sparked a new dynamic in services...**

The technology revolution: By cutting the cost of transmitting and acquiring information, accelerating the rate of diffusion of innovation, removing the need for proximity and altering cost and revenue structures for many service activities, the Information Society has created the potential for more growth and jobs in the entire European economy. For the first time many consumers and smaller firms can now participate in the Internal Market directly. Developments are not limited to the on-line world. There are many new opportunities for firms to innovate in the field of service provision, whether they use on-line or off-line business models or a combination of the two. In the dynamic environment of the new economy, most firms will actually do both: they will use “bricks and clicks”. A firm may conclude contracts on-line, but physically deliver its goods and/or services. A small or medium-sized enterprise may start with investment in physical assets for production and retail, but then move on-line to save costs.

Impact on innovation: It is a misapprehension to think that services are characterised by low productivity and a low level of innovation. The transition to a service-based economy in Europe has been characterised by strong growth rates and high levels of technological progress, suggesting that the traditional perspectives on services need updating. Innovation is a critically important competitive factor for service enterprises. Knowledge intensive services in particular (such as software development, professional training and consultancy) are dynamic sources of innovation for other sectors. Insufficient attention has been given to innovation in the service sector, as recently outlined in the Commission communication on innovation policy<sup>3</sup>. There is a new dimension to innovation which poses new challenges: faster diffusion of information require firms to innovate rapidly, cut costs and improve their reaction speeds. Successful firms need faster access to larger geographical markets, in order to earn higher returns on innovation over the shorter periods available to them to turn a profit. If EU firms cannot access larger markets, in particular the Internal Market, they will have less incentive to invest and compete.

Impact on market functioning: Innovation is driving higher standards of service and more tailor-made services, due to the spread of information technology in the provision and take-up of services. For example, the Internet makes it much easier for consumers to find the best deals – on and off-line - in a larger geographical market. Even services that can only be delivered locally and off-line will still be affected by the changes in technology, simply because information about their price, quality and availability will diffuse more rapidly and further than in the past. This will induce more intense competition, pushing companies to offer higher levels of service and/or customisation. New services will emerge, including those which would not have been viable on a limited local, or even national market. If firms do not, or cannot, innovate by aggregating demand in larger geographical markets, the drive to compete on the basis of quality will be stopped dead in its tracks. Our citizens will not get the quality of service they deserve. Equally, if customers face barriers taking up the services, or have misgivings about cross-border trade, the potential gains from an Internal Market in services will be squandered.

Impact on global competitive pressures: the rapid development of the Information Society, notably the United States, has created new competitors for European firms which face increasingly low barriers of entry into Europe's domestic markets. A quarter of revenue of major US web sites is said to come from selling to customers in other countries (many of

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<sup>3</sup> COM (2000) 567 final of 20.09.2000 Innovation Policy in a Knowledge based economy

them European). European companies, operating efficiently within the European Internal Market, should thus avoid being at a permanent disadvantage in taking on this new competition.

**... thus creating the potential to improve the quality of life for European citizens.**

Facilitating cross-border services is not only an economic imperative for the Union. Growth in cross-border services will give citizens and our enterprises more choice and a better deal in terms of prices, choice and quality. By removing obstacles, by stimulating competitive suppliers and by addressing consumer misgivings, we can transform the quality of service. This should permanently improve the competitive environment by providing a continual spur to more innovation and efficiency. A services strategy is thus a key ingredient of the Union's future economic success. An improved Internal Market in services will play its part in removing the barriers which divide European people, and will enable all our citizens a share in the best the Union has to offer.

### **But the new dynamic needs an efficient Internal Market in services**

European businesses and consumers tend to explore opportunities at national level first and move on to cross-border purchasing/provision or consumption as a second choice. If in part, this reflects cultural and linguistic differences in Europe, they also reflect differences and perceptions of regulatory or administrative nature.

European policy has traditionally focussed on key strategic sectors, often characterised by traditionally high levels of regulation to achieve specific public policy objectives (for example in telecommunications and financial services). Such policies have already yielded substantial benefits in terms of increased customer choice, cost efficiency and introducing dynamism within these sectors, including services of general interest which have been the subject of a recent Commission Communication.<sup>4</sup>

*Business models are rarely exported:* Successful companies with winning formulas which satisfy consumers and achieve high levels of productivity, should be free to try to use their business approach (or business model) across the European Union. Today few can. The reason for this is already clear. Table 1 identifies the six stages of the business process and indicates the obstacles that can exist at each stage.

Once a firm has established itself in one Member State, in order to be able to compete and provide its own services most effectively, it has to use inputs (such as labour services, financial services, business services), be able to promote its own services, distribute them, and price and sell them - all as efficiently as possible. That firm also needs to use after-sales support services to ensure repeat business and learn about its market to improve its services.

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<sup>4</sup> Services of general interest in Europe COM(2000) 580 final of 20 September 2000

**Table 1: Types of rules that may affect a service provider.**

Stages of the business process:					
Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Setting up the business (Establishment)	Use of inputs (labour, business and funding services)	Promotional activities	Distributional activities	Sales activities	After-sales support activities
Examples of the rules that may come into play at each stage:					
Rules on authorisation or planning	Rules on employment conditions or access to capital market	Rules on TV advertising or sales promotion	Rules on road transport or opening hours	Rules on sales periods or fixed pricing	Rules on guarantees and returns

Six stages of the business process are common to all service companies across all economic sectors. At each different obstacles may be encountered. Divergent rules leave the Internal Market for services badly fragmented with service providers unable to compete as efficiently in the market of other Member States as they can on their home market. Instead of being able to pass on cost advantages from operating the same business model on a larger scale in the Union, the service provider has to operate two (or more) systems. The cost of this is borne by customers through higher costs. Instead of benefiting from a more tailored, more targeted service, consumers are offered a service of lower quality.

**Example:** Restrictions on certain promotions, such as last minute special offers or special arrangements for business travellers, which only exist in a few Member States, may discourage a travel agent from exporting his business model to other countries.

*The increasingly interrelated nature of the services economy multiplies the damage:* To be able to provide any given service, the use of another is likely to be needed as an input. A barrier in one service sector can skew a service provider's entire business model towards a national orientation. Barriers have knock-on effects from one sector to another. Not only are direct users of a service affected by barriers, all users of other services who are connected by this "web" of service activities are adversely affected.

### **The role of international trade in services for the Community**

European services industries are fully integrated in world trade and depend on it. The Community is the world's biggest exporter of services and the most important investor in services industries. It accounts for 26 per cent of world exports in services (excluding intra-Community exports), compared with 24 per cent for the United States and 6 per cent for Japan. A more integrated internal market for services will help to improve the international competitiveness of European industries and further develop its leading position in international trade. The Community is also the world's biggest importer of services and also provides important market opportunities for other countries supplying competitive services.

### 3. A STRATEGY TO TACKLE THE BARRIERS

The opportunities provided by the new service-driven economy must be exploited to the full. The Internal Market must come to be seen as the natural domestic market for all services providers, especially SMEs, and for their customers. The tendency to think and act at a national level first and consider the Union's wider market as an afterthought must be redressed. This Strategy for Services seeks to begin that process by building on five basic principles:

1) *It should be comprehensive:* The new strategy should encompass all service sectors and their inter-linkages. We need to ensure that the sectoral initiatives currently under way (e.g. telecommunications, financial services) are completed as urgently as possible whilst maintaining their coherence and ensuring their consistency with the overall strategy towards services. The approach should go beyond addressing specific problems in specific services sectors at isolated points in the business process: piecemeal efforts will not deliver the dynamic economy we need.

2) *It should make cross-border activities as easy as acting within a Member State:* A true Internal Market based on the efficient application of the fundamental freedoms of the Treaty, the use of mutual recognition and the proportionality test, strips away unnecessary, and often conflicting, layers of regulation that act as cross-border roadblocks, and stifle innovation. Services should be available throughout the Union regardless of frontiers. There should be no need to adapt the service to unjustifiably different legal and administrative requirements. Service provision from Amsterdam to Athens should be as straightforward as from Amsterdam to Rotterdam.

3) *It should ensure business and consumers secure benefit from the new opportunities open to them:* An Internal Market in services must not remain a paper creation that customers do not use. In order to breathe life into the new reality, customers need to be aware of the new opportunities in the Internal Market and have confidence in cross-border service provision. This requires that a high level of health and consumer protection is assured throughout the Internal Market and that care is taken that effective systems of to treat cross-border complaint, dispute resolution, redress and enforcement are in place.

4) *It should keep pace with change:* The services economy is constantly changing and reacting to new impulses. National legislative and administrative requirements are constantly adapted. Governments must keep laws and regulations up to date, but not at the expense of establishing new Internal Market barriers. The dynamic nature of the new services economy precludes a static approach.

5) *It should be coherent with other policies:* Community policies must mutually reinforce each other. The services strategy needs to be accompanied by a vigorous application of Community competition policy. In addition, the Commission has already committed itself to a general and thorough review of the rules for taxation of all services.<sup>5</sup> Other EU measures (for example, the restructuring, modernisation and harmonisation of customs practices, and the proposals for a new regulatory framework for electronic communications networks and services) underline that the EU has a comprehensive approach that will deliver a world class services economy. A clear synergy exists between the Community's Internal Market policy

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<sup>5</sup> A strategy to improve the operation of the VAT system within the context of the Internal Market COM(2000)348 final of 07.06.2000

toward services and its external trade policy. The Community continues to pursue its overall objective of launching a comprehensive trade round encompassing trade liberalisation, new rule making, a development agenda and issues of concern to the broader public. The expected GATS 2000 round of negotiations should be comprehensive and bring about a deeper and broader package of improved commitments from all WTO Members to provide market access and national treatment. We should aim at strengthening of GATS disciplines with the objective of ensuring a transparent and predictable regulatory environment.

#### **4. PUTTING THE STRATEGY INTO ACTION**

This communication sets out a two stage strategy

##### **Stage 1 Actions for 2001**

First, within the next 12 months, the Commission will launch a first wave of initiatives of both a legislative and non-legislative nature targeted at particular problem areas. These include initiatives in the field of: commercial communications (especially sales promotion); regulated professions; financial services and electronic commerce.

Secondly, the Commission will also review the existing directives that relate to the free movement of services.

Thirdly, a number of non-legislative flanking measures will also be brought forward. These will be targeted at improving statistical information on services, raising the skill levels of ICT in service industries and enhancing the innovative capacities in companies that provide services to other businesses.

Fourthly, the Council and the Parliament are called upon to agree a number of major Internal Market initiatives that impact on services. They include the directive on the distance marketing of financial services, the telecommunications package<sup>6</sup>, the two public procurement directives, the postal services directive, the directive on copyright in the Information Society, the legislative follow-up on the EU accounting strategy, the directive on takeover bids, and a directive on VAT for on-line services.

Despite these four targeted actions, this will not be sufficient to create a true Internal Market for services, given the complex web of inter-linkages which exist between different sectors in the economy. The Commission needs to pave the way for a horizontal approach to free movement of services with a view to its implementation in 2002. For the first time since 1962<sup>7</sup>, the Commission will undertake an all-embracing and systematic analysis of the

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<sup>6</sup> This package consists of proposed directives on: a common regulatory framework for electronic communications networks and services Com(2000)393; universal service and users' rights relating to electronic communications networks and services Com(2000)392; access to, and interconnection of, electronic communications networks and associated facilities Com(2000)384; the processing of personal data and the protection of privacy in the electronic communications sector Com(2000)385; the authorisation of electronic communications networks and services; Com(2000)386. This is also a proposed decision on a regulatory framework for radio spectrum policy Com(2000)407

<sup>7</sup> The General Programme for the suppression of restrictions to the freedom of establishment and free provision of services, Official Journal number 2 of 15 January 1962



persistent barriers to free movement of services *and their spill-over effects* across economic sectors.

This will be carried out by means of a comprehensive analysis of the rules and practices that come into play at each of the six stages of the business process. The analysis will also involve an assessment of how differences in regulation and administrative practice create barriers to cross-border provision of services and inhibit the export of successful business models across the Union . This analysis will be based on the 6 stage business process outlined earlier (see also table 2). The results of this comprehensive survey, (itself complemented by additional studies), will be presented in a report to the Parliament and the Council early in 2002. The Commission will then be able to identify key areas where infringement procedures may need to be initiated or where existing mechanisms, that help companies and private individuals to take advantage of the Internal Market (such as the internet-based “Dialogue with Citizens and Business”<sup>8</sup>) need to be improved.

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<sup>8</sup> The Dialogue with Business is an internet-based system managed by the Commission, which allows businesses wanting to operate in a cross-border context to obtain information on various elements of the Internal market (public procurement, how to find a business partner, how to bid for public contracts, etc.) and to give a feed-back on the nature of problems they have encountered.

**Table 2: carrying out the analysis stage by stage**

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
<b>Establishment of the service provider</b>	Use of inputs	Promotion of services	Distribution	Selling of output	After-sales support
Examples: Differences in practices and requirements for establishing a company, requirements for authorisation to provide services within a national territory, requirements concerning a physical outlet for service provision, requirements regarding professional qualifications					

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Establishment of the service provider	<b>Use of inputs</b>	Promotion of services	Distribution	Selling of output	After-sales support
<b>Examples:</b> Differences in practices and requirements for labour services recruitment, cross-border information on local skills availability; use of financial services by companies, provision of funding services, differences in access to business and professional services; purchasing of inputs by public authorities of services across borders.					

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Establishment of the service provider	Use of inputs	<b>Promotion of services</b>	Distribution	Selling of output	After-sales support
<b>Examples:</b> Differences in how companies can use services to raise awareness of their output (commercial communications – advertising, sales promotion, PR, sponsorship); and differences in the provision of independent comparative information on goods and services and mandatory disclosures requirements .					

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Establishment of the service provider	Use of inputs	Promotion of services	<b>Distribution</b>	Selling of output	After-sales support
<b>Examples:</b> Differences in logistics, warehousing, conditions for the retail trade, postal services, home delivery. Differences governing creation of and access to infrastructure allowing the reception of services. Barriers arising from lack of confidence in delivery systems.					

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Establishment of the service provider	Use of inputs	Promotion of services	Distribution	<b>Selling of output</b>	After-sales support
<b>Examples:</b> Differences in practices and requirements for national pricing regimes, indirect taxation regimes, payment systems, contracting and invoicing systems. Health, safety and security concerns.					

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Establishment of the service provider	Use of inputs	Promotion of services	Distribution	Selling of output	<b>After-sales support</b>
<b>Examples:</b> Differences in in-house customer services and customer complaint handling, extra-judicial redress mechanisms outside the firm and cross-border judicial redress systems. Liability issues. Enforcement by public authorities.					

## Stage 2 – Actions for 2002

2001 is a year for action and analysis. The following year will be a further package of initiatives undertaken on the basis of this analysis. These initiatives will take three basic forms: actions to tackle barriers which can be removed by direct application of Treaty principles; actions of a non-legislative nature; and, thirdly, actions that make use of targeted harmonisation to remove barriers.

**(i) Barriers which can be removed by direct application of Treaty principles** - Where possible, the principles of freedom of establishment and freedom to provide services should be directly applied to remove barriers. The Commission will carefully assess the general interest objectives pursued by national measures and strictly apply the proportionality test, on the basis of the case-law of the Court of Justice. Such barriers include any measure which is either discriminatory in law or in fact; those not justified by general interest objectives; or those which are found to be disproportionate. Where infringement cases have not already be opened, Member States will be requested to remove barriers in accordance with a strict timetable.

**Example of potential barriers:** Requirements which impose on operators established in one Member State the need to be established in another Member State if they wish to provide their services there; obligations for operators that offer services across borders which duplicate requirements already fulfilled in their home Member State; rules which preclude a company from taking all its staff across borders to provide services; less favourable treatment in tax matters for recipients of services, when the service provider is established in another Member State.

**(ii) Mechanisms to resolve non-regulatory barriers** – Some non-regulatory barriers may, in practice, constitute significant obstacles to the functioning of the Internal Market. They should, where possible, be tackled by non-legislative mechanisms. If appropriate, the Commission may propose a set of non-legislative measures. The Commission could also invite the interested parties to further develop these mechanisms.

**Examples:** there may be low awareness of the opportunities in the Internal Market for service providers; a lack of consumer confidence in cross-border services or inadequate structures for redress, especially for out of court dispute settlement; or there could be a lack of information on demand for services across frontiers.

**(iii) A targeted harmonisation to tackle the remaining barriers** – Harmonisation will be needed to remove any residual barriers. This must be coherent with other Community policies and achieve a high level of protection of the general interest objectives concerned. If the barriers identified are horizontal in nature (common to several sectors or having consequential effect on the provision of other service activities), a horizontal legislative instrument and specific harmonisation measures will be needed.

## **Conclusion**

**The proposed two stage approach is set out in more detail in Annex 1. The Commission invites the Parliament and the Council to endorse this two step strategy. The Commission would also welcome comments from all interested parties by 1 June 2001, to be sent to:**

**DG Internal Market  
European Commission  
200 rue de la loi  
1049 Brussels**

**or e-mailed to: [markt-services@cec.eu.int](mailto:markt-services@cec.eu.int)**

## **Annex: The two stage approach**

### **2001**

**The Commission urges the Council and the Parliament to come to rapid agreement in 2001 on the major legislative proposals before them, which impact on service activities in the Internal Market:**

- the proposal for a directive on the co-ordination of procedures for the award of public supply contracts, public service contracts and public works contracts (COM/2000/0275 final)
- the proposal for a directive on the distance marketing of consumer financial services and amending Directives 97/7/EC and 98/27/EC (COM/99/0385 final)
- With the aim of creating a fully integrated and liberalised telecommunications markets by the end of 2001, all proposals resulting from the Commission's 1999 review of the telecoms regulatory framework
- Proposal for a directive on the further opening to competition of Community postal services (COM/2000/0319 final)
- Proposal for a directive on the harmonisation of certain aspects of copyright and related rights in the Information Society (SEC/2000/1734 final)

Legislative follow-up to the Commission Communication updating the EU accounting strategy (COM/2000/359 final).

- Proposal for the takeover bids directive (Com /97/0565 final)
- Proposal for a directive amending directive 77/338/EEC as regards the value added taxes arrangements applicable to services supplied by electronic means

**The Commission will also initiate the following actions:**

**Action 1 Launch new initiatives to remove Internal Market barriers and increase the competitiveness of EU service markets, in particular on:**

- Commercial Communications (sales promotions),
- Regulated professions (recognition of qualifications),
- Financial services and electronic commerce
- Counterfeiting and piracy

**Action 2 Present a report reviewing individual directives, to enhance their contribution to the functioning of the Internal Market in services, with particular emphasis on:**

- Directive 98/48/EC on provision of information in the field of technical standards and regulations
- Directive 98/84/EC on the legal protection of services based on, or consisting of, conditional access
- Directive 93/83/EEC on rights related to copyright applicable to satellite broadcasting and cable retransmission
- Directive 96/9/EC on the legal protection of databases

**Action 3 Launch flanking measures to support the competitiveness of the EU service industry:**

- improve the Community's statistical data on services by accelerating implementation of existing statistical legislation and, where necessary, undertaking complementary surveys;
- launch a benchmarking project to develop a reliable methodology for the delivery of indicators on and reporting of intangible assets held by service companies;
- analyse how training of ICT skills could focus on the specific needs of service enterprises;
- focus on improving the process of innovation in the context of the sixth Framework Programme for R&D.

**Action 4 Launch a systematic survey of barriers to services in the Internal Market to identify specific problem areas. The results of this survey will be:**

- analysed to identify key areas in which to accelerate infringement procedures
- used to further improve the Commission's "Dialogue with Business and Citizens" internet site.
- presented to forum of high level experts from the Member States and interested parties to discuss and solve, where possible, identified problems

- complied in a report to the European Parliament and the Council on the functioning of the Internal Market for Services as the basis for the actions in 2002.

## 2002

On the basis of the analysis conducted in 2001, which will have identified barriers to the free movement of services, the following actions will be taken:

Action 1 – **Draw up a list of obstacles which can be removed by Treaty principles** The Commission will compile a systematic and comprehensive list of all barriers, which could be removed by the direct application of the Treaty, but where infringement cases are not already underway. This list, together with a request to remove all of these barriers within tight deadlines, will be presented to the Member States. In those cases where infringement proceedings have already been opened in 2001 or before, these will continue to be pursued.

Action 2 – **Launch a package of non-legislative measures** For non-legislative barriers that can be tackled by the use of alternative non-legislative instruments, the Commission will present specific initiatives, including Community codes of conduct, alternative dispute settlement mechanisms, and awareness actions designed to improve the flow of information.

Action 3 – **Bring forward harmonisation measures** For barriers which are horizontal in nature, an instrument will be proposed containing the following elements:

- Targeted harmonisation of requirements affecting several sectors or with knock-on effects across sectors, on the basis of a high level of protection for general interest objectives.
- A mechanism to ensure that the Internal Market can be used by all European service providers as their domestic market, notably through the efficient application of the principle of mutual recognition.
- Procedures to cope with new market developments and the evolution of the law, so as to avoid the risk of re-fragmentation of the Internal Market and to identify at an early stage the need for new Community legislation.

Where regulatory barriers which cannot be addressed by such a horizontal instrument, they will be tackled through **additional harmonisation measures**. In the light of past experience, these additional harmonisation measures are likely to be appropriate in areas with significant health and consumer protection considerations.

## **FINANCIAL STATEMENT**

### **1. TITLE OF OPERATION**

Communication from the European Commission to the European Parliament and the Council  
– an Internal Market Strategy for Services.

### **2. BUDGET HEADING(S) INVOLVED**

B5-3001 – Strategic programme for the Internal Market

B5-3002B - Fonctionnement et développement du marché intérieur

### **3. LEGAL BASIS**

Communication from the European Commission to the European Parliament and the Council  
– an Internal Market Strategy for Services (Articles 47, 49, 55, 95 and 157 of the Treaty establishing the European Community)

### **4. DESCRIPTION OF OPERATION**

#### **4.1 General objective**

Services are increasingly the drivers of the European economy. As such, the European Council in Lisbon requested that the Commission presents a new Internal Market Strategy for the removal of barriers to services, as a key plank of its policy to turn Europe into “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”.

Technological change makes it imperative to remove all unjustifiable barriers to the free movement of services. Companies’ competitive edge increasingly depends on the successful design, management and integration of services into their operations and sales. Many manufacturing firms are now offering services in addition to goods, in order to create value-added and differentiate themselves from their competitors. Efficient provision of services has thus become a major factor driving competition. Access to high quality and effective services clearly affects the quality of life of European citizens. It is therefore of universal concern, if there are unjustifiable and preventable barriers which force service activities to be carried out at national, rather than Internal Market level.

In response to the Lisbon European Council’s request to both the Commission and Member States to initiate a comprehensive Internal Market strategy to remove barriers to services, the Commission will present communication as the start of a process to adapt the Internal Market to the fundamental changes in how services are offered and delivered.

The policy approach to remove barriers to services will build on the concrete achievements in recent Internal Market policy – using techniques refined through the implementation of the Single Market Action Plan in 1997 and the Strategy for Europe’s Internal Market. These experiences have underlined the need to strike a balance between legislative and non-



legislative activity and between harmonisation and mutual recognition, and to involve all stakeholders at an early stage.

The Commission will examine whether the regulatory framework for services activities has become outdated due to technological and market change, as well as if there are any other barriers which result in companies and private individuals failing to take up the cross-border services available to them. This will be carried out through the use of externally acquired data (a survey and a follow-up study), the involvement of an expert group made up of representatives from the Member States, as well as in-house analysis.

The six main areas that the Commission will examine:

1. Barriers arising in the area of establishment of companies
2. Barriers to the take up of services by companies and private consumers
3. Barriers to the promotional activities of companies
4. Barriers to the distribution activities of companies (including retail)
5. Barriers to arising at the selling/ contracting stage of a commercial transaction
6. Barriers arising from shortcomings in the framework allowing efficient after-sales services

On the basis of a thorough assessment of these barriers, the Commission will propose a variety of legislative and non-legislative actions.

#### **4.2 Period covered and arrangements for renewal**

2001 - 2002

#### **5. CLASSIFICATION OF EXPENDITURE OR REVENUE**

#### **6. TYPE OF EXPENDITURE OR REVENUE**

The principle impact will be in the area of human resources. There will also be the need for quantitative and qualitative data to establish the exact nature of barriers for providers and users of services, and their spill-over effects into other areas of the economy. The total requirements for operational studies and surveys are estimated at +/- 0.85 million Euro.

## 7. FINANCIAL IMPACT

### DG MARKT

(in K€)

<b>B5-3001</b>	2001	2002	Total
One study on a general assessment of barriers for service providers and service users	300	-	300
Total	300	-	300

### DG ENTR

<b>B5-3002B</b>	2001	2002	Total
One study on statistical data on services	100	-	100
One study on measurement of intangible assets	250	-	250
One study on accounting standards	100	-	100
One study on skills training for ICT	100	-	100
Total	550	-	550

### Overall total

<b>B5-3001 + B5-3002B</b>	2001	2002	Total
Total	850	-	850

## 8. FRAUD PREVENTION MEASURES

The verification of expenditure comprises checking that tasks have been correctly performed before payment, taking into account contractual obligations and the principles of economy and sound financial management. Anti fraud provisions (verification, presentation of reports etc.) will be included in all contracts concluded between the Commission and the Contractors.

## 9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

As services represent the lion's share of the EU economy, any horizontal initiative by the Commission to remove barriers can be expected to have a non-negligible effect on human resources. Given the large-scale and original nature of the work set out in the Communication, as well as its tight timetable, the most effective means to guarantee success is to use a number of experienced human resources intensively (see point 10), over a relatively brief period of time (2 years).

The allocation of posts should be attributed to the following tasks:

4 posts - regulatory assessment of barriers,

2 posts - economic analysis of impact of barriers and their knock-on effects in the EU economy as a whole

4 posts – preparation of harmonisation and other proposals to remove barriers

Support 2 C posts

Co-ordination 0.5 A post

Given the highly delicate nature of both the assessment of barriers and proposals to remove them, as well as the need for close co-operation with other services in the Commission, other European institutions, and the Member States, it is most efficient to limit out-sourcing work to the studies set out in point 7.

### **9.1 Specific and quantified objectives; target population**

Adaptation of regulatory framework to market changes, notably those induced by technological change, resulting from the policy proposed in the Communication will allow users and providers of services to operate more effectively in the Internal Market. Quantitative measurement will be carried out by means of the standard instruments for assessing Internal Market Policy: the biannual Single Market Scoreboard, the annual Internal Market Business Survey, the Commission's annual Competitiveness Report and the Commission's annual report on the functioning of product and capital markets (also known as the 'Cardiff' report).

### **9.2 Grounds for the operation**

The Communication is in response to a request from the European Council in Lisbon to present a comprehensive Internal Market strategy for the removal of barriers to services. The Communication takes account of the fact that the Information Society will have a large impact on how services can be provided, not only on-line but also in the off-line environment. Faster diffusion of innovation will impact on all aspects of service provision, as it will increase competition and decrease the timeframe for a return on investments. The need for larger geographical markets to compensate for this is now more urgent than ever.

### **9.3 Monitoring and evaluation of the operation**

The Commission envisages presenting its interim conclusions on the actions needed at the end of 2001, as well as any legislative proposal(s) and a final assessment at the end of 2002, to the European Parliament and the Council.

## 10. ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)

Requirements in terms of human and administrative resources must be covered within the allocation granted to the managing DG.

### 10.1 Effect on the number of posts

#### Overall impact

Type of post		Staff to be assigned to the administration of the operation		Of which		Duration
		Permanent posts	Temporary posts	Use of existing resources within the DG or department concerned	Use of additional resources	
Officials or temporary staff	A	5.5		2.5	3	2 years
	B	0		0	0	
	C	2		1	1	
Other resources (END and auxiliary)		5		1	4	2 years
Total		12.5		4.5	8	

The majority of staffing will be required in mid 2001.

### 10.2 Overall financial impact of additional human resources

(in €)

Type of post		Staff to be assigned to the administration of the operation		Amount
		Permanent posts	Temporary posts	
Officials or temporary staff	A	5.5 * 108,000 *2 years		1 188 000
	B			
	C	2 * 108,000*2 years		432 000
Other (END)			4 * 40,704 *2 years	499 580
Other (Auxiliary)			1 * 86, 974*2 years	
Total		1 620 000	499 580	2 119 580

### 10.3 Increase in other administrative expenditure arising from the operation.

(in K€)

Budget heading (No and title)	Amount		Method of calculation
	2001	2002	
A – 7010 Mission expenses	19,5	19,5	2 * € 9.750 year one day visits of each EU capital = € 650 * 15 capitals = € 9.750 per year.
A – 7030, general meetings (accompanying Expert Group)	35,4	35,4	(A maximum of) <b>Four</b> meetings a year. 15 Member States * € 590 *4 = € 35.400
Total	54,9	54,9	

Credits will be found within the existing envelope allocated to DG MARKT.