



**Services: tapping the potential
for growth and jobs**

Commission contribution
to the European Council of
20-21 March 2014

Foreword

Services account for more than 70% of GDP on average in all our Member States. Services generate employment and have a significant growth potential.

The Commission has systematically underlined the importance of services in each Annual Growth Survey and recommended structural reforms to Member States. While far-reaching reforms are carried out in some Member States, overall reform efforts should be enhanced to improve competitiveness and secure a sustainable economic recovery in the Union.

The Commission and Member States have also taken major steps to ensure a successful implementation of the Services Directive, abolishing unjustified barriers and modernising the regulatory framework for services in different sectors. Still, a lot remains to be done.

Too many service providers still face restrictions as regards their legal form and shareholding structure, such as restrictions on capital ownership. Legal form and shareholding requirements may constitute an obstacle to the freedom of establishment and can even result in making it impossible to set up subsidiaries or create multi-disciplinary practices across the EU; they can also limit access to outside capital. In addition, the absence of cross-border insurance coverage may hinder significantly the cross-border provision of services.

Other significant barriers to entry or practice, such as commercial communications, quotas or territorial restrictions, still remain in a number of sectors. Member States should continue to carefully assess and review the need for, and the proportionality of, these restrictions to determine whether legitimate public interest objectives could not be met by less restrictive alternative measures. A more ambitious implementation of the Services Directive could lead to an additional total economic gain of about 2.6% EU GDP, which would in turn have a positive impact on employment.

The Commission will continue to closely monitor Member States' reforms in specific services sectors, in particular in the context of the Europe 2020 strategy and through the European Semester of economic policy coordination. It will further reinforce its monitoring tools through more in-depth quantitative and qualitative reporting on sectoral and national reforms concerning services. The results of its analysis will be reflected in yearly progress reports on national reforms on services as part of the annual Single Market Integration Reports.

José Manuel BARROSO

President of the European Commission

The Single Market for services and its importance today

Services play a prominent role in all parts of the European economy. The services sector (excluding government and public services) accounts for 71% of EU GDP (Graph 1). The services sector also plays an important role in terms of jobs: on average 67% of total employment (Graph 2), although the percentage varies between the Member States.

More trade in services within the European Union can create more jobs, help to meet domestic demand and contribute to increased EU exports to third countries. Boosting growth and competitiveness in services is also crucial for the overall economy: increasingly, markets do not distinguish between goods and services. The boundaries are becoming blurred and it is widely recognised that industry and services must be looked at together.

The need for further integration in the single market in services is widely recognised, including for example in Mario Monti's report *"A New Strategy for the Single Market"* in 2010. The Commission's proposals for **Single Market Acts I and II** each identified twelve levers to promote more growth in the Single Market and the services sector was one of the top priorities.

Over the past four years, the European Union and its Member States have worked to deliver a more dynamic and competitive services sector, including through national service market reforms within the European Semester and an ambitious implementation of the **Services Directive**¹.

Good progress has been made and some Member States have made far-reaching reforms. However more can still be done to release the full economic potential of services. The Annual Growth Survey 2014 has identified service market reforms and an ambitious implementation of the Services Directive as important priorities to promote growth and competitiveness for today and tomorrow.

The European Council in October 2013 invited the Commission and Member States to provide yearly progress reports on national reforms on services. Building on the close cooperation with Member States in the framework of the European Semester process and the implementation of the Services Directive, these progress reports will be provided as part of the annual Single Market Integration Reports starting this autumn.

¹

Communication of 8 June 2012 (COM (2012) 261 final) on the implementation of the Services Directive "A partnership for new growth in services 2012 – 2015.

Releasing the full potential of the services directive

Services Directive is a key instrument in making the Single Market work both for companies and consumers. It enables companies to establish subsidiaries or branches in other Member States or to provide cross-border services from their home Member State. **The Services Directive covers a wide variety of economic activities representing 46 % of EU GDP².** Many other services sectors are covered by specific EU legislation, including energy, financial services, postal services, telecommunication, tourism and transport. Through the implementation of the Services Directive thousands of national laws and regulations have already been repealed or adapted. The Services Directive requires Member States to cut red-tape, to increase transparency for businesses and consumers, to eliminate unjustified or disproportionate requirements and to set up business-friendly e-government portals (Points of Single Contact). It prohibits discrimination on grounds of nationality or residence of consumers who want to buy services anywhere in the Single Market.

In 2010, the Commission and Member States carried out a "**mutual evaluation process**" concerning the implementation of the directive. As a result of this evaluation, "**performance checks**" were carried out to assess the interaction of the Services Directive with other pieces of EU legislation such as the e-commerce Directive³, the Professional Qualifications Directive⁴, and the Package Travel Directive⁵. Insurance conditions for service providers in a cross-border context are also part of ongoing work.

The Commission is taking firm action against infringements of the Services Directive, for example where Member States discriminate on grounds of residence or nationality. Almost 40 investigations have been launched on this basis. Member States have responded by solving the problems in most cases and only two cases needed to be put into formal legal procedures.

The implementation of the Services Directive has contributed directly to the **Digital Agenda for Europe⁶** by promoting interoperable e-government services. The **Points of Single Contact (PSCs)** set up under the Services Directive should function as fully-fledged e-Government centres.

Points of Single Contact (PSCs)

- ✓ aim to make life easier for businesses
- ✓ one interface to access all the necessary information for doing business
- ✓ administrative procedures can be completed online.

² The Services Directive covers the following sectors: Tourism (3,2% EU GDP), cultural and sport activities (1,4% EU GDP), wholesale and retail (11,1% EU GDP), construction (6% EU GDP), real estate (10,9% EU GDP), business services (11,7% EU GDP), other services (e.g. repair) (1,6% EU GDP).

³ Directive 2000/31/EC on E-Commerce

⁴ Directive 2005/36/EC on the mutual recognition of professional qualifications

⁵ Directive 90/314/EEC on package travel, package holidays and package tours

⁶ <https://ec.europa.eu/digital-agenda/en>

At the same time as promoting administrative simplification, the Services Directive has meant that national, regional and local authorities need an efficient electronic network to speed up procedures for service providers. The "**Internal Market Information**" system facilitates administrative cooperation and has been also expanded to other areas outside the Services Directive (professional qualifications, posting of workers, patient rights and others).

Internal Market Information System (IMI)

- ✓ electronic system set up by the European Commission
- ✓ linking over 7000 authorities across the EU
- ✓ supports implementation of several pieces of legislation: professional qualifications, services, cash in transit, posting of workers, e-commerce, patients' rights
- ✓ helps authorities to exchange information easily and rapidly, in their own language, to supervise service providers and their activities
- ✓ facilitates the free movement of services across the EU

But the initial implementation of the Services Directive (Graph 3) has released only about a third of its estimated full economic potential. The Commission has therefore urged Member States to aim for a more ambitious implementation of the Services Directive (see **Partnership for new growth in services – 2012-2015**⁷), to tap into the potential additional total economic gain of about 2.6% EU GDP estimated by the Commission.

Examples of deepening services market integration at European level

In parallel with the ambitious implementation of the Services Directive, complementary measures with an impact on several services sectors have been adopted at European level. The E-commerce Directive⁸ sets up the basic legal framework for online services, including electronic commerce in the Internal Market. The Posting of Workers Directive⁹ which gives legal certainty to service providers and their workers should be completed by an Enforcement Directive¹⁰.

Services of General Economic Interest are present in many service sectors and their particular importance continues to be recognised (see the Commission's Communication of 20 December 2011 on '*A quality framework for Services of General Interest in Europe*'¹¹).

⁷ Communication of 8 June 2012 (COM (2012) 261 final) on the implementation of the Services Directive "A partnership for new growth in services 2012 – 2015" and three Commission Staff Working Documents (SWD). The first SWD contained detailed information on the implementation of Directive 2006/123/EC on services in the Internal Market; the second SWD aim at establishing guidance on the application of Article 20(2) of the Services Directive; and the third SWD focused on the results of the performance checks of the internal market for services (construction, business services and tourism).

⁸ Directive 2000/31/EC on E-Commerce

⁹ Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services

¹⁰ Proposal for a Directive of the European Parliament and of the council on the enforcement of Directive 96/71/EC concerning the posting of workers in the framework of the provision of services – 8040/12+COR1-COM(2012) 131 final.

¹¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A Quality Framework for Services of General Interest in Europe, of 20.12.2011 COM(2011) 900 final

The EU **professional services sector** was reformed in November 2013, to make it easier for professionals to have their qualifications recognised, whilst guaranteeing a high level of protection for consumers and citizens. The **revised Professional Qualifications Directive**¹² has brought important innovations such as the European Professional Card – an electronic document for certain mobile professions regulated in a significant number of Member States and with on-line recognition procedures.

In October 2013, the Commission launched¹³ a mutual evaluation of national regulations on **access to professions** (Graph 4). There may be good reasons why national regulations still exist, for example consumer protection; nonetheless, overly restrictive conditions for access to certain professions may discourage or even prevent citizens from entering the labour market. This mutual evaluation builds on a peer review carried out with Member States in 2012-2013 for five professions (accountants, tax advisers, architects, patent agents and veterinarians) in order to examine **legal form and shareholding requirements**. As shown in the Staff Working Document accompanying the October 2013 Communication¹⁴, these requirements often constitute an obstacle for businesses wanting to set up a branch or a subsidiary in another Member State. As a first step, the Commission will publish shortly a European Map of Regulated Professions. It will present its first findings on a first cluster of sectors in the Annual Single Market Integration Report in November 2014.

A competitive retail sector is crucial for the European economy. One in four European companies are active in retail or wholesale (graph 5), accounting for one in seven jobs in Europe. The sector has been influenced by national markets' performance and current consumption patterns, which have affected its growth since 2009. European retailers are among the most successful in the world, with five of the top ten retailers worldwide originating in the EU.

The Commission has adopted a **European Retail Action Plan**, which sets out a strategy to improve the competitiveness of the retail sector and to enhance the sector's economic, environmental and social performance. The Plan has five objectives: empowering consumers; improving accessibility to retail services; fairer trading relationships along the supply chain; linking retail with innovation and creating a better working environment in the retail sector.

Restrictions on how and where retail outlets can operate are important obstacles for economic operators, which affect competition in the sector. While some restrictions are justified, such as environmental, urban planning or consumer protection requirements, they should not be disproportionate.

In October 2013, the Commission has launched a 'peer-review' process with Member States to clarify the existing regulatory frameworks and identify best practices that could serve as guidance in Member States.

¹² Directive 2013/55/EU of the European Parliament and of the Council of 20 November 2013 amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation (EU) No 1024/2012 on administrative cooperation through the Internal Market Information System ('the IMI Regulation') (OJ L354, 28.12.2013)

¹³ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on Evaluating national regulations on access to professions of 02.10.2013 (COM/2013/0676 final)

¹⁴ Staff Working document of 2 October 2013 accompanying the Communication on evaluating national regulations on access to professions.

Reforms in Member States

The Annual Growth Survey has identified service market reforms and an ambitious implementation of the Services Directive as important priorities to promote growth and competitiveness for today and tomorrow. The Country-Specific Recommendations call for specific measures in many Member States to reinforce competition and open up service markets.

Most Member States need to take further measures to implement EU services rules at national level in order to fully implement the Services Directive (see the Commission's in-depth analysis on the impact of the Directive¹⁵) and to take forward the structural reform agendas adopted by many Member States in response to the economic crisis.

Many Member States have gone beyond the requirements of the Services Directive and are carrying out further reforms to reap more economic growth. Particular far-reaching reforms are being carried out in Spain, Portugal, Italy, Greece, Poland, Slovenia and the Czech Republic. These reforms aim to make it easier for new companies to establish themselves to offer their services or for businesses to provide services cross-border in another Member State. Reforms have been encouraged through the Country-Specific Recommendations under the European Semester of economic policy governance.

Nonetheless, reform efforts need to progress further, improving competitiveness and at the same time securing a solid recovery. As highlighted in many Country-Specific Recommendations, these efforts require in particular decisive progress in removing excessive barriers for service providers, reform of professional services and reform in the retail and construction sectors.

Market integration in trade in services shows a slow increase between 2004 and 2012, with strong variations across Member States (Graphs 6 and 7).

The Commission is monitoring and reporting progress in the framework of the European Semester and has only recently provided a thematic overview about key areas covered by the Recommendations in the framework of the Annual Growth Survey 2014. It will further reinforce its monitoring tools through more in-depth quantitative and qualitative reporting on sectoral and national reforms concerning services. Building on the close cooperation with Member States in the framework of the European Semester process and of the Services Directive expert group, on the ongoing work in connection with the peer review on legal form, shareholding and tariff requirements and on the consultation on cross-border insurance coverage, it will present yearly progress reports on national reforms on services as part of the annual Single Market Integration Reports.

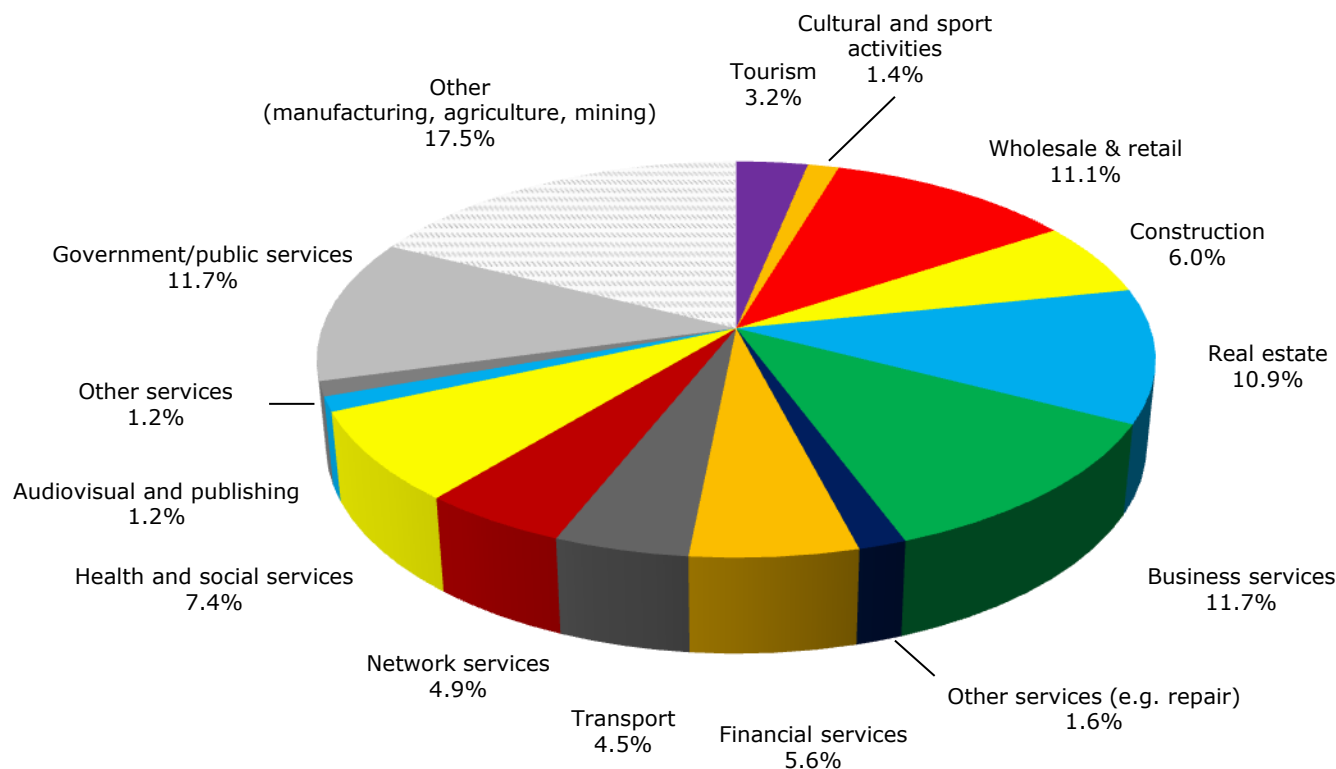
This analysis should help identify further priorities, including in view of achieving a more ambitious approach for the implementation of the Services Directive.

¹⁵

Staff Working document – Detailed information on the implementation of Directive 2006/123/EC on services in the internal market published as an Annex to the Communication of 8 June 2012 (COM (2012) 261 final) on the implementation of the Services Directive "A partnership for new growth in services 2012 – 2015".

Services other than government/public services account for 71% of GDP...

Composition of EU27 GDP in 2011*

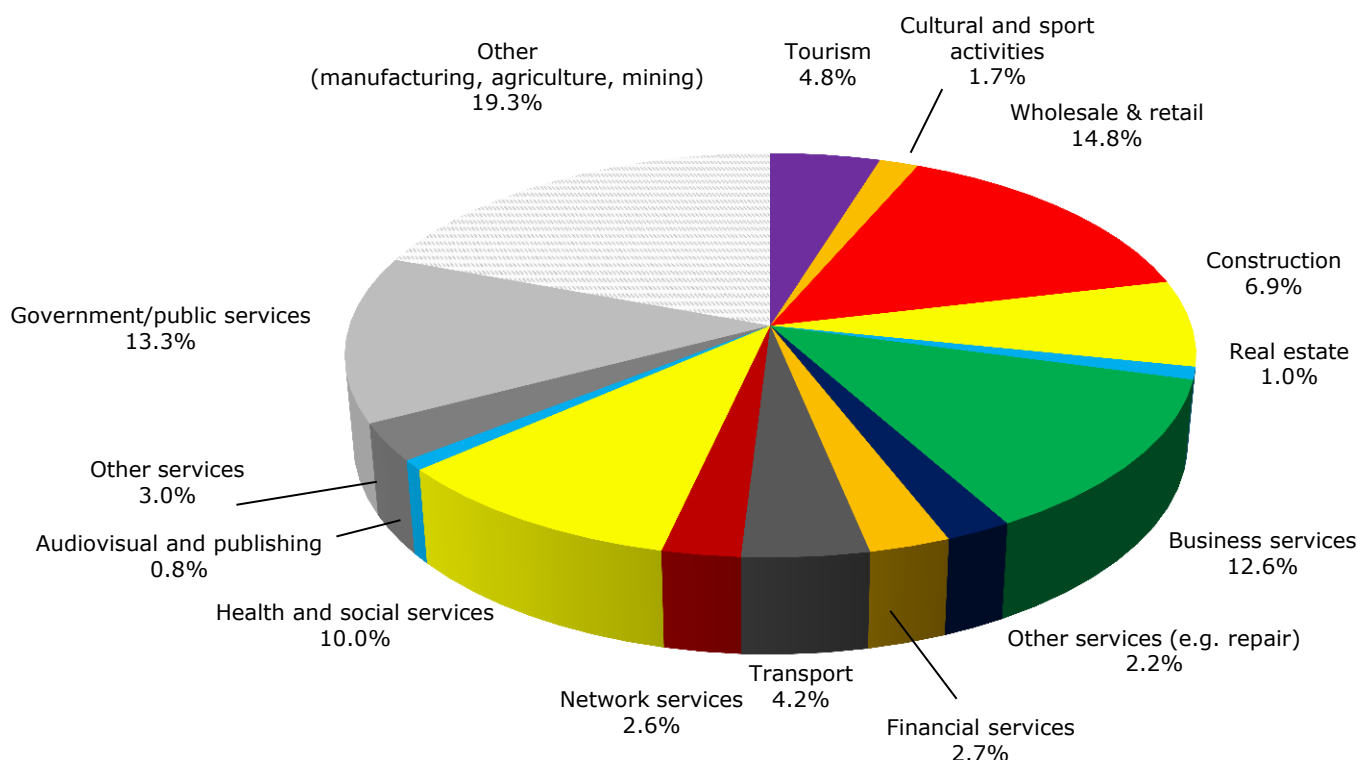


Source: European Commission

*Calculations do not include HR.

... and 67% of employment in the EU

Composition of EU27 employment in 2011*

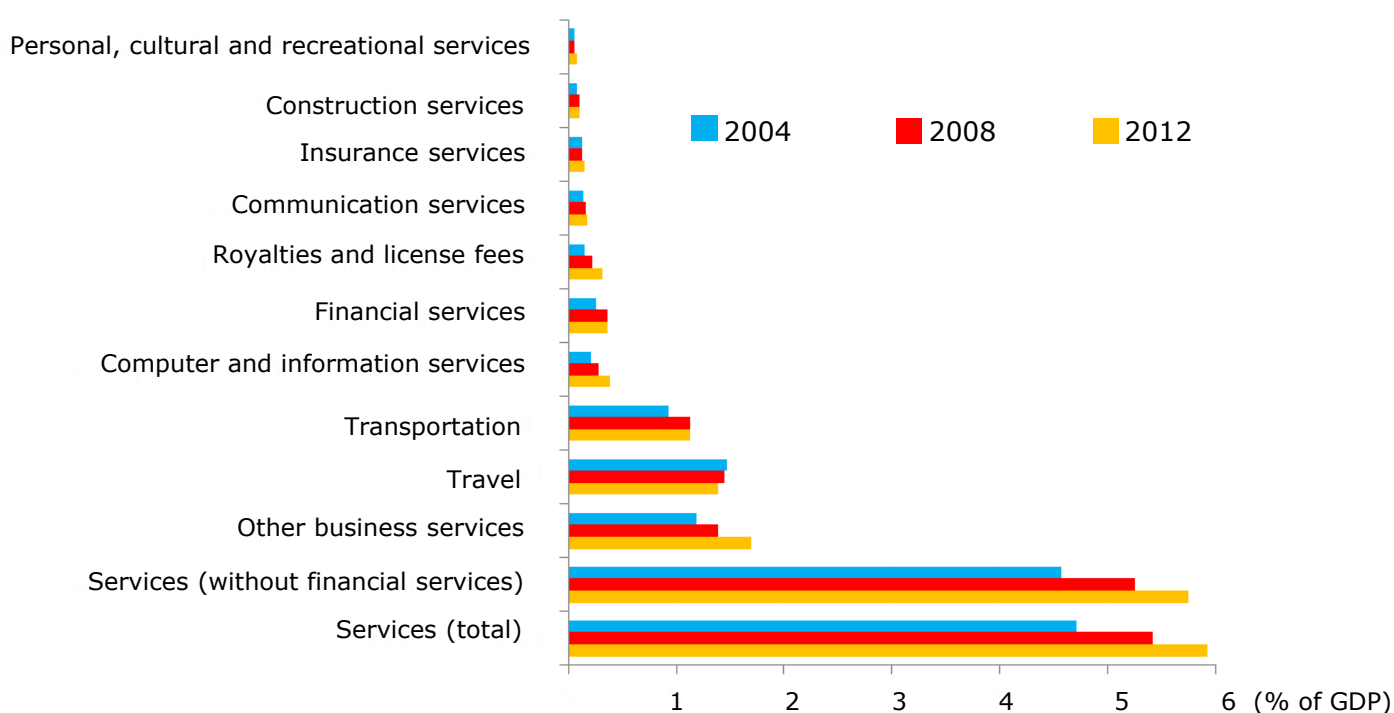


Source: European Commission

*Calculations do not include HR.

The integration of the service sector keeps deepening...

Intra-EU27 trade in services by sector, 2004-2012*

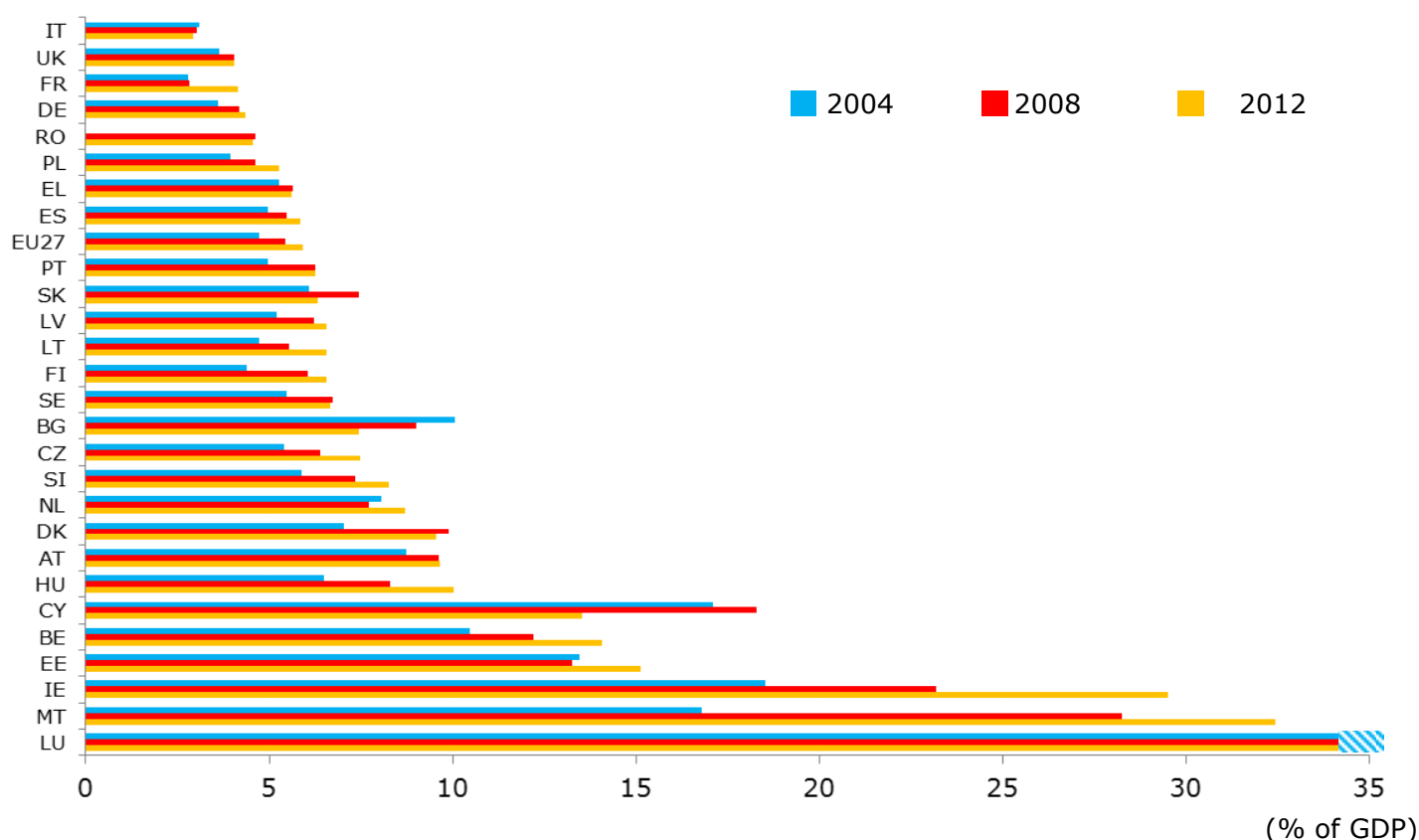


Source: European Commission

*Ratio (EU27 services exports + EU27 services imports)/2 expressed as % of GDP. Calculations do not include HR.

... but the level of integration varies greatly across Member States

Intra-EU27 trade in services by Member State, 2004-2012*

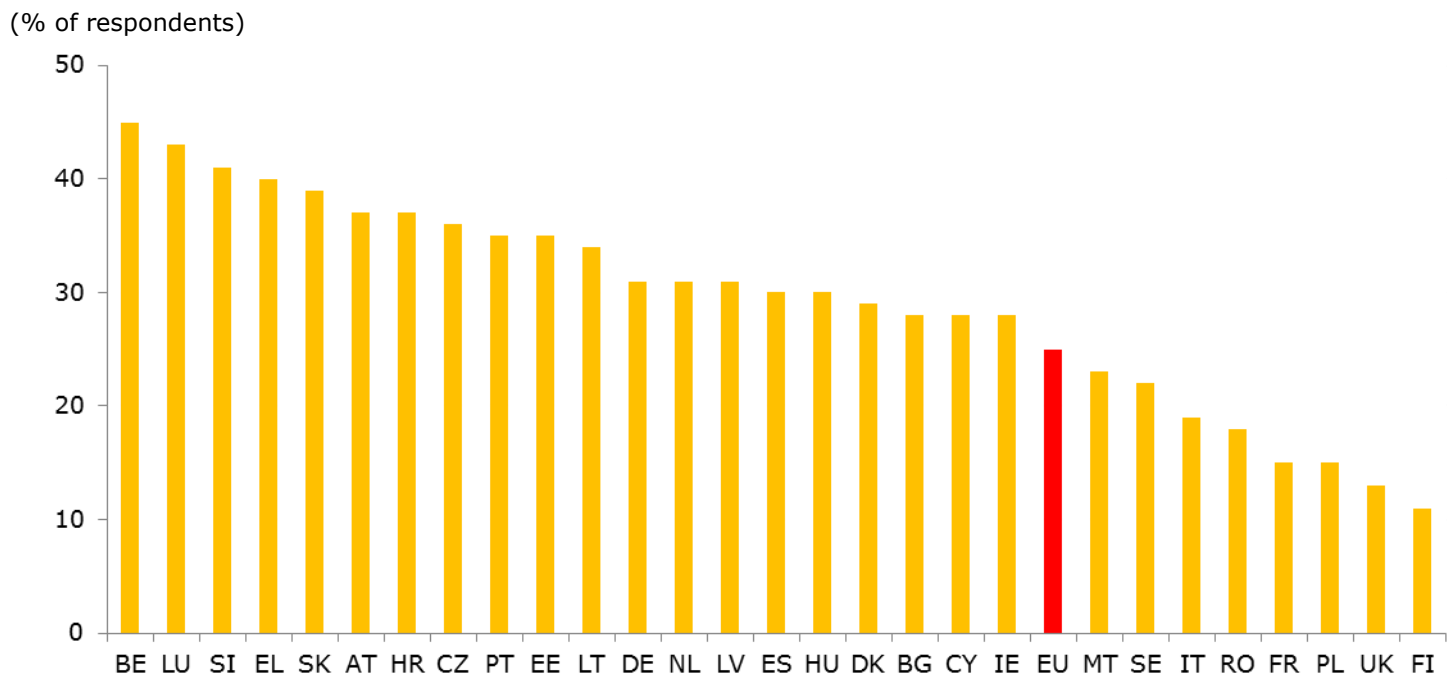


Source: European Commission

*Ratio (EU27 services exports + EU27 services imports)/2 expressed as % of GDP. The X-axis is cut at 35%. Calculations do not include HR.

A large share of retailers engage in cross-border sales

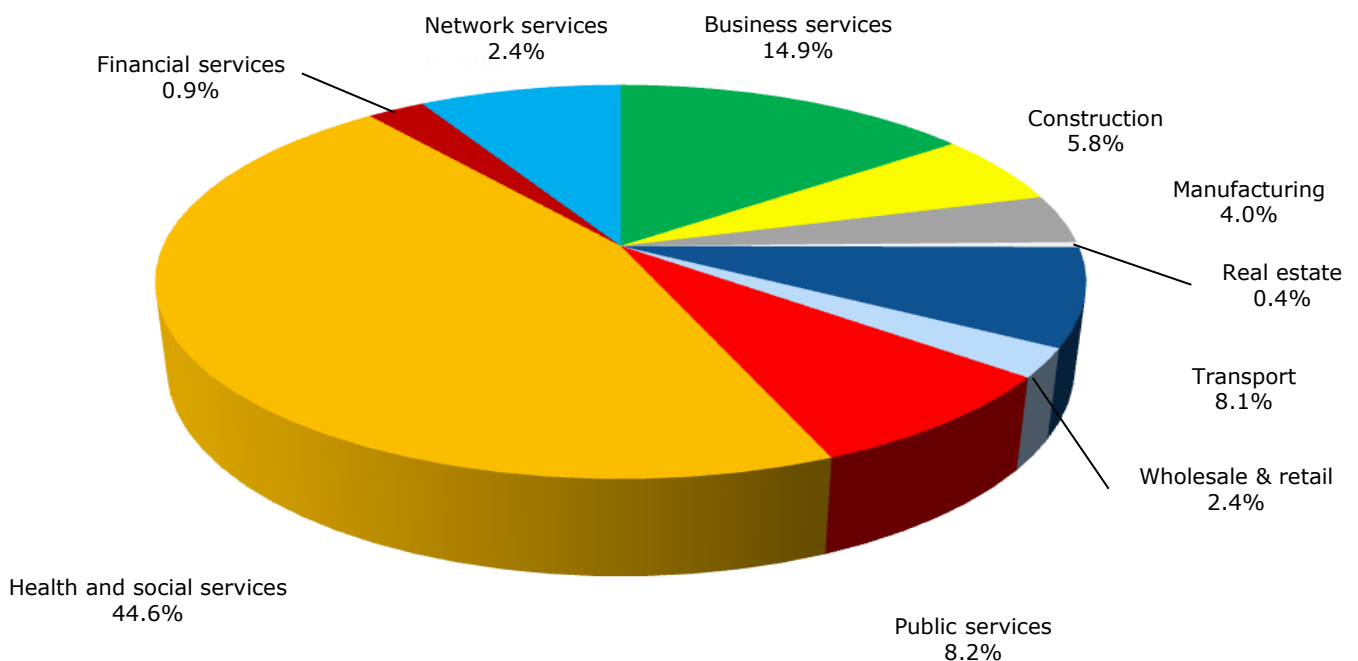
Percentage of retailers who declare that they engage in sales with at least one EU country other than their own in 2012



Source: European Commission

Some sectors are highly regulated, which may hinder access to them

Distribution of regulated professions by sector in the EU27 in 2013*

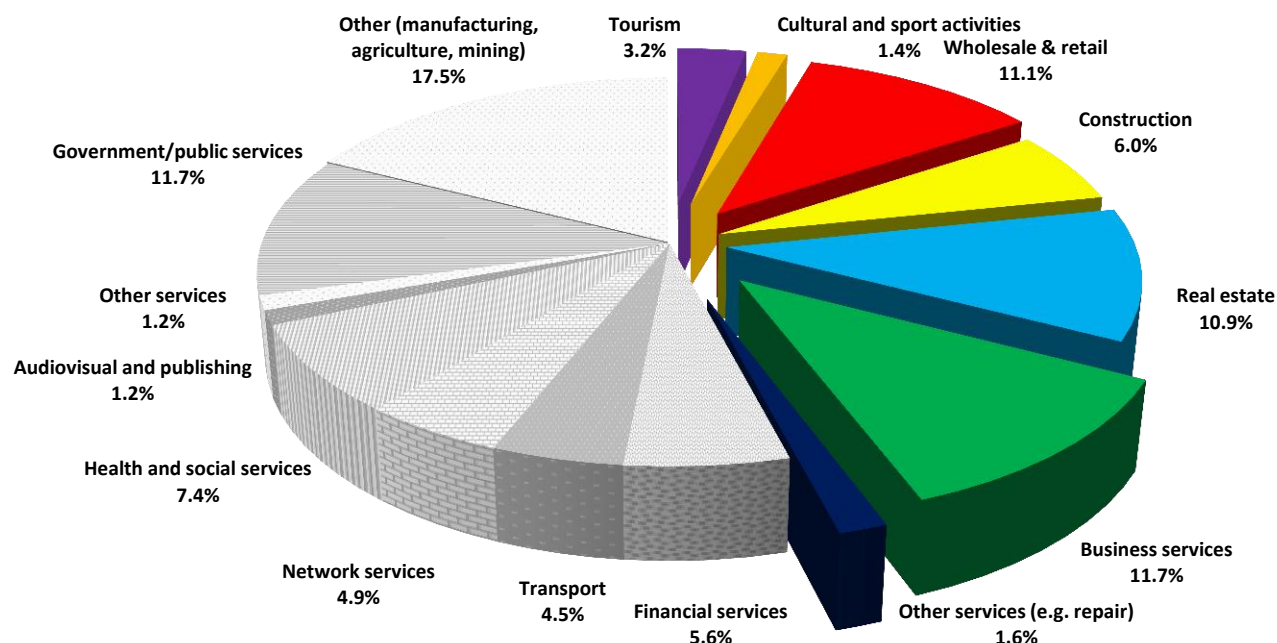


Source: European Commission

*The distribution is based on the number of regulated professions in each sector. Calculation do not include HR.

46% of EU GDP is within the scope of the Services Directive

Composition of EU27 GDP in 2011*



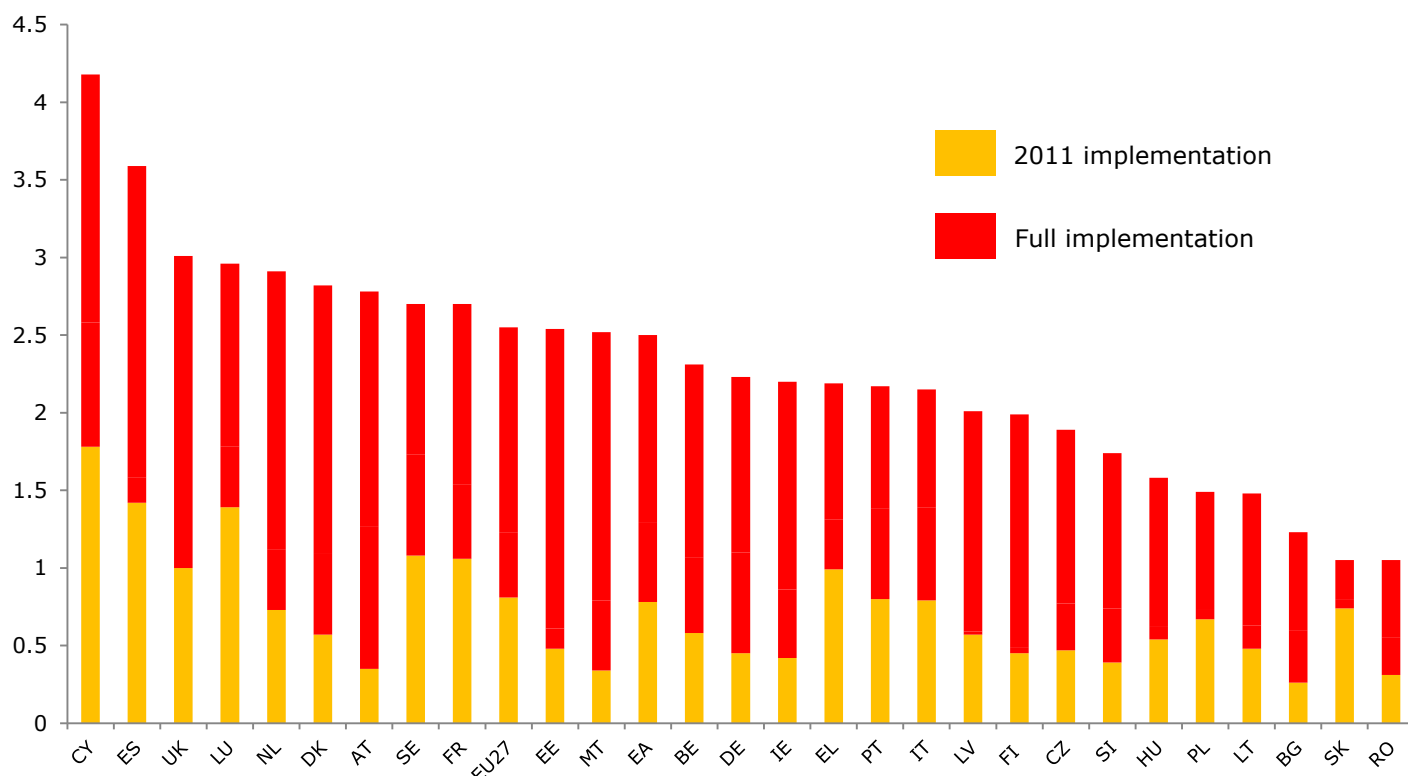
Source: European Commission

*The coloured part on the right shows sectors covered by the Services Directive. Calculations do not include HR.

Full implementation of the Services Directive could generate substantial gains

Impact of the Services Directive on the level of GDP, in 2011 and under full implementation*

(% of 2011 GDP)



Source: European Commission

*The full implementation scenario assumes that every country moves to an "ideal" barrier profile where sectors have barriers equal to the mean of the best 5 countries in that sector in 2011. Calculations do not include HR.

