Memo to the commissioner responsible for the internal market

Niclas Poitiers, Simone Tagliapietra,
Reinhilde Veugelers and Jeromin Zettelmeyer

Despite many attempts to improve implementation of single-market rules, significant barriers to intra-EU services trade and cross-border mobility of people persist. A further challenge is how to reconcile industrial policies with competition and the single market.

Addressing these challenges requires a two-pronged strategy. First, you should make a new legislative push to improve the rules rather than just enforce existing rules, backed by stronger single-market governance, including effects-based monitoring and evaluation. This should focus on the elimination of sector-specific barriers to services trade, recognition of professional qualifications, transferability of social security entitlements and the creation of a '28th regulatory regime'. Second, you should implement single market-friendly industrial policy at the EU level, including by using EU funds to top up Important Projects of Common European Interest that have benefits beyond the participating countries, and by expanding EU-level 'Auctions as a Service' with member state contributions but EU-wide criteria for allocating subsidies.

Strengthen single-market governance

Make a new push to break down single-market barriers

Develop single market-friendly industrial policy instruments

State of affairs

Your portfolio is critical to the European Union's most important economic objectives. First, to vigorous, sustained and sustainable growth: Europe's post-COVID-19 recovery has been weaker than in the United States. Tepid growth is expected to persist: International Monetary Fund projections put medium-term growth in advanced Europe at just 1.2 percent of GDP, while the US is projected to grow at over 2 percent. Second, your portfolio is critical to economic security. Between 2020 and 2022, the EU suffered two large disruptions: COVID-19 and the largest spike in energy prices in many decades. While these crises were overcome relatively quickly, they have persistent effects, such as higher energy prices than prior to 2021, and have highlighted EU vulnerabilities. These include concentrated imports, exports and foreign direct investment in areas that could make the EU vulnerable to new geopolitical shocks.

The EU's internal market has come a long way since the mid 1980s, when the European Economic Community embarked on its first comprehensive attempt to reduce non-tariff barriers to internal trade, officially creating the single market in 1992. Trade inside the single market has grown considerably faster than trade with partners outside. Membership of the EU has a much greater impact on trade among its members than membership in a typical regional trade agreement (Fontagné and Yotov, 2024). The costs of intra-EU trade have been falling continuously since the 1990s, with a substantial drop in the costs of services trade since the mid-2000s (Head and Mayer, 2021). This suggests that continued efforts to improve the single market have indeed borne fruit.

It is clear that the internal market remains a far cry from the largely frictionless national markets inside EU countries

But it is also clear that the internal market remains a far cry from the largely frictionless national markets inside EU countries. Goods trade between regions within the same member state is four times as large as trade across regions located in different EU countries (Santamaria *et al*, 2024). At around 6 percent of EU GDP, intra-EU services trade is only barely higher than services trade with extra-EU partners. Costs of migration across EU borders remain almost ten time higher than across US states (Head and Mayer, 2021).

Multiple reports by both the European Commission and outside authors (eg Dahlberg *et al*, 2020) have sought to identify the actual barriers that cause these frictions. Some relate to differences in national regulations in areas in which EU legislation does not apply or leaves room for national differences ('goldplating'). Some relate to poor transposition or poor implementation of EU rules, and some to information gaps on the side of consumers, businesses and local authorities. For the last fifteen years or so, the Commission has sought to close these gaps through better information, coordination, monitoring and enforcement. Examples include Points of Single Contact (required since 2009) that make it easier for service-sector companies to understand and meet administrative requirements online, an Internal Market Information (IMI) system to facilitate the exchange of information between local administrations, and SOLVIT, a problem-solving network that helps people or businesses when their cross-border rights are breached by public authorities.

Your predecessor doubled down on this approach, with a 2020 long-term action plan for better implementation and enforcement of single market rules (European Commission, 2020), led by a Single Market Enforcement Task-Force (SMET) of Commission and member state representatives. By 2023, most of the SMET's action items were reported as completed. How much of a difference this has made is unclear, in part because the pandemic led to a wave of state aid and national regulation and pushed single market implementation onto the back burner. The transposition deficit (percentage of EU directives not transposed into national law) rose from 0.6 percent before the pandemic to 1.6 percent in 2021 (far above a ceiling of 1 percent set in 2007 by the European Council), but has since fallen back to just 0.7 percent. The conformity deficit – treaty infringement procedures for inadequate transposition as a share of directives that member states notify as transposed – also rose sharply, and remains about twice as high as before the pandemic.

The last five years were not notable for new legislation pushing the boundaries of the single market

Except in the digital area, where landmark legislation was passed, the last five years were not notable for new legislation pushing the boundaries of the single market. Nevertheless, there has been important defensive legislation. The 2024

Internal Market Emergency and Resilience Act[1] aims to ensure a functioning internal market for critical goods and services in emergencies triggered by a pandemic or an international conflict is a cornerstone of EU economic security. The 2024 Corporate Sustainability Due Diligence Directive (Directive (EU) 2024/1760) was a reaction to national supply chain due diligence laws and seeks to avoid internal trade barriers that could arise from them.

Significant obstacles to banking union remain unaddressed, and capital markets union remains elusive

There has also been modest progress in improving the internal market for financial services, but significant obstacles to banking union remain unaddressed, and capital markets union remains elusive. Access to venture capital and equity finance remains a major barrier to the expansion of young firms, while energy costs and skills are the most important barriers to investment by firms of all sizes.

In the second half of his mandate, your predecessor's attention shifted from improving the single market and fighting the pandemic to industrial policy. Part of this was a reaction to the use of industrial subsidies in China and, beginning with the 2022 Inflation Reduction Act, in the United States. Part of it arose from a sense that the EU had been too complacent in tolerating import dependencies, in particular on Russian gas.

The result was a series of regulations – the European Chips Act (Regulation (EU) 2023/1781), the Critical Raw Materials Act (Regulation (EU) 2024/1252) and the Net Zero Industry Act (Regulation (EU) 2024/1735) – designed to strengthen EU production capacity in specific sectors. Given the lack of EU-level funding, the main instruments of these acts are regulatory, such as shortened permitting times or strengthened circular economy rules, or changes in the rules governing member states' public procurement). In addition, the Temporary Crisis Framework for State Aid, originally created as a reaction to COVID-19, was amended to allow member states to subsidise clean-tech manufacturing under certain conditions, including to match clean-tech manufacturing subsidies in non-EU jurisdictions. For now, these rules remain in place until end-2025.

[1] Not yet ratified by the Council of the EU at time of writing.

Challenges

As the commissioner responsible for the internal market and the EU's industrial strategy, you face two main challenges.

The first is to deepen the single market (outside financial services, capital markets and energy, which are handled by some of your colleagues) when everything seems to have been tried – including improvements in single market governance and enforcement. More than three decades after date foreseen for the completion of the single market, it might be assumed that efforts to achieve this goal have reached their limits, perhaps because of deep differences in national preferences and cultures and the related wish of member states to maintain some control over regulation.

Single market governance focused on information, monitoring and implementation remains essential and can be improved

You should not accept this assumption. However, making headway will likely require a more ambitious strategy. Single market governance focused on information, monitoring and implementation remains essential and can be further improved. But in addition, it is essential to choose a few projects that push forward the EU legislative boundary. Outside the digital area, this approach has not been pursued since the 2006 Services Directive (Directive 2006/123/EC), and for obvious reasons: it is politically very difficult.

You must therefore choose your priorities wisely. Fortunately, political momentum for single market advancements has been building, as have some concrete ideas (for example, Letta, 2024). Beyond choosing wisely, you will need to ensure that you have the right implementation tools at your disposal. These includes analytical and administrative capacity to prioritise, monitor, and evaluate, and also control over the use of funds for relevant programmes.

Your second challenge is whether and how to pursue industrial policy targeted to specific industries, technologies and value chains deemed of special economic or strategic importance. Industrial policy of this type can be justified by societal objectives such as the green transition, which requires directed technical change. It could also be justified by economic security – to maintain or create EU production capacity and industrial know-how to reduce dependence on third countries, particularly those that might seek to exploit such depencence.

Targeted industrial policies are fraught with risk

But targeted industrial policies are fraught with risk. Industrial subsidies provided by national governments harm competition and fragment the single market. Policies to protect incumbents can backfire – even when applied at the EU level – by contributing to the erosion of the rules-based trading system that the EU depends on for growth and industrial competitiveness, and by reducing market entry and hence business dynamism. Finally, as is clear from the examples of both the US and China, large-scale industrial subsidies pose significant fiscal risks and divert resources from other essential public investment or from rearming the EU in the face of new military threats.

In principle, the solution to this dilemma is well known: pursue industrial policy that promotes competition, respects multilateral trade rules, is open to new technology (subject to serving broad societal objectives such as the green transition and security) and spends targeted resources at the EU level rather than through state aid. But implementing this solution in practice is very difficult. One reason is money: the EU budget is only a fraction of total public spending by the EU and its member states. For example, the Horizon Europe budget for research only covers about 7 percent of total EU public research spending on clean tech. Another reason is the need to create strong governance to ensure that industrial policy is effective and strengthens the single market.

Recommendations

Strategies to improve the single market can be grouped into three categories: EU-level legislative changes in core areas, particularly services and movement of people, where well-documented barriers remain; better implementation and information; and coordination of member-state policies and spending in key sectors for which efficiency gains appear particularly high, such as capital markets, energy markets, or public R&D.

The recommendations in this memo focus on the first two areas, followed by recommendations for smart, EU-level industrial policies that meet the conditions described at the end of the challenges section.

Stronger single market governance

Create a Single Market 2.0 programme (SMP 2.0) to prioritise, develop and implement ideas for single market reform, led by a dedicated Director General and backed by a monitoring, analysis and evaluation taskforce

Stronger governance is needed for two reasons. First, lack of prioritisation. There is an abundance of ideas to improve the single market, but most are costly, and it is often unclear which ideas are worth the political cost. Second, inconsistent evaluation of single market policies and reforms. Single Market 2.0 should set clear performance indicators related not just to process, but to the desired effects of the programme. Your monitoring, analysis and evaluation taskforce should provide you with the evidence base for your policies, identifying the most critical bottlenecks and the actions that can address them. The taskforce should develop tools to assess the impact of single market policy on the performance indicators, which should encompass innovation, corporate investments, productivity growth, competitiveness, sustainability and cohesion.

Ensure that you have the authority to allocate EU funds for specific programmes that are essential for the single market

An example of a programme at the core of the single market is the Connecting Europe Facility (CEF), the EU fund established in 2014 for investment in infrastructure projects that connect EU countries, funded by grants, financial guarantees and project bonds for transport, energy, digital and telecommunication projects. But rather than being run by your services, CEF is run by the Climate, Infrastructure and Environment Executive Agency. Its budget for 2021-2027 is €33.7 billion, of which about 80 percent goes to transport. As connectivity projects are perhaps the most tangible initiatives for the single market, CEF should be scaled up and be brought under your responsibility, so that you can select the projects, run as public-private partnerships, that are most needed for deepening the single market.

Lacking technical and administrative capacity in member states continues to be a major barrier to single market implementation

Expand capacity building and support for national administrations implementing single market legislation

Notwithstanding significant efforts to improve coordination and information exchange, lacking technical and administrative capacity in member states continues to be a major barrier to single market implementation. You should ask the Single Market Enforcement Task-Force, for example, to develop proposals on how member state administrative capacity can be improved and aligned. The initiative could be extended to foster capacity in member states' procurement processes, with several countries struggling to place greater weight on qualitative criteria because of administrative constraints and corruption fears. Another important area for efficiencies would be the streamlining of permitting procedures, particularly in clean energy, clean tech and infrastructure.

A new push to break down single market barriers

As part of SMP 2.0, design and pass a legislative package to eliminate sector-specific regulatory barriers to services trade

Sector-specific regulatory barriers continue to impede services trade, notwithstanding many years of efforts to reduce these barriers through better implementation of the 2006 Services Directive. Building on plentiful existing analyses, your services should identify the regulations with the highest economic costs and design a legislative plan akin to the 1985 Commission White Paper (European Commission, 1985). The aim should be to eliminate most of these barriers by the end of your mandate. The endorsement of this plan by the Council and its subsequent implementation should be one of your top priorities.

Design and implement a '28th regime' for companies

A 28th regime refers to a European regulatory regime that would exist in parallel with national regimes and could be used by any company in the EU (Letta, 2024). As a new design, it could be made more business friendly than some existing regimes. Most importantly, it would apply throughout the entire EU, facilitating operations across member states.

The introduction of a 28th regime could complement a legislative programme to eliminate the remaining regulatory barriers for services. In particular, the 28th regime should encompass the regulation of liberal professions such as accountants and architects – areas in which harmonisation of national regulation has been difficult. It could initially only cover product and services-market regulation. An extension to labour-market regulation, such as rules on severance pay and hiring, should be explored. This would require ensuring consistency with representation of workers in national unions to avoid a dual labour market.

Improve the recognition of professional qualifications and transferability of social security entitlements

In spite of the 2005 Professional Qualifications Directive (Directive 2005/36/EC), recognition by EU countries of professional qualifications obtained in other EU countries remains incomplete because of exemptions, and can be slow as a result of cumbersome administrative procedures (Dahlberg *et al*, 2020). Eliminating these exemptions and introducing automatic recognition may require new EU-level legislation. A 'European Degree' as proposed by Letta (2024) would help the next generation of labour-market entrants. Progress should also be made in the coordination and transferability of social-security entitlements and in improving the interoperability of social-security systems. Digital tools such as the European Social Security Pass can help.

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Developing single market-friendly industrial policy instruments

Turn IPCEIs into the main tool of a truly European industrial policy, by simplifying and strengthening their governance and using the EU budget to top-up national funding

Important Projects of Common European Interest (IPCEIs) are cross-border collaborations between firms that benefit from subsidies from at least four member states, are deemed to serve EU objectives (such as sustainable growth) and meet an extensive set of additional criteria. Unlike most other forms of state aid, these projects are allowed under prevailing state aid rules, and have become an important tool for public-private collaboration at EU level. However, they remain thin on EU-wide spillovers, are often bureaucratically heavy and end up supporting mostly large incumbent firms that have the ability and experience to propose and manage such complex projects. Furthermore, good IPCEIs might be missed because the members states that might support them do not have sufficiently deep pockets.

IPCEI procedures should be simplified and accelerated and should take a value-chain approach

To address these problems, IPCEI procedures should be simplified and accelerated and should take a value-chain approach. IPCEIs with significant EU-wide spillovers beyond the participating countries should be topped-up by EU funding. IPCEI governance must change accordingly, to ensure adequate selection, monitoring and evaluation of IPCEIs, particulary those that benefit from EU funding.

Expand the EU-level ‘Auctions as a Service’ approach to support innovative low-carbon projects

The Auctions as a Service scheme to support the production of renewable hydrogen under the Innovation Fund[2] allows EU countries to contribute their own financial resources to top up the budget of an EU-wide auction in exchange for a guarantee that the funds will support domestic projects. While this approach falls short of maximising European economic efficiency (as funds are earmarked on a national basis), it is a great improvement on member state-level industrial policy, as it (1) offers a single EU-wide design of the allocation criteria; (2) reduces administrative and bureaucratic work (by avoiding duplication of work across member states and labourious applications for approval under state-aid rules); (3) frees up EU funds to support companies that perform well in the auction but lack a national sponsor. By demonstrating how EU funds can be used for industrial policy that complements that of member states, it could also constitute a stepping stone toward eventually enlarging the EU pot.

[2] See European Commission, ‘Competitive bidding,’ undated, https://climate.ec.europa.eu/eu-action/eu-funding-climate-action/innovation-fund/competitive-bidding_en.

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