TEHA Club

TEHA Club Europe

THE FUTURE OF THE
EU SINGLE MARKET

INSIGHTS FROM EUROPE'S BUSINESS COMMUNITY

(POLICY REPORT)

The European House Ambrosetti

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POLICY REPORT ON THE FUTURE OF THE EU SINGLE MARKET: GOALS, ACTIVITIES AND PARTICIPANTS OF THE INITIATIVE

GOALS OF THE INITIATIVE

In September 2023, the Belgian Presidency of the European Council appointed the former Italian Prime Minister, Enrico Letta, to draft a Report on the future of the European Single Market.

In light of his new role, President Letta invited The European House – Ambrosetti's (TEHA) Business Communities (TEHA Club and TEHA Club Europe) to share their experiences with the Market and to outline recommendations and proposals for its improvement, functional to further substantiate the high-level policy report.

In order to promote concrete changes on aspects that impact the activities of the companies that operate daily in the Single Market, TEHA Club and TEHA Club Europe have therefore launched a project entitled "The Future of the European Single Market", which will go from October 2023 to February 2024, and will be addressed by a Steering Committee of top executive members of TEHA's CEO community. The results will be summarized in a strategic paper to be shared with the Rapporteur by March 2024.

TEHA CLUB

TEHA Club, created in 1999 with membership reserved to the top management of national and international groups and companies operating in Italy and in Europe (it currently has more than 400 members), pursues a range of objectives, including contributing to the civic and economic progress of Italy and Europe in today's era of global competition. For a number of years, the Club has been involved in a process of reflection about Italy and Europe with the goal of:

- Analyzing and interpreting from a strategic-competitive perspective the distinctive characteristics of our contemporary world;
- Explicating these elements within the Italian context to understand the structural nodes for the country's growth;
- Proposing initiatives and corrective action to increase the level of Italy's and Europe's attractiveness and development.

TEHA CLUB EUROPE

TEHA Club Europe, created in 2015, is a permanent platform for private high-level discussion and networking, where Europe's top executives, policymakers and thought leaders can meet regularly and discuss priority issues for business and the economy.

The Club provides its members with the best insights and the finest networking platform available in Brussels, tackling current and future most relevant market, technology, regulatory and geopolitical trends.

High quality content and strategic view with business relevance as well as privileged relationships and open and informal exchanges are key elements of the Club membership.

ACTIVITIES OF THE INITIATIVE

TEHA engaged a total of 53 companies, interviewed 21 companies and trade associations and 30+ leaders, and organized three closed-door roundtables, of which two with President Enrico Letta, which took place between October 2023 and January 2024.

PARTICIPANTS OF THE INITIATIVE

TEHA would like to thank all the members of TEHA's Club and Club Europe for participating in the interviews and Advisory Board meetings, and for contributing to the development of the initiative:

- 3M Italia
- A2A
- ABB
- Adverteaser
- Alibaba
- American Chamber of Commerce in Italy
- AVM Associati
- Avvale
- Banca Sistema
- Banco Santander
- BCW Global
- BFF Bank
- Brembo
- Cefic
- Cefriel
- CLEPA – European Automotive Suppliers Association

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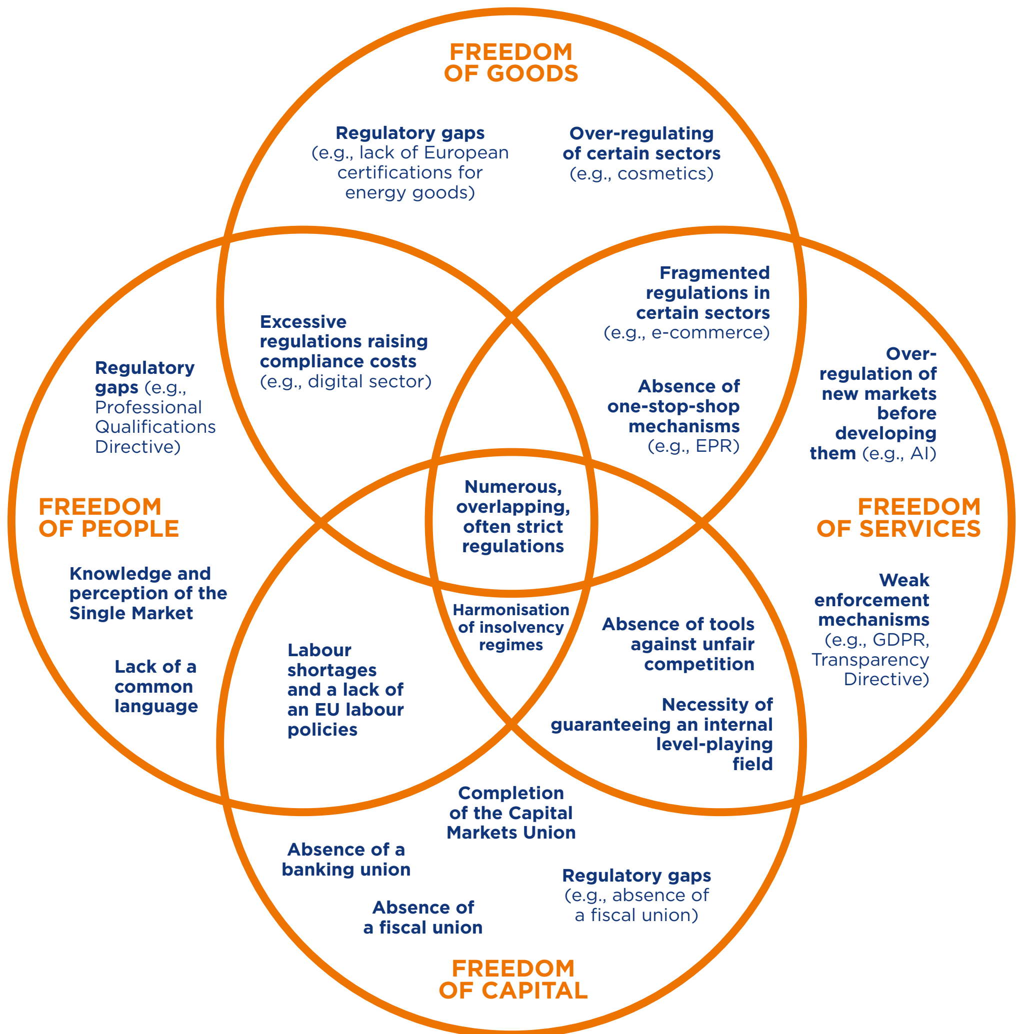
- Compugroup
- Crédit Agricole Corporate & Investment bank
- Danone Nutricia
- DXC Technology Italy
- Ebay
- Edison
- EFPIA
- Enel
- Esso Italiana
- Federfarma Lombardia
- Ferrovie dello Stato Italiane
- FuelsEurope
- GE Aerospace
- Ghelfi Ondulati
- HSBC
- Intesa Sanpaolo
- Italfluid Geoenergy
- KIKO
- Kometa 99
- Leone Alato
- Microsoft
- Modiano
- Nokia
- Nutanix Italy
- Oracle
- Pfizer
- Principe Ares
- Siram Veolia
- SNAM
- Società Italiana per l'Oleodotto Transalpino
- SPS Italy
- Terna
- Trane Technologies
- Uber
- UniCredit
- Veroniki Holding
- Vitale & Co
- Vittoria

THE INITIATIVE WAS COORDINATED BY THE EUROPEAN HOUSE – AMBROSETTI'S WORKING GROUP:

- **Valerio De Molli** (Managing Partner & CEO);
- **Emiliano Briante** (Partner);
- **Laura Basagni** (Head of Brussels Office & Project Leader of the initiative);
- **Sara Lelli** (Senior Consultant, TEHA Club);
- **Carolina Margherita Marelli** (Analyst, European Affairs Practice);
- **Carmen Lojacono** (Secretary Leader);
- **Ines Lundra** (Secretary);
- **Raja Ben Anaya** (Secretary).

SUMMARY OF THE KEY, OVERARCHING CHALLENGES THAT EUROPEAN COMPANIES IN DIFFERENT SECTORS CLAIMED TO FACE **WHEN ENGAGING WITH THE EUROPEAN SINGLE MARKET**



1. EXECUTIVE SUMMARY

This Report provides a comprehensive analysis of the status quo and proposed future developments of the European Single Market. It is based on extensive, closed-door consultations with European businesses and sheds light on both the opportunities and challenges of the Single Market, underlining the urgent need for policies to enhance its competitiveness and ensure its sustainability amidst the urgency of overlapping global crises, economic competition, and geopolitical tensions.

While recognizing the significance of the Single Market as a cornerstone of European economic cooperation and integration, the Report points out that disparities between the engagement of large enterprises and small and medium-sized enterprises (SMEs) in the Market persist, demonstrating the need for new initiatives to enhance the Market's accessibility to all businesses alike. The Report identifies and examines two key, overarching issues that European businesses face when operating in the Market: a) regulatory and administrative burdens, including a lack of harmonization and absence of rules in certain areas, as well as an overabundance of often risk-adverse rules in others, and b) the need for increased investments in European Union (EU) productivity in order to effectively address major European projects, such as the EU Green Deal, as well as to enhance the Market's regional economic security and global competitiveness.

The Report emphasizes the need for streamlining and simplifying the EU's regulatory framework and fostering harmonization, particularly with regards to fiscal and banking unions and insolvency regimes. Additionally, the Report suggests bolstering the EU investment capacity to contribute to the development and care of common public goods, such as infrastructure, healthcare, and climate strategies. These should include public tools – such as the establishment of a new EU Sovereignty Fund – as well as private through greater capital integration. Furthermore, in order to enhance the Market's competitiveness, concerted efforts are needed to reduce business' operational costs and support industrial policy initiatives aimed at enhancing economic security. In conclusion, the Report calls for joint efforts from EU Institutions and Member States (MS) to prioritize and advance the development of the Market, ensuring its continued relevance and effectiveness in navigating contemporary challenges and opportunities.

2. INTRODUCTION

In September 2023, TEHA was asked to produce a policy report on the future of the European Single Market starting from the experience of Europe's businesses, represented by TEHA's Club and Club Europe members. The findings of this research will inform the Report on The Future of the European Single Market which was commissioned to Enrico Letta by the Belgian Presidency of the Council of the EU, to be presented in the Spring of 2024. The need for a new report on the Single Market stems from both internal and external causes, including global public crises such as the Covid-19 pandemic and climate change, as well as increased economic competition and geopolitical tensions on the global stage. As Mario Draghi stated in November 2023, there is a "realization that the geopolitical, economic model upon which Europe rested since the end of the second world war has radically shifted"[1] thus questioning the solidity of the Single Market and its capacity to respond to contemporary challenges.

Even though in theory EU MS are aware that they are stronger together, in practice a tendency to respond to crises by looking inwards remains strong[2]. Examples include national responses to the banking crisis in 2008; initial national responses to the 2020 COVID-19 pandemic; and national responses during the energy crisis following Russia's war of aggression in Ukraine. To date, the fiscal support that is provided to companies at the national level to protect domestic production from external shocks creates a tension between the pursuit of economic goals in an increasingly competitive international environment and the need to ensure a level playing field within the Single Market itself.

The absence of European instruments to on the one hand ground the European industrial strategy outlined by the EU Green Deal and at the same time ensure the resilience of the European industrial system risks undermining the soundness and very existence of the Single Market. Moreover, persisting gaps in harmonization prevent companies from using the Single Market as one rather than a combination of multiple markets. However, business leaders unanimously agree that maintaining and further developing a solid Single Market is of the uttermost importance, especially in light of the rapidly shifting global environment. This tension calls for a reassessment of the Single Market's condition and the instruments available in its toolbox.

3. BACKGROUND

The Single Market was established in 1993 with the goal of guaranteeing the free movement of goods, services, people and capital between EU MS, European Economic Area (EEA) and European Free Trade Association (EFTA) countries. Today, the Single Market offers opportunities for trade and economic activity for around 23 million active companies and over 440 million European citizens to travel, live, work or study where they want, creating a unified economic area among EU MS.

The Single Market represents one of the EU's greatest achievements as well as a cornerstone of the European integration process. It has not only brought long-lasting peace and driven growth in Europe for decades, but it has also contributed to creating new businesses, jobs and prosperity on which Europeans depend. The Single Market has moreover generated a continent-sized market and created the world's largest trader of manufactured goods and services. According to European Commission estimates, the economic benefits of the market represent roughly 8.5% of the Union's gross domestic product (GDP). In 2021 alone, the GDP of the Single Market exceeded €14,554 billion[3], approximately 71% of the United States' (US) GPD in the same year (€20,300 billion)[4]. Importantly, European Commission estimates suggest that **the Market has added between 6% and 8% to the EU's GDP since the programme for its completion was launched in 1985**[5]. Moreover, according to TEHA's Global Attractiveness Index (GAI) — which compares 148 economies globally, representing 95% of the world's population and 99% of global GDP —, the sum of Single Market countries' positioning over time has improved by 41 points (+4%) between 2021 and 2023 alone.

EUROPEAN COMMISSION ESTIMATES SUGGEST THAT THE SINGLE MARKET HAS ADDED **BETWEEN 6% AND 8% TO THE EU'S GDP SINCE THE PROGRAMME FOR ITS COMPLETION WAS LAUNCHED IN 1985.**

Over the past three decades, controversy has surrounded media and academic discourses on the Single Market. While some perceive it as emblematic of a unified Europe collaborating harmoniously, others view it as a process driven by an elite that marginalises certain sectors and segments of the population. Moreover, EU-wide crises, such as the Eurozone crisis, Brexit, and the COVID-19 pandemic, have revealed vulnerabilities in the design and operation of the Single Market and have thwarted some initiatives for further market integration[6]. While the Single Market has come a long way the four freedoms, especially that of services and capital, are still a work in progress. In fact, there are still instances of technical, legal, and bureaucratic obstacles to movement within the EU and important markets, such as the one for financial services, energy and transport, which are still predominantly national.

"EUROPEANS WILL JUDGE THE SINGLE MARKET, QUITE RIGHTLY, ON THE FREEDOM AND THE ADDITIONAL SCOPE FOR INITIATIVE THAT IT GIVES THEM"

Jacques Delors, European Parliament, 1992

KEY FACTS
ON THE EUROPEAN SINGLE MARKET[7]:

- The Single Market has seen the EU's annual exports grow **fivefold** from €671 billion in 1993 to >**€3,400 billion in 2022;**
- **440 million European citizens** benefit from the Market. They have a greater choice in products and services at a competitive price and can live and work in any EU country;
- **24 million companies** operate in the Market;
- **17 million Europeans** live or work in an EU country other than the one they are from;
- **15%** of goods sold worldwide come from the EU.

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The EU has been shaped through extensive intergovernmental cooperation and a gradual transfer of competences from national to supranational levels. Representing one of the most successful instances of regional integration worldwide, European cooperation underscores the EU's stature as a champion of inter-state collaboration. Because it is a hybrid between a regional organization (that are predominantly intergovernmental) and a federal state (which pools sovereignty at the supranational level) the EU and its Single Market represent a unique political and economic experience, whose stumbles are partly due to its singularities, including its 24 official languages and 39 education systems. The convoluting experience of the Single Market evolution mirrors and is directly influenced by the convoluting nature of the EU itself and the continuous effort to create a common culture and understanding.

4. BODY OF REPORT: MAIN ISSUES AND RELATED PRIORITIES FOR THE FUTURE OF THE EUROPEAN SINGLE MARKET

The aim of the present Report is to gather and investigate opinions and experiences of the European business community about the current functioning of the Single Market, its capacity to foster a well-functioning economy in the EU, and the main issues and related priorities for its further development. **A pool of 53 companies were consulted in preparing this Report.** As such, this analysis gathers and interprets the view of this business community and focuses on those aspects of the Single Market and its evolution that are perceived as a priority for them. The companies that were invited to participate in the research are members of TEHA's Club and Club Europe, which gather business leaders of companies operating respectively in Europe and in Italy. While members of the Club Europe are all large-sized firms operating internationally, the TEHA Club has a more diverse membership that includes small- and medium-sized enterprises as well as large scale businesses. However, **only large-sized companies responded to our research call.** This data reinforces the notion that **while the Single Market is perceived as an opportunity by big European companies and foreign companies that participate in the European economy, it remains much more obscure and inaccessible for SMEs.** The Single Market has not yet reached full harmonization and proceeds at different speeds depending on the sector. Regulatory burdens and compliance costs are still very high and comparatively more onerous for SMEs, that are often unable or unwilling to scale outside their national market. In general, there is a consensus that while education should play a stronger role to shed light on the Single Market — and the EU more generally — simplifying the Single Market for its users will be the most successful promotional strategy to restore its image, especially among SMEs.

For this very reason, the first section of the Report's findings deals with issues related to regulatory and administrative burdens as well as the lack of harmonization within the Market, which makes it difficult for companies to fully operate at the EU level. The second part of the findings deals instead with the capacity of the Single Market to help achieve the EU and its business community's goals. This section is divided into two parts, focusing respectively on investment opportunities and economic security. **There is a consensus that the EU needs better matching between its ambitions and resources,** particularly on issues not limited to climate mitigation and adaptation. In particular, the EU Green Deal has moved EU policymaking away from integration and closer to the management of European (and global) public goods, i.e., climate[8]. As the completion of the Single Market is not really a goal but rather a tool to pursue the EU's values and objectives, the Market's evolution should mirror the broader evolution in international policymaking.

A. SINGLE MARKET INTEGRATION: THE REGULATORY FRAMEWORK

The Single Market's regulatory framework continues to suffer from several problems that can be categorized as follows: problems associated with an overabundance of rules and a normative style that is perceived as excessively precautionary and risk-averse; problems due to the fragmented and inefficient (or absent) implementation of rules; and problems related to an absence of either EU rules or insufficient EU-level harmonization of national rules.

The above-mentioned issues all significantly contribute to increasing compliance costs for companies, making doing business in Europe comparatively more expensive than in other markets and often acting as barriers preventing the Single Market from fully achieving its potential. For instance, according to the World Bank data (2019), the average time required to start a business in the EU is approximately 12 days, compared to just 4 days in the US and 9 days in China[9]. Moreover, already in the early 2000s, a **European Commission report on labor law found that European businesses spend approximately a total of €600 billion annually on compliance with EU regulations, representing about 4% of the EU's GDP[10].** According to a study conducted by the European Central Bank (ECB), EU financial companies specifically spend on average €260 million per year on compliance-related activities, including anti-money laundering

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activities, data protection laws and financial reporting requirements. These regulatory costs, coupled with the complexity of navigating varying national regulations within the Market, create a burdensome environment for businesses and deter further investments and entrepreneurship. Consequently, companies often find it more financially viable to conduct business in other global markets where regulatory burdens are perceived to be lower, thus undermining the competitiveness and growth potential of the European Single Market.

ACCORDING TO WORLD BANK DATA (2019), THE AVERAGE TIME REQUIRED TO START A BUSINESS **IN THE EU** IS APPROXIMATELY **12 DAYS, COMPARED TO JUST 4 DAYS IN THE US AND 9 DAYS IN CHINA.**

I. THE EU'S NORMATIVE STYLE: AN OVERABUNDANCE OF RULES AND A RISK-AVERSE APPROACH

At its core, the Single Market is founded on the principle of harmonization, seeking to eliminate barriers to the free movement of goods, services, people, and capital. Central to this endeavour are the numerous regulations, directives and standards that govern the various facets of economic activities within the Market. However, over time, the stockpiling of rules has made it excessively complex for business, especially SMEs, to navigate the regulatory landscape. Moreover, **the EU's normative style has drawn criticism for its perceived emphasis on precaution and risk-aversion.** While the EU's intent is often to safeguard consumer rights and environmental sustainability, among other issues, European companies contend that this has led to regulatory overreach and stifled innovation and entrepreneurship.

The EU's risk-averse stance is particularly evident in sectors such as but not limited to chemicals, pharmaceuticals and digital innovation, where rapid advancements often outpace regulatory frameworks. Furthermore, the EU's tendency to adopt a risk-averse approach can also lead to an overabundance and overlapping of regulations, thus generating legal uncertainty as well as compliance costs, and adversely affecting the business environment and

economic activities, with a particular impact on SMEs. Related to this, **"complex administrative procedures" have been listed as the most serious obstacles of the Single Market, indicated as "significant" or "very significant" by 79.5% of respondents to the Eurochambres 2019 Business Survey[11],** followed by "different national service rules" (71.6%) and "inaccessibility to information on rules and requirements" (69.1%)11. This report explores two examples, namely pre-emptive regulation in emerging sectors such as Artificial Intelligence (AI) and instances of conflicting regulations within the technological sector.

WHAT IF THE EU COMPLETES THE SINGLE MARKET FOR GOODS?

According to the European Parliamentary Research Service (EPRS), increased harmonization, improved transposition and implementation of EU law, and quicker remedies against non-enforcement could boost the EU economy for up to **€269 billion**, equal to **1.7%** of the EU's GDP[12].

REGULATING A MARKET BEFORE EXPLORING IT: THE CASE OF ARTIFICIAL INTELLIGENCE

AI is the new frontline of innovation, opportunity, and growth. However, as breakthroughs in this realm are moving at a much faster pace than governance efforts, the risk is that an "AI Wild West"[13] develops, similar to the widely unregulated social media environment, but with greater risk for harm, ranging from job displacement to security and privacy concerns. In response to the latter challenges, in December 2023, the EU agreed on its much-heralded AI Act, one of the world's first comprehensive attempts to regulate AI. The regulation imposes obligations on companies involved in designing and/or utilizing AI within the EU, and backs it up with significant penalties: most violations of the Act will cost companies €15 million or 3% of annual global turnover, but can go as high as €35 million or 7% of annual global turnover for violations related to AI systems that the act prohibits.

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If on the one hand the EU is positioning itself as a pioneer and a global standard setter, on the other hand, the AI Act risks hindering the EU from becoming a major player in AI innovation by limiting the possibility of investments and innovation in the AI ecosystem. In fact, **European companies have fiercely lobbied to leave AI systems unregulated**[14] due to fears that stringent regulations could stifle innovation and hamper their ability to compete globally, especially against tech giants like the US and China, which are not regulating AI to the same extent that EU is. In fact, in the US there is currently no comprehensive federal legislation specifically targeting AI, and in China, while there are regulations related to data privacy and cybersecurity, the approach to AI regulation has focused more on promoting innovation and competitiveness rather than imposing regulatory frameworks. Companies in Europe have moreover emphasized the importance of fostering an environment that is conducive to technological advancement and entrepreneurship, suggesting that restrictive regulations could impede the development and deployment of technologies. Considering these concerns, the European technological sector requires a dual approach: as the EU enforces additional regulations via the AI Act, it must also cultivate innovation to reframe AI as a significant opportunity for the European innovation ecosystem[15].

"AI SHOULD BE USED AS A WAKE-UP CALL FOR THE EUROPEAN UNION. IF IT IS NOT TO BE LEFT BEHIND, WE MUST ENSURE THAT THE EUROPEAN UNION CAN INNOVATE"

Anu Bradford, Foundation Robert Schuman, 2023

WHAT IF THE EU CAN SUCCESSFULLY PROMOTE AND REGULATE AUTOMATION AND AI TECHNOLOGIES?

According to the EPRS, EU policies regulating automation and AI technologies have the potential to unlock an estimated **€206 billion yearly** in added value for the European economy, i.e., in potential efficiency gain[12].

CONFLICTING REGULATIONS: THE CASE OF THE STANDARD ESSENTIAL PATENTS FRAMEWORK

Standardization plays a pivotal role in fostering technological innovation and enhancing global competitiveness. The EU's Standard Essential Patents (SEP) framework refers to guidelines and regulations governing patents that are deemed essential for the implementation of industry standards in the EU. SEPs are typically patents that cover technologies or innovations necessary to comply with technical standards set by standard-setting organizations (SSOs)[16]. While the framework aims to ensure the fair licensing of SEPs to promote competition, innovation, and the transparent adoption of standardized technologies, it often intersects with other existing regulations. For example, SEPs are patents that are deemed essential for the implementation of a particular industry standard. As such, holders of SEPs are required to license them on fair, reasonable, and non-discriminatory (FRAND) terms to ensure fair competition and avoid monopolistic practices. However, conflicts can arise when SEP holders and potential licensees disagree on what constitutes fair and reasonable licensing terms. This can lead to disputes over licensing fees and terms, potentially resulting in antitrust investigations and litigation.

Moreover, overlaps between SEPs and other intellectual property laws and regulations, such as patent laws and regulations governing intellectual property rights, create legal ambiguity, hindering enforcement and technological progress. Lastly, and more generally, the regulation of SEPs also intersects with numerous other EU regulatory frameworks, including competition law, intellectual property law and consumer protection regulations. As such, conflicts may arise when regulations governing SEPs clash with other regulatory objectives or principles, leading to inconsistencies in enforcement and compliance requirements.

RECOMMENDATIONS

To overcome the challenges related to overregulation facing the Single Market and ensure its continued competitiveness and capacity for innovation, two key recommendations should be considered. First, the European Commission should assess to what extent its regulatory approach is aligned with Europe's industrial policy and fosters competitiveness, especially in sectors in rapid expansion that are considered critical for national security. For instance, while regulating emerging sectors like AI, **the EU should consider not only prioritizing safety concerns but also recognizing AI as a valuable opportunity for economic growth and technological**

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advancement. This can be achieved by focusing on initiatives financing AI, building a robust AI-centric ecosystem, ensuring data sovereignty, nurturing AI skills and then aligning AI regulation with innovation. By prioritizing these measures, the EU can strengthen its position as a global AI hub and avoid remaining a secondary player at best. Second, the Commission should also reconsider existing regulations and explore opportunities for revision and improvement before or while introducing new regulations. This is because continuously adding new regulations without properly assessing the existing regulatory framework risks exacerbating complexity and regulatory overlap, hindering business operations and innovation within the Market. Therefore, a strategic approach to regulation that emphasizes coherence and adaptability is essential for overcoming regulatory challenges and promoting the competitiveness of European companies not just within the Market, but also on the global stage.

II. A FRAGMENTED AND INEFFICIENT IMPLEMENTATION OF RULES

In the context of the Single Market, instances of fragmented and inefficient, or even absent, implementation of EU rules presents additional significant challenges to the proper functioning of the internal market. EU legislation comes in three main forms: Regulations, Directives and Decisions. While Regulations are directly binding on all MS, setting a common standard across the Union, Directives allow for flexibility in implementation, demanding individual countries to determine how to achieve specified results. Finally, Decisions are binding legal acts used to address specific cases or situations and may be directed at individual MS, companies or individuals[16]. Out of the three, the flexible nature of Directives often leads to variations in the implementation and enforcement of EU rules, with this legislative instrument being much more susceptible to fragmentation and inefficiency compared to Regulations. As of December 2023, a total of 1,001 directives and 6,492 regulations were in force to ensure the functioning of the Single Market[17].

ACCORDING TO THE EUROPEAN COMMISSION, IN 2023, A TOTAL OF **1,001 DIRECTIVES AND 6,492 REGULATIONS** WERE IN FORCE TO ENSURE THE FUNCTIONING OF THE EUROPEAN SINGLE MARKET.

Moreover, according to the Single Market Scoreboard[17], despite efforts on behalf of the European Commission to ensure that Single Market directives are effectively transposed and implemented within MS, they reveal a mixed performance, with some states showing improvements, while others experienced a decline in their transposition performance. In fact, while the average transposition deficit (i.e., the gap between the number of Single Market directives adopted by the EU and the number of directives that each MS has transposed into its national legislation) has decreased by -0.4% compared to 2022, challenges remain evident, particularly in reducing transposition delays and addressing non-communication cases in a timely manner.

MEMBER STATES, NUMBER OF DIRECTIVES NOT NOTIFIED

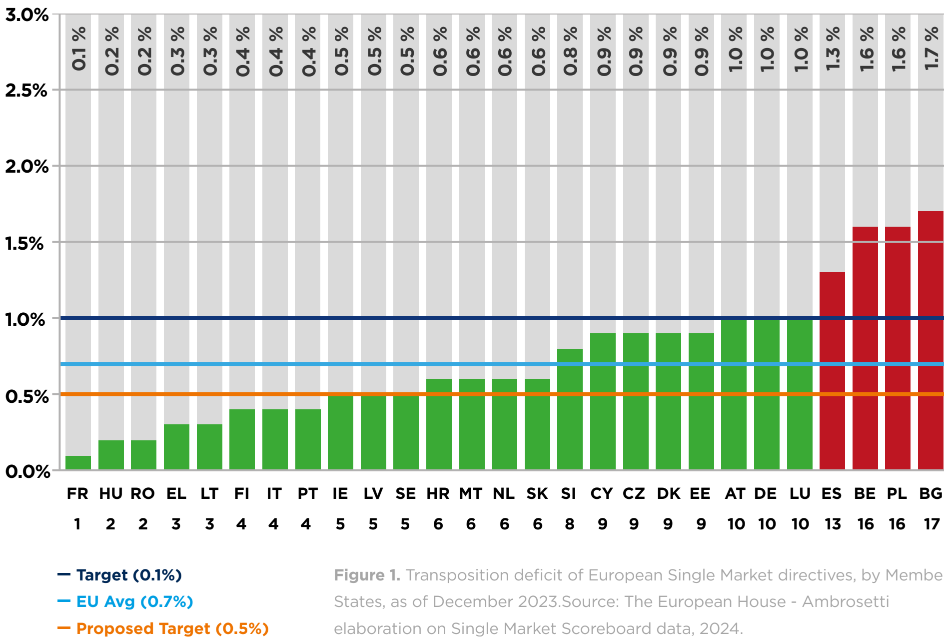

Figure 1. Transposition deficit of European Single Market directives, by Member States, as of December 2023.Source: The European House - Ambrosetti elaboration on Single Market Scoreboard data, 2024.

Finally, the global rise of protectionism and the challenges posed by digitalization have pushed some EU companies and MS to act increasingly defensive, seeking ways to protect themselves from intense competition. This was certainly exemplified during the beginning of the COVID-19 pandemic, during which EU MS paused the application of EU rules in favor of national-level measures to address the crisis, with some MS implementing border closures and

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export blockades in efforts to contain the spread of the virus and safeguard their citizens[18]. Such measures, which resulted in disruptions in the flow of goods and services within the Market, did not only highlight the importance of coordinated enforcement efforts at both the EU and national levels, but also emphasized the need for robust and adaptable enforcement mechanisms to address unforeseen challenges and maintain the integrity of the Single Market in times of crisis.

In light of these challenges, the Report examines two examples, namely the fragmented implementation of the EU's General Data Protection Regulation (GDPR) and the lack of enforcement mechanisms for MS that do not comply with the EU Transparency Directive.

THE FRAGMENTED IMPLEMENTATION OF THE GDPR

The implementation of the GDPR — a comprehensive data protection regulation established in May 2018 — has revealed significant challenges and fragmentation, particularly impacting smaller businesses and organizations. Despite lacking derogation for SMEs within the GDPR, the European Parliament has called on the European Data Protection Board (EDPB) to issue clear guidelines to assist SMEs in compliance. Companies are facing hurdles in meeting GDPR requirements, including optimizing data quantity, and implementing robust data management practices. Moreover, challenges arise from historically large and exponentially increasing data volumes, coupled with a lack of insights into relevant data and structures. This situation consequently leads to fragmented and uncontrolled data management, increasing the risk of privacy violations and incurring high costs.

Additionally, the GDPR's uniform application without differentiation between companies, sectors or technologies further adds to the complexity and uncertainty of its enforcement. Despite its designation as a Regulation, the GDPR's implementation resembles a hybrid approach between a Regulation and a Directive, with many issues left to MSs' and/or companies' discretion, leading to uncertainty and fragmentation in its application across the EU. **Even with its positive impact on personal data protection, uneven enforcement and varying interpretations remain significant concerns, highlighting the need for more coherent and consistent enforcement mechanisms.** At the company level, GDPR compliance costs can exceed €1 million for numerous businesses, but also vary significantly depending on the sector at stake, with banks (estimated €79 million in implementation costs), technology and telecommunications (€24 million), and energy and utilities companies (€23 million) spending the most due

to the sensitive nature of the data at hand[19]. The latter differences do not only imply that sectors with higher compliance costs may experience greater strain on their financial resources, but also risk creating a competitive disadvantage vis-à-vis industries that have lower compliance costs.

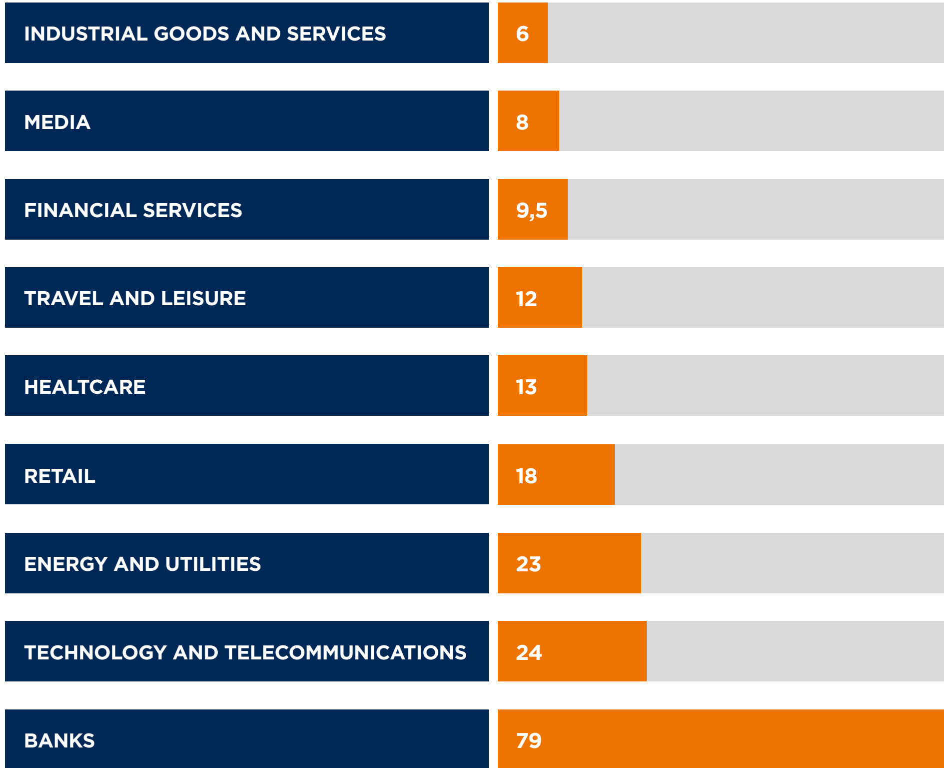

Figure 2. Average estimated implementation costs of the GDPR by sector, 2018 (€ million).
Source: The European House - Ambrosetti elaboration on Statista data, 2024.

At the Member State level, the GDPR has raised significant challenges in countries like Germany, where compliance burdens are exacerbated by inconsistent enforcement across the constituent states and potential impacts on digital innovation have emerged as key concerns. For instance, a study conducted by the German Association for Data Protection and Data Security (GDD) found disparities in the number and severity of fines imposed by different regional data protection authorities for similar violations, thus significantly complicating efforts for businesses to operate nationally and leading to uncertainty and

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potential compliance gaps. As such, **private and public stakeholders in Germany, including businesses, legal practitioners and policymakers, have called for cleared guidance and standardized interpretation of GDPR provisions,** streamline compliance processes, and ensure consistent enforcement across the country and its regions[20].

WHAT IF THE EU COMPLETES THE SINGLE MARKET FOR SERVICES?

As approximately two thirds of the potential gain from fully realizing the single market for services remains unrealized, EPRS estimates the potential gain of achieving this to be **€297 billion**, equal to **2%** of the EU's GDP[12].

THE LACK OF EFFECTIVE ENFORCEMENT MECHANISMS FOR THE TRANSPARENCY DIRECTIVE

The EU Transparency Directive 89/105/EEC aims to ensure that any measures taken by EU countries to set the prices of and reimburse medicinal products are transparent. However, **the absence of robust enforcement measures significantly undermines the Directive's effectiveness in practice.** One significant issue is the prevalence of delays in pricing and reimbursement procedures, with some MS exceeding the timeframes set by the Transparency Directive, with no clear consequences or penalties for the States that fail to adhere to these provisions. The lack of enforcement mechanisms in this regard not only undermines the integrity of the Single Market but it also hampers patients' timely access to innovative medicines. Another claimed enforcement-related problem is the insufficient oversight and enforcement capacity demonstrated by national regulatory authorities, leading to lax enforcement of transparency requirements. In some cases, this has allowed pharmaceutical companies to engage in anti-competitive behavior or collude with other market players to manipulate prices, thus undermining the principles of fair competition and transparency.

RECOMMENDATIONS

To address the challenges posed by fragmented implementation of regulations in the Single Market, several key recommendations should be considered. First, it is crucial for the EU to adopt the appropriate type of legislation based on the intended scope and impact. This means utilizing regulations when a uniform standard is necessary across all MS, and adopting directives judiciously, considering the potential for divergent national implementations. Second, standardizing definitions within Directives is essential to prevent confusion and ensure consistent implementation at the national level. Establishing clear and universally understood terms, such as those relating to "privacy" and "personal data" in the GDPR, can facilitate smoother compliance and enforcement processes. Third, the enforcement of directives must be strengthened, with the European Commission urged to take bolder actions, including more frequent referrals to the European Court of Justice (ECJ), thus enhancing deterrence and compliance. Finally, MS should prioritize the effective implementation of EU rules, committing to better enforcement and cooperation with EU institutions. Targeted efforts may be necessary for countries with higher rates of non-compliance, such as Germany, Belgium, Cyprus, Austria, and France, which have been overrepresented in infringement proceedings and often exhibit delayed responses to Commission inquiries.

III. PROBLEMS RELATED TO THE ABSENCE OF RULES

The absence or scarcity of rules in certain areas of the Single Market, which risks leading to confusion and fragmentation, also poses significant obstacles to economic prosperity, consumer welfare and sustainable development across the economic bloc.

In this section, the Report will focus on the least developed of the four freedoms, the freedom of capital, which represents a significant challenge with far-reaching implications. While substantial progress has been made to address some architectural issues, such as conditional lending facilities and key elements of a banking union, the Market still needs to build elements of a common fiscal policy, including more fiscal risk sharing to preserve financial and economic integration and stability. Without some degree of fiscal union, the region will continue to face existential risks that policymakers should not ignore. While

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there is no doubt that completing the Market's institutional setup is politically difficult and controversial, it is also an economic necessity.

NO FISCAL UNION AND BANKING UNION IN SIGHT

The absence of a unified fiscal union within the EU presents significant challenges within the Single Market. Despite attempts in harmonizing certain tax regulations like Value-Added Tax (VAT) rules, variations in direct taxation, particularly in corporate income tax rates and incentives, persist. For example, the VAT registration and compliance requirements across EU MS impose significant burdens on businesses, especially SMEs, leading to high administrative costs and complexities, particularly when storing inventory in multiple countries. In spite of the VAT reform in July 2021 introducing a simplified VAT collection system, SMEs still incur substantial costs, estimated at around €8,000 per year per EU MS for online sales. Moreover according to a 2020 European Commission report, tax compliance costs for SMEs can still amount to up to 30% of taxes paid[21]. Such discrepancies in direct taxation do not only complicate cross-border business operations but also lead to an unequal treatment of EU citizens, such as those facing taxation issues with pensions earned across multiple EU countries, potentially resulting in unfair or disproportionate tax burdens. Moreover, the lack of a unified tax framework perpetuates residency requirements for employment, hindering labor mobility and potentially constraining economic growth. Additionally, diverse national tax credit systems and approaches to corporate profit taxation affects the Single Market's level playing field, impacting investment decisions and market competitiveness. **A harmonized fiscal union could streamline tax regulations, alleviate administrative complexities, and promote a fair and conducive business environment within the Market.**

Similarly, the absence of a comprehensive banking union in the EU exacerbates regulatory fragmentation and supervisory divergence, posing systemic risks to the Single Market. While initiatives like the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) have been established, progress on crucial components like the European Deposit Insurance Scheme (EDIS) has been hindered by political and technical challenges in MS. The lack of a common deposit insurance framework increases the vulnerability of banks and undermines investor confidence, particularly in countries grappling with non-performing loans. Furthermore, the absence of an efficient backstop mechanism for bank resolutions intensifies the risk

of financial contagion and economic instability across the Eurozone. The fragmented regulatory landscape and unresolved banking issues impede the competitiveness of companies and financial institutions operating within the Single Market, underscoring the urgent need for a banking union to address systemic risks and promote financial integration and stability. Furthermore, it is worth noting that both the SSM and SRM were established in response to the 2011 banking crisis and have since had a positive impact on the Single Market: the SSM has directly supervised significant institutions, covering over 80% of the Eurozone's banking assets, and the SRM has handled resolution cases, ensuring timely and effective measures to address failing banks and mitigate systemic risks. In fact, the factors that prevent the full functioning of the two above-discussed mechanisms are mainly related to the reluctance of EU MS in sharing financial risk, and related concerns of sovereignty, fiscal discipline and distrust among states.

WHAT IF THE EU COMPLETES THE BANKING UNION?

Acknowledging that significant measures to complete the Banking union have been put in place and further assuming that major gaps remain, EPRS estimates suggest that **€75 billion** of potential gains are still to be realized in this field[12].

THE LACK OF A HARMONIZED INSOLVENCY REGIME

Despite efforts to prioritize harmonization across MS insolvency regimes, progress has been slow and met with resistance. Currently, the primary instrument addressing cross-border insolvency proceedings is the European Insolvency Regulation (EIR), which came into force in 2002, was revised in 2015 and aims to provide a framework for handling insolvency cases involving companies with operations or assets in multiple EU states. EU initiatives intensified and gained momentum in the aftermath of the Global Financial Crisis of the late 2000s,

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culminating in the adoption of the Commission's Recommendation on a New Approach to Business Failure and Insolvency in 2014, the EIR Recast in 2015 and the Preventive Restructuring Directive in 2019.

Nevertheless, the COVID-19 pandemic soon highlighted the limitations of these harmonization efforts, revealing gaps in the EU's insolvency framework. In fact, the pandemic triggered a natural convergence in insolvency laws at the national level, challenging the notion that substantive harmonization in this area is too politically sensitive. As such, scholars have advocated for a dual approach to increasing legal similarity in the EU, involving both top-down harmonization measures and bottom-up national solutions. Critics have moreover emphasized the need for a structured debate and a solid theory of harmonization, stressing the importance of understanding linguistic nuances in EU policy terms such as "harmonization" and "convergence", as well as the need for EU MS themselves to be driving harmonization efforts in this regard.

The achievement of a common EU insolvency regime would not only help facilitate cross-border business operations and investments, but it would also ensure greater economic stability in the Single Market. On the other hand, **the current absence of unified framework for insolvency across the EU has the potential to lead to a loss of GDP growth by up to 1.7%** annually due to inefficiencies and obstacles in cross-border insolvency proceedings, according to ECB estimates.

RECOMMENDATIONS

Considering the challenges related to the absence of comprehensive rules in crucial areas such as fiscal, banking and insolvency regimes, MS should engage in constructive dialogue and overcome political obstacles by prioritizing the issue on national agendas and engaging in regular summits and working groups dedicated to fiscal policy coordination. Mechanisms to monitor and evaluate progress towards fiscal, banking and insolvency integration should be established, including regular reviews, impact assessments, and peer evaluations to provide valuable insights and help guide future policy decisions.

While the successful development of a fiscal union, banking union and a harmonized EU insolvency regime may be lengthy processes, they are indispensable for unlocking the full potential of the Single Market, particularly in terms of fostering the freedom of services and capital. Therefore, national policymakers should prioritize these objectives as fundamental pillars for promoting economic prosperity, consumer welfare and sustainable development across the EU.

B. THE SINGLE MARKET AS A TOOL: INVESTMENTS AND ECONOMIC SECURITY ARE PRIORITIES FOR EU COMPETITIVENESS

I. INVESTING IN EUROPEAN PUBLIC GOODS

The Single Market does not exist in a vacuum. In fact, the global economy is undergoing historic changes driven by the emergence of new transformative technologies as well as sustainability and climate goals becoming paramount, which heavily impact the perspective on the Single Market, its evolution, and its role as a useful tool to achieve the EU's political and economic goals. In terms of policy and regulatory innovation, the EU has been at the forefront with the 2019 European Green Deal, a comprehensive growth strategy which aims to make the Single Market the first climate neutral world economy by 2050[22]. The Green Deal also informed the economic reaction to the COVID-19 pandemic which spurred the biggest wave of public investment since the post-Second World War period, with the €750 billion European recovery package called Next Generation EU[23]. The urgency to accelerate the energy transition in Europe not only for environmental but also for security reasons has been further reaffirmed by the consequences of Russia's war of aggression in Ukraine in 2021 and the subsequent reduction of fossil fuel imports and dramatic raise in energy costs for European industries and households.

Against this backdrop, **the Single Market requires more investments into EU productivity to finance the large projects of public interest needed to deliver on the twin digital and green transitions,** the pandemic recovery, and the quest for economic security. However, the ongoing trend of raising state aid spending is problematic for the very existence of the Market as it creates imbalances among MS and jeopardizes the Market's internal level playing field. Furthermore, the overreliance of the private lending sector on banking as the primary financial instrument has curtailed the availability of capital flows into the European economy, particularly to those high-growth enterprises that tend to be the leaders in innovation and job-creation, but also to present a risk portfolio that is better catered through capital market funding instruments.

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According to the European Commission's estimates, more than €700 billion will need to be invested every year in order to finance the green and digital transitions alone[24]. New sources of public and private investment at the EU-level are therefore urgently needed to keep the Single Market's level playing field and its efficacy in the pursuit of the EU economic and political agenda.

ACCORDING TO THE EUROPEAN COMMISSION'S ESTIMATES, MORE THAN **€700 BILLION** WILL NEED TO BE INVESTED EVERY YEAR TO FINANCE THE GREEN AND DIGITAL TRANSITIONS ALONE.

WHAT IF THE EU COMPLETES THE DIGITAL SINGLE MARKET?

EPRS estimates suggest that a completed digital single market could yield gains **ranging from €85 billion to €256 billion** per year[12].

STATE AID VS. EUROPEAN PUBLIC INVESTMENT

EU state support to businesses has increased from €103bn in 2015 to €384bn and €335bn in 2020 and 2021, the peak years of the COVID-19 pandemic. Since then, state aid has continued to grow; between March 2022 and August 2023, the EU approved €733bn in state support, half of which was granted to Germany alone[25].

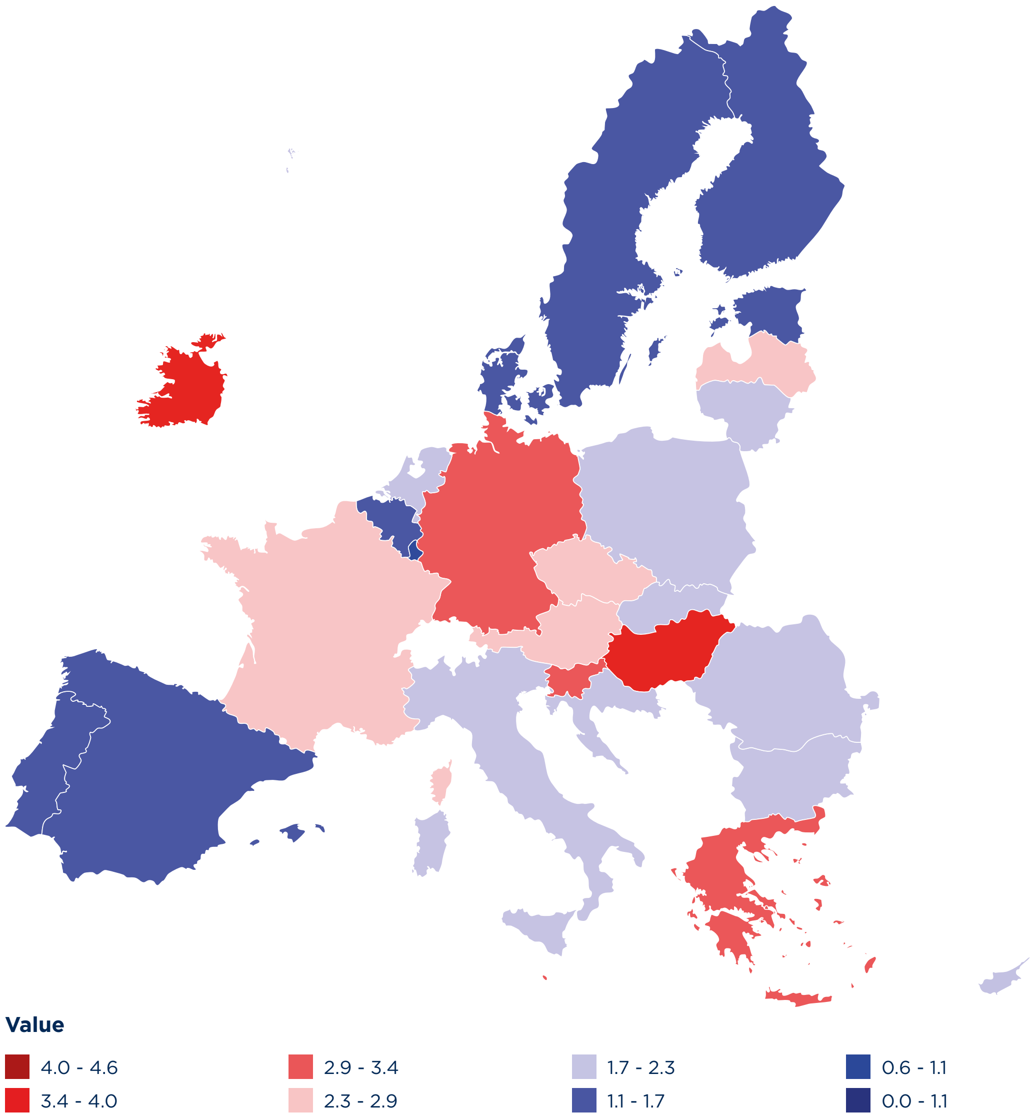

Figure 3. Total aid expenditure of EU MS, 2021 (% of national GDP).
Source: The European House - Ambrosetti elaboration on S&P data, 2024.

The double crisis that hit Europe, initially due to the COVID-19 pandemic and later due to the consequences of the Russian invasion of Ukraine with the resulting increase in gas prices, resulted in two special state aid schemes:

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- Aid to counter the economic consequences of the pandemic amounting to roughly €3.2 billion, was approved by the European Commission and ceased to be valid on June 30, 2022;
- Aid to citizens and businesses to mitigate the effects of rising gas and electricity prices, which is administered within a framework that has undergone several modifications and extensions, also including energy transition aid, and recently renewed until at least March 2024 under the Temporary Crisis and Transition Framework (TCTF).

Despite the legitimacy of the aid granted, the amount and disparity in the spending capacity of MS risk undermining the integrity of the Single Market, benefiting domestic firms in wealthier states at the expense of those with less economic resources.

To avoid exacerbating imbalances among MS while unlocking public resources for projects such as technologies that are still under development or expensive – in line with the incentive effect required for granting aid – it is desirable to seriously consider the introduction of one or more common instruments to ensure an effective level playing field. **Possible measures under consideration include a common European financial debt instrument, new financial resources to grow the EU common budget[26], and a new EU Sovereignty Fund[27].** However, negotiations have hitherto only led to the introduction of the Strategic Technologies for Europe Platform (STEP) instrument, which is a re-hashing of previously-existing EU funds[28]. Despite the very first joint borrowing in reaction to the COVID-19 pandemic, the one around EU fiscal consolidation remains a heavily charged battle, preventing the EU to move towards new common debt instruments. However, there seems to be a renewed political appetite for greater capital integration, notably from key MS like France and Germany[29] in the name of protecting Europe's competitiveness, which could open a new window of opportunity for investment at the community level. These should be public but also private.

THE COSTS OF NOT HAVING FREEDOM OF CAPITAL

Starting from the Treaty of Rome's expression of the freedom of movement of capital in 1957, the EU has a long history of evolution towards the creation of a capital market, including the elimination of restrictions on capital movements in 1988; the Financial Services Action Plan of 1999, and the creation of European Supervisory Authorities (ESAs) in 2011. In direct continuity but further stimulated by the looming prospect of a Brexit referendum, the first attempt towards the creation of a "Capital Markets Union (CMU)" was launched by former president of

the European Commission Jean-Claude Junker in 2014[30]. The goal was to create a system to move the EU away from its traditional overreliance on bank-landing instruments and towards other capital markets' sources – such as equity and bond markets, lending from insurance companies and asset managers, venture capital, securitization, and crowdfunding[31]. While a policy analysis of the CMU is beyond the scope of this Report, it is important to highlight its connection with the Single Market and its other dimensions analyzed in this Report.

Improvements towards greater capital integration should be considered by the next European Commission among the top priorities for further developing the Single Market. There is a consensus among European companies that the current financial landing system centered around banks does not allow for capital that exist within the EU area to be mobilized at the speed and productivity-level that today's economic challenges require. **While new channels to mobilize public money at the EU level are important, there are large amounts of private savings currently sitting in European bank accounts (in 2022, people in the EU saved on average 12.7% of their disposable income).** A single market for capital would allow those savings to be unlocked and invested in more productive ways: according to S&P estimates, a total investment of €1.2 trillion could be mobilized, assuming a similar share as in the US[32].

ACCORDING TO STANDARD AND POOR'S (S&P) ESTIMATES, A TOTAL INVESTMENT OF **€1.2 TRILLION** COULD BE MOBILIZED, ASSUMING A SIMILAR SHARE AS IN THE US.

WHAT IF THE EU COMPLETES THE CAPITAL MARKETS UNION?

According to estimates by the European Added Value Unit of EPRS, the potential yearly benefits of a fully-integrated and more effectively regulated EU capital markets could amount to **€137 billion**, equal to 0.9% of the EU's GDP[12].

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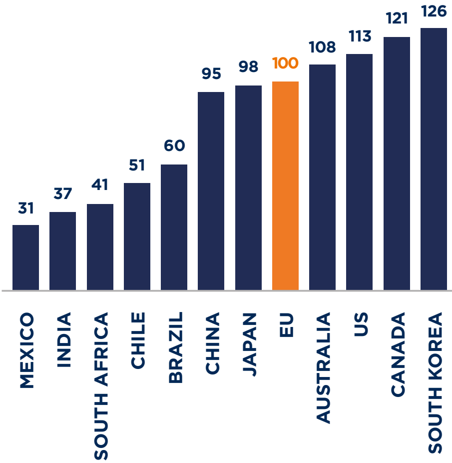
II. THE SINGLE MARKET AS A TOOL: ENHANCING COMPETITIVENESS AND ECONOMIC SECURITY

The discussion on the Single Market regulatory framework and access to investment opportunities is tightly linked to the debate around perception of the Single Market as an obstacle as opposed to a driver to European competitiveness, which has come back as a hot topic in policy circles due to the growing volatility of global geopolitics. According to our interviews, **the cost of doing business in Europe has not been perceived as a primary concern by European policymakers** until very recently, when the raising costs of energy rang a strong bell. Belgian PM Alexandre de Croo recently commented "the EU has too many burdensome regulations in place [...] the U.S. is good at carrots. What we do is, we're good at the sticks. Regulation isn't always bad, but we need some more carrots"[33]. For example, there is a consensus that cutting-edge projects such as the EU Green Deal need to be complemented with policies that protect the competitiveness of European companies in the global marketplace and ensure a fair transition for companies and workers. The Carbon Boarder Adjustment Mechanism, also known as CBAM, is a case in point. According to some European companies, CBAM is an example of a well-intentioned policy measure aimed at shielding European companies from carbon leakage as they engage in carbon-reduction measures in their production processes, thus making their products comparatively more expensive in the global market. However, CBAM can be a double-edged sword especially for European countries where raw materials are scarce and must be imported (e.g., steel.) European industries risk paying more for the inability of suppliers to produce in a green way. Quoting directly from the interviews, "EU institutions have been very comfortable with increasing the price of doing business in Europe, but this approach is divorced from the reality of citizens. Unless productivity policies are fixed, there are no margins anymore to increase production costs through new regulations. **To sustain competitiveness, there must be a shift in focus from competing on regulation, to competing on innovation"[34].**

According to the 2023 European Innovation Scoreboard[35], the EU has an innovation performance gap with South Korea, which is the best performing country in EIS 2023, as well as Canada, the US and Australia. Moreover, between 2016 and 2023, the innovation performance of the EU has grown at a lower rate than that of China and the US, with China outperforming all competitors in terms of rate of performance growth.



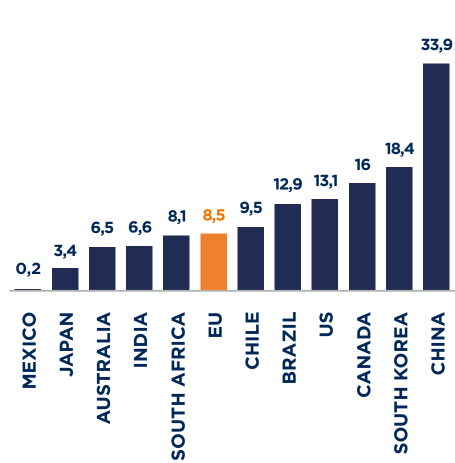


Figure 4. Left – Performance of global competitors, 2023 (performance in 2023 relative to that of the EU in 2023); Right – Performance change between 2016 and 2023 (scores relative to that of the EU in 2016).
Source: The European House - Ambrosetti elaboration on S&P data, 2024.

TO SUSTAIN COMPETITIVENESS, THERE MUST BE A SHIFT IN FOCUS **FROM COMPETING** ON REGULATION, **TO COMPETING** ON INNOVATION.

While remaining at the frontier of innovation, the EU is investing less in Research and Development (R&D) as a percentage of GDP than other major economies. Business R&D expenditures are largely responsible for the R&D gap in Europe[36]. According to the Industrial R&D Investment Scoreboard, of the top R&D investors in the world 42.1% are located in the US, 17, 8% in China and 17,5% in the EU firms' investment growth doubled from 6% to 13.6% in 2022, surpassing that of US firms (12.7%) for the first time since 2015. However, the automotive sector leads the EU investment portfolio, while the EU lags behind in ICT investment which is the strongest driver of innovation[37]. In fact, the level of digitalization of European firms across sectors is lower than that of the US[38]. Based on our interviews, the main reasons behind the investment gap are: fragmentation in the market, with a higher number of small and medium size enterprises in the EU as compared to the US, and a larger number of competitors even in sectors that are traditionally prone to concentration such as telecommunication;

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high compliance costs which are unaffordable for SMEs and deflect funds from innovation, as well as preventing the emergence of new innovative companies[39]; lower access to capital; a general lack of appetite for risks among European businesses and governments alike. **Mindset is also perceived as the reason why the EU does not excel at attracting talents despite the appeal of the European way of life: the slower pace of R&D and risk-aversion makes the "European dream" less palatable** even though salaries and quality of life are comparatively higher than in many other world regions. Finally, European companies stress the need for better enforcement of EU regulation to all companies that participate in the Market as opposed to just European companies, to make sure their investment in R&D can be profitable. In the cosmetic sector, the case of misleading advertisement was highlighted, according to which European companies are prevented from advertising products' features that are legally applied to the entire sector, but market controllers often fail to apply the same standards to imported products (i.e. claims around a specific company's products being cruelty-free are misleading, given that all production in the EU is cruelty free by law, thus it implies to consumers a competitive advantage which the company does not actually have).

WHAT IF THE EU IS ABLE TO SUCCESSFULLY IMPLEMENT ITS FLAGSHIP HORIZON EUROPE FUNDING PROGRAMME?

According to EPRS estimates and macroeconomic simulations, Horizon Europe programme has the potential to achieve efficiency gains up to **€40 billion** per year for the European economy[12].

In the context of revamping industrial policy against the backdrop of increased global economic competition, protecting the Single Market is also rising in the list of priorities, as reflected in a 2023 European Commission white paper[40] on economic security, which adopts a "de-risking" approach to minimize risks for the EU economy while remaining strongly committed to an open market economic model. In the white paper, the main novelty factor is the emphasis on protecting the EU's technological advantage and know-how by increasing coordination among MS as it pertains to trade tools as well as other kind of instruments that can protect

the Single Market from potential security threats. As national security remains a strictly national competence, MS tend to interpret the notion of security in very different ways, therefore this initiative is first and foremost a political exercise aiming at developing a common understanding and common language around economic security. "Russia's war of aggression against Ukraine, and geo-political tensions more generally, have highlighted the need for an effective, uniform EU approach [to economic security]."[40] The Commission proposes coordinated action on investment screening, research security, and export controls, including a forum for political coordination on export controls.

Furthermore, in relation with protecting and enhancing European competitiveness, many of the interviews stressed their support for the Custom Union reform suggested by the European Commission, particularly the introduction of a Custom Union Authority, and recommended to focus on digitalization and a harmonized implementation across MS. Moreover, ensuring **greater coordination at the European level on strategic issues such as energy supply, strategic supply chains and infrastructure is perceived as crucially important.** These should be considered as European public goods and therefore treated as such. In this case, a Single Market vision is not about regulating to increase harmonization: the focus should rather be on greater coordination and guaranteeing interoperability.

WHAT IF THE EU REALIZES A FULLY-INTEGRATED ENERGY MARKET?

As indicated by the EPRS, a more integrated energy market couplet with the full implementation of EU energy efficiency measures could potentially generate up to **€231 billion** annually in potential economic gains[12].

WHAT IF THE SINGLE EUROPEAN TRANSPORT AREA IS COMPLETED?

Removing inefficiencies in the European transport sector could lead to annual gains of **>€5.7 billion**, improving mobility for citizens and enhancing environmental sustainability, among other benefits[12].

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5. CONCLUSIONS AND RECOMMENDATIONS

Over the past thirty years, the Single Market has served as a primary example of economic cooperation and a cornerstone of the EU integration process. Yet, as a never-ending work in progress, the time is always right to take stock and reassess. Today, companies unanimously affirm their support for the Single Market: for the business community interviewed for this Report, the answer to most EU economic problems is more Single Market rather than less. That said, it is arguably large-sized enterprises that are interested in the Single Market evolution and what it can do for them. This underscores the persistent disconnection between SMEs and the Single Market. In addition to simplifying and making the Market more accessible, education and a strong effort to promote a cultural understanding of the Single Market and how it fosters the four freedoms will be key to make the project more inclusive and its benefits wider.

In addition to differences in perception, the Single Market also moves at different speeds depending on the sector. A single European market still does not exist in practice in certain sectors of primary importance for the future of Europe, including energy, transport, and the financial sector. On the other hand, overabundance of rules, a tendency to risk aversion, and challenges to implementation all contribute to raising compliance costs and creating barriers to freedom across sectors, making it comparatively more difficult not only to SMEs but also to start-ups to flourish in the EU and steward much needed innovation.

The next European Commission should make the development of the Single Market a priority of its mandate, by streamlining, adapting, and simplifying the regulatory framework within the EU when necessary. Not only it should continue the harmonization process, but also reassess existing regulations with the aim of minimizing overlaps, balance risk prevention with the goal of encouraging innovation and competitiveness and improve oversight over regulatory implementation. This should be understood as a joint effort by the European institutions and the MS. Political will and commitment on their behalf, as well as effective implementation of Single Market regulations and mechanisms to monitor

and evaluate progresses towards more harmonization should be regarded as equally important steps. Finally, across all economic sectors, progress towards the harmonization of fiscal, banking and law-insolvency regimes would benefit the functioning of the Single Market at large and its ability to contribute to EU political and economic goals.

While the debate around fiscal policy has traditionally been politically charged and difficult to tackle, recent developments around the need for improved freedom of capital within the EU create a window of opportunity. The Single Market needs investment if it is to properly provide and care for European public goods, such as infrastructure, healthcare, and climate strategies. To avoid an aggravation of the current raising curve of state aid at the national level, with the potential harmful consequences to the Single Market and its internal level playing field, new investment opportunities at the EU level, whether public through a new EU Sovereignty Fund or private through greater capital integration are needed. As a matter of fact, to stay relevant, the Single Market needs to remain competitive. Beyond investment, EU competitiveness should be actively pursued by lowering the costs of doing business in Europe when possible and by backing the EU industrial policy trough mechanisms that enhance economic security.

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LIST OF ABBREVIATIONS

ABBREVIATION	DEFINITION
AI	Artificial Intelligence
CBAM	Carbon Boarder Adjustment Mechanism
CMU	Capital Markets Union
ECB	European Central Bank
ECJ	European Court of Justice
EDPB	European Data Protection Board
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFTA	European Free Trade Association
EIR	European Insolvency Regulation
ESAs	European Supervisory Authorities
EPRS	European Parliamentary Research Service
EU	European Union
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
MS	Member State
R&D	Research and Development
SEP	Standard Essential Patents
SMEs	Small and Medium-sized Enterprises
S&P	Standard and Poor
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SSO	Standard-Setting Organizations
STEP	Strategic Technologies for Europe Platform
TCTF	Temporary Crisis and Transition Framework
TEHA	The European House – Ambrosetti
US	United States
VAT	Value-Added Tax

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