



THE EUROPEAN  
UNION  
EXPLAINED

# Internal market

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

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



# THE EUROPEAN UNION EXPLAINED

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

*You can find the publications online:*

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### The EU explained: Internal market

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# Why we need an internal market

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

## The four freedoms

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

## A single currency to boost the single market

A market works better when everyone uses the same money. The first step towards a shared currency took place on 1 January 1999 with the creation of the euro. Exactly 3 years later, euro notes and coins came into circulation. Today the euro is used by consumers and businesses in 18 member countries, known collectively as the euro area. The euro has proven resilient during the sovereign-debt crisis, retaining its purchasing power as the EU has come to the aid of high-debt countries. It is also widely used in international payments and is one of the world's major currencies, alongside the US dollar and the Japanese yen. At the beginning of 2015, Lithuania will become the 19th country to adopt the euro.

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

## An ever-growing single market

During its 20-plus years of existence, the single market has grown from 345 million consumers in 1992 to over 500 million today. Cross-border trade between EU countries has also grown from €800 billion in 1992 to €2.8 trillion in 2013 in terms of the value of goods exchanged. During the same time period, trade between the EU and the rest of the world tripled, from €500 billion in 1992 to €1.7 trillion in 2013.

### Single market snapshot: facts and figures

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

## An evolving policy

The Single European Act of 1987 was the first major revision of the 1950s' Treaty of Rome, which created what later evolved into the European Union. The overriding goal of the act was to add momentum to the European integration and the common market that already existed. The act amended the rules governing the operation of the European institutions and expanded



their powers in certain fields. On this basis, the EU leaders agreed a timetable for a number of new rules in order to ‘complete the single market’. This succeeded and on 1 January 1993, the single market became a reality for the then 12 Member States.

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

But the single market is far from achieving its full potential. And now, with the crisis that has rocked the EU economy, it is more important than ever to address areas where the single market does not yet function as it should to the benefit of citizens and businesses, for example services, which account for over 70% of economic activity in the EU and are crucial to the single market. Despite considerable progress in some specific service sectors, the overall internal market for services is not yet working as well as it should. Another of the key areas with the greatest growth potential is the digital economy, which, with the world’s increasing dependence on technology, is more important than ever.

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

## The people speak

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

## Moving beyond the crisis

The economic and financial crisis has hit the EU hard, causing economic contraction and resulting in over a quarter of young people being out of work. The crisis has affected EU member countries differently — with five requiring emergency aid — and exposed structural weaknesses in several countries. It has also damaged public finances and shaken public trust in the banking sector.

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

*The euro is used as the single currency by consumers and businesses in 18, soon to be 19, EU countries, known collectively as the euro area.*



## How the EU manages the internal market

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

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

The single market has played an important role in helping the EU weather the financial and economic crisis. But the crisis has nonetheless hit Europe very hard and much of the growth and many of the jobs that had been created have been lost. In response to this, the Commission put together a set of key measures designed to create a deeper and better integrated single market. Adopted in two stages, the Single Market Acts I and II aimed to remove the barriers preventing the single market from realising its full growth and employment potential.

### Consulting the public

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

The Single Market Forum plays an important role in policy evaluations by monitoring the implementation of the Single Market Act and its impact at grassroots level. The forum periodically gathers market participants (businesses, social partners, non-governmental organisations and those representing citizens, public authorities at various levels of government and parliaments) and examines the state of the single market, the transposition and application of directives, and exchanges best practice.

### The scoreboard shows whether EU rules are enforced

EU rules have to be 'transposed' into national law in order to work. Since 1998, the Commission has rated Member States' records in implementing and enforcing single market rules through an 'internal market scoreboard'. In the online reporting system, it is possible to see the best and worst performers by means of a chart using traffic lights — green for above average, yellow for average and red for below average, where countries have to beef up their efforts. Despite the present economic turmoil, the EU Member States continue to implement almost all EU rules — only 0.7 % of single market directives are not transposed into national law on time.

### Taking legal action over infringements

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



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

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

## A pro-consumer competition policy

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

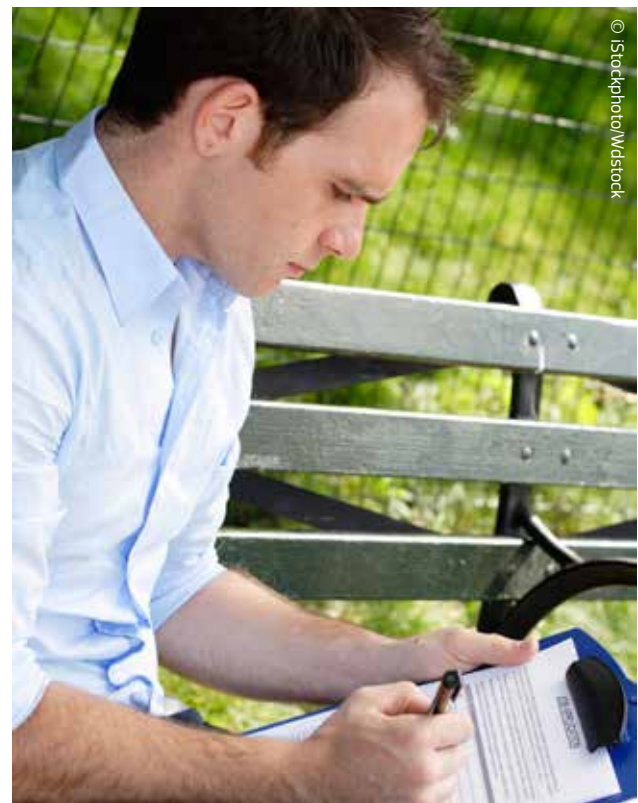
In 2009, the Commission instructed EU telecoms regulators to ensure that these connection rates were based on their real costs. The Commission has fined individual operators for their anticompetitive practices, all of which has led to cheaper phone rates and a more transparent pricing system across the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

## Getting the word out

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

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

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



## Extending a helping hand

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

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

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

Businesses seeking to provide services in more than one EU member country can also get information about relevant procedures and requirements through so-called **points of single contact** — single entry points they can access electronically either at home or in another EU country. European entrepreneurs, meanwhile, can get a wide range of free business support, including expert advice on EU single market legislation from patents to taxation issues, from the **Enterprise Europe Network**, which has close to 600 member organisations in 50 countries.



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

Last but not least, the European Employment Services, or **EURES**, is a cooperation network and job-mobility portal that helps facilitate the free movement of workers within the European Economic Area (also including Switzerland). Set up in 1993, the purpose of EURES is to provide information, advice and recruitment/placement (job-matching) services for workers and employers or anyone wishing to benefit from the principle of free movement.

## What the EU does

Completing the single market is a priority for the European Commission as it seeks to reinvigorate the European economy after the crisis. In the past few years, it has taken a number of measures to boost the economy and create jobs.

### Priority actions for new growth

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

Another priority has been to improve the recognition of professional qualifications. In November 2013, a modernised Professional Qualifications Directive was adopted, making it easier for professionals to get their qualifications recognised when working in another Member State, whilst guaranteeing a greater level of protection for consumers and citizens. Improving worker mobility in the EU is also an ongoing priority, in light of the fact that many posts for highly qualified personnel remain vacant. The Commission proposed the introduction of a 'European professional card', to help people get quicker and easier recognition of their qualifications across the EU.

In February 2014, new rules were adopted on public procurement and the award of concessions. Public procurement rules set out the way public authorities buy goods, works and services. The Europe 2020 strategy stresses that public procurement policy must ensure the most efficient use of public funds and that procurement markets must be kept open EU-wide, even more so

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







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

given the financial crisis. The new rules bring simplified procedures, greater flexibility and have been adapted to better serve other public sector policies and allow for the best value for money. This will make public procurement more efficient and strategic, whilst respecting the principles of transparency and competition to the benefit of both consumers and economic operators. Concessions are partnerships between the public sector and mostly private companies, where the latter exclusively operate, maintain and carry out the development of infrastructure or provide services of general interest. Concession contracts underpin an important share of the economic activity in the EU. The new rules are designed to make it easier to conclude concessions and therefore public-private partnerships, encouraging new investments, promoting a quicker return to sustainable economic growth and contributing to innovation and long-term structural development of infrastructures and services.

Also a priority is the digital economy, and in March 2013, the Commission proposed new rules to slash the cost of rolling out high-speed Internet by 30 %. The rules are based on best practices already tried out in Germany, Spain, France, Italy, Lithuania, the Netherlands, Poland, Portugal, Slovenia, Sweden and the United Kingdom. The EU initiative nonetheless leaves organisational issues largely to the discretion of member countries.

To boost consumer confidence, the Commission proposed in February 2013 new safety rules for consumer products circulating in the single market, as well as stepped-up market surveillance for non-food

products, especially those imported from outside the EU. The objective is to keep harmful products from getting into consumers' hands and to improve traceability so that they can be easily identified and quickly withdrawn from the market in the event of a problem. Once adopted by the European Parliament and the Council, the new rules will be enforced by national market surveillance authorities. These authorities will work more closely together to coordinate product safety checks, especially at the EU's external borders.

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

## A single market for consumers

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

In particular, the European Commission has worked hard to ensure that consumers are not faced with different treatment due to their nationality or residence. The Services Directive prohibits such discrimination in order to put an end to practices by businesses that unjustifiably hamper access to their services by residents in other Member States.

## The digital single market

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

But the Internet's impact goes well beyond just shopping or more easily accessible entertainment. The digital single market can be seen as part of the solution to Europe's sluggish economic recovery, encouraging, for example, SMEs to go online in search of new markets. And the internet is changing the way people work, offering more flexible working arrangements that were not previously possible, which in turn helps make Europe's labour markets more efficient.

## More competition in the energy market

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

You can find out more about the EU's energy policy in the publication in this series on 'Energy'.

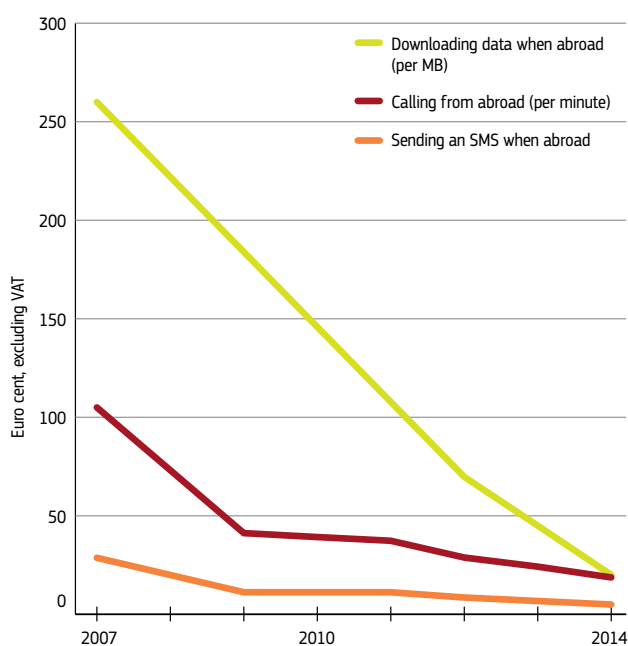
## Studying and working abroad

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

## Benefits for European companies

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

### CHEAPER MOBILE ABROAD



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

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

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

## Sustainable and safe industry

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

## Protecting innovation

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

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

*Companies save money due to the European-wide patent, as they no longer have to apply for separate patents for different countries.*



## What's next?

In the past few years a number of concrete measures have been adopted that have gone a long way to improving the way the European single market works. But despite this, there are still a number of gaps to be closed in the single market, mainly in the areas of services, digital and energy. These require in some cases an action at EU level in order to further remove administrative barriers and help individuals and companies make the most of the single market. The single market gaps can already be tackled through the correct implementation of the existing legislation by the Member States. The Commission is increasingly promoting the idea of partnerships with and between Member States, including peer reviews and sharing best practices. Looking forward, the European single market needs to be further developed in order to exploit its untapped potential as an engine for growth.



*Europe needs new enterprises.*

## Find out more

- ▶ **For an overview of EU single market policy see the Commission's website at:**  
[http://ec.europa.eu/internal\\_market/index\\_en.htm](http://ec.europa.eu/internal_market/index_en.htm)
- ▶ **For a list of public consultations:** [http://ec.europa.eu/yourvoice/consultations/index\\_en.htm](http://ec.europa.eu/yourvoice/consultations/index_en.htm)
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