



**Kick-starting growth:
How to reignite the EU's services sector**

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By

Stephen Booth

Christopher Howarth

Mats Persson

Raoul Ruparel

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Open Europe
7 Tufton Street
London
SW1P 3QN

Tel: 0207 197 2333
Fax: 0207 197 2307
www.openeurope.org.uk

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FOREWORD BY GUSTAV BLIX

The European economy is in serious trouble. The EU's share of global GDP in 2017 is set to drop to 17% - over a third less than in 1990. It is vital that Europe looks at a range of different ways to kick-start growth to reverse this trend and regain competitiveness in the global race.

But it isn't simply a question of the EU's relative position in the world. The union is plagued by unsustainable levels of unemployment, deficits and debt – problems that can only be met by economic growth. Regardless of what other parts of the world do, we need to create an environment where individuals, families, and businesses can work, trade, consume, save and invest without being overburdened by overly onerous regulation and other obstacles. In other words, what Europe is lacking is economic freedom – the cornerstone of an environment conducive to economic growth and opportunity.

Nowhere is this as obvious as in Europe's service industries where increased cross-border trade is a huge untapped resource. Services dominate Europe's economy - accounting for over 70% of total output - but they remain a small proportion of EU trade – accounting for only around one-fifth of the EU's internal exports and imports. This unbalance urgently needs to be addressed.

This timely report shows the huge potential economic gains to be had from liberalisation and boosting cross-border trade in services, and explores several different avenues to achieve this. The first step should be clear: start with properly implementing what has already been agreed amongst EU leaders which, as Open Europe shows, could boost the EU economy by some €230bn. Even though the additional steps set out by Open Europe in this report require further consideration, they provide a stimulating contribution to the debate regarding the EU's economic future.

This is a debate that we cannot afford to dodge any longer.

Gustav Blix

Member of Swedish Parliament (Moderate Party), Ranking Member, The Committee on European Union Affairs



WHAT THEY SAY ABOUT THE NEED TO REVIVE THE EU'S SERVICES SECTOR

*"We have a Single Market of goods, but not quite a Single Market for services. We still have to work at it."*¹

- **German Chancellor Angela Merkel, 18 February 2013**

*"We need to get [the EU's] growth engine going again. So one of the ideas we will explore further is how we can get the services directive up and running. The services directive has been watered down, and nothing has been left, because countries could not agree."*²

- **Dutch Prime Minister Mark Rutte, 25 January 2011**

*"It's incredibly important that we now fully implement the services directive...this would mean a fantastic vitamin injection for the EU economy."*³

- **Swedish Minister for Trade Ewa Björling, 27 November 2012**

*"Member states must fully implement the Services Directive as soon as possible."*⁴

- **Italian Prime Minister Mario Monti in the 'Monti Report' 9 May 2010**

*"The ambitious transposition of the Services Directive will be the most important structural reform."*⁵

- **Former Spanish Economy Minister Elena Salgado, 24 May 2009**

*"Member states, in line with calls from the European Council, should ensure that the Directive can deploy its full force."*⁶

- **European Commission, 8 June 2012**

1 Bundeskanzlerin, 18 February 2013, <http://www.bundeskanzlerin.de/Content/DE/Rede/2013/02/2013-02-19-ihk.html>

2 Guardian, 25 January 2011, <http://www.guardian.co.uk/politics/2011/jan/25/davidcameronnetherlands?INTCMP=SRCH>

3 Swedish Riksdag, 27 November 2012, http://www.riksdagen.se/sv/Dokument-Lagar/Kammaren/Protokoll/Riksdagens-protokoll-2012133_H00931/

4 European Commission, A new strategy for the Single Market at the service of Europe's economy and society, Report to the President of the European Commission, José Manuel Barroso by Mario Monti, 9 May 2010, http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf

5 La Vanguardia, interview of 24 May 2009, <http://www.lavanguardia.com/economia/noticias/20090524/53709268013/elena-salgado-nos-queda-un-margende-endeudamiento-de-150.000-millones.html>

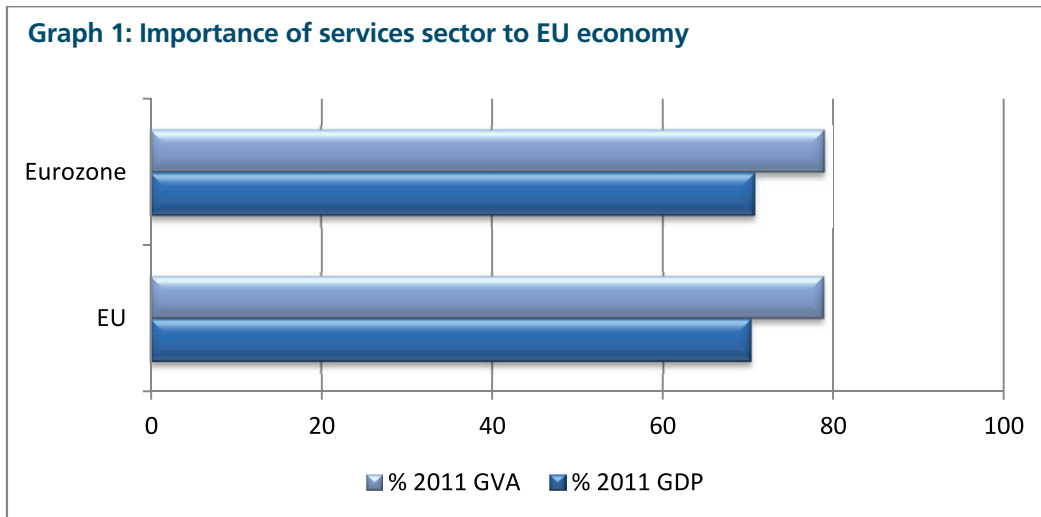
6 European Commission, communication on the implementation of the Services Directive, 8 June 2012, http://ec.europa.eu/internal_market/services/docs/services-dir/implementation/report/COM_2012_261_en.pdf

EXECUTIVE SUMMARY

- Despite the economic problems in the eurozone and throughout the EU, Europe is sitting on a huge amount of untapped potential growth and employment in the services sector. Further liberalisation of services by fully implementing the existing Services Directive and implementing a new “country of origin” principle would massively boost cross-border trade and produce a permanent increase to EU-wide GDP of up to 2.3% or €294bn, in addition to the €101bn already gained under the Services Directive (0.8% of EU GDP).
- For various political reasons, the implementation of existing rules and an EU-wide agreement to further services liberalisation has proved difficult to achieve. However, under ‘enhanced cooperation’, a smaller group of EU countries should now press ahead with greater integration in services – this mechanism has been used three times before, including for the proposed Financial Transaction Tax (FTT). This was an idea first floated by Mark Rutte, the Dutch Prime Minister, in 2011.
- In a “pro-growth” letter in February 2012, twelve member states – the UK, the Netherlands, Italy, Estonia, Latvia, Finland, Ireland, Czech Republic, Slovakia, Spain, Sweden and Poland – all committed themselves to “open up services markets” with “urgency, nationally and at the European level, to remove the restrictions that hinder access and competition”.
- We estimate that if this group of countries were to further open up their services markets under enhanced cooperation, it would still produce a lasting boost to EU GDP of up to 1.17% or €147.8bn in addition to the economic gains already realised under the Directive. If other countries, such as Germany, were persuaded to join, the economic benefits would be increased further. This boost would dwarf the estimated benefits of other recent EU ‘pro-growth’ proposals, such as the €60bn in extra lending from the European Investment Bank. Ultimately, this measure should serve as a springboard to achieve services liberalisation for the EU as a whole.
- In addition, there are currently around 800 regulated professions across the EU – 25% of which are regulated in only one member state – that create barriers to professionals seeking to provide services outside their own country. Enhanced cooperation could therefore also be used by the participating member states to make a commitment to collectively reduce the number of regulated professions in their economies by at least 15%.
- Concerns that enhanced cooperation in services would fragment the Single Market are largely misplaced. Indeed, under the FTT and EU patent proposals it was argued that enhanced cooperation boosted the Single Market by removing disparities between the participating countries. The same principle must logically apply here.
- The political benefits of further services liberalisation, even to those countries that might simply give tacit approval to enhanced cooperation, are threefold:
 1. It would be a positive, constructive, and pro-European means by which to secure continued engagement in the EU from non-euro countries, including the UK.
 2. It would provide a new legally enforceable framework to improve competitiveness and growth in the Southern euro member states and therefore boost the economic prospects of the eurozone, but without costing an extra cent of Northern countries’ taxpayers’ money.
 3. It would improve EU-wide growth, competitiveness and employment at a time when Europe is at risk of global economic decline.

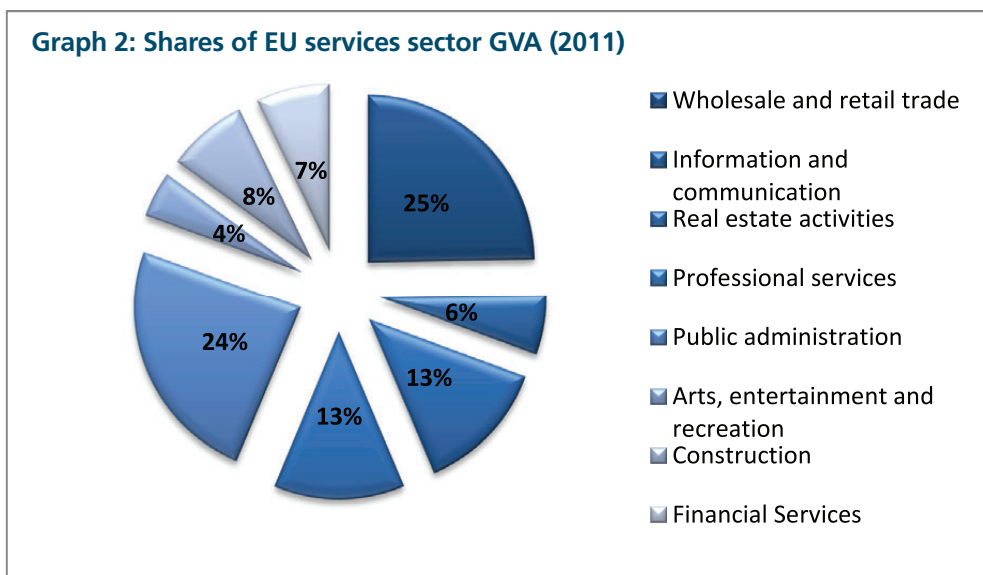
1. WHY THE EU CAN'T AFFORD TO RESIST FURTHER SERVICES LIBERALISATION

Trade liberalisation within the EU is far more developed for goods than for services; services are a large proportion of the EU economy, but they remain a small proportion of EU trade.⁷ Services account for over 70% of Europe's output but only account for around 23% and 22% of the EU's internal exports and imports respectively.⁸



Source: Eurostat

In the EU, services are regulated by a complex mix of national and EU regulation (see Annex I for more detail). A large variety of services sectors are covered by the EU's Services Directive⁹, which together represent over 40% of EU GDP, such as retail and wholesale trade, construction and crafts, professional services, tourism, leisure sectors, etc.



Source: Eurostat

Some important sectors are excluded from the Services Directive, such as financial, telecommunications, transport services and healthcare, but most of these are covered by other EU internal market legislation.¹⁰

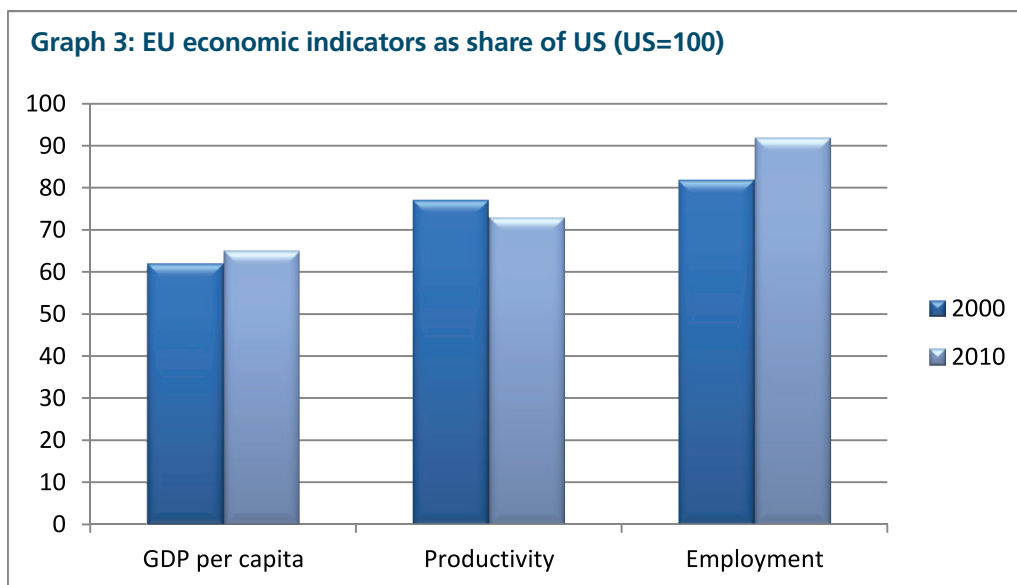
7 For a discussion see Open Europe, 'Trading Places: is EU membership still the best option for UK trade?', 2012, p16; <http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUTrade.pdf>

8 HM Government, 'The European Union Single Market – what has been achieved in twenty years?' in 'Twenty years on: The UK and the future of the Single Market', CEPR and HM Government, 2012, p1

9 DIRECTIVE 2006/123/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 December 2006 on services in the internal market; <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:376:0036:0068:en:PDF>

10 European Commission, 'The economic impact of the Services Directive: A first assessment following implementation', June 2012, p6

As the graph below shows, the EU has made limited progress in catching up with US GDP per capita despite substantial progress in catching up in terms of employment – the result being that the EU’s productivity per hour worked fell relative to that of the US between 2000 and 2010.



Source: European Commission President José Manuel Barroso¹¹

Much of this productivity gap can be explained by the differing productivity performance of US and EU service industries.¹²

	Total Market Economy	ICT Production	Goods Production	Market services	Reallocation ¹³
EU	1.6	0.4	0.7	0.6	-0.2
US	2.6	0.8	0.3	1.8	-0.2
UK	2.6	0.5	0.7	1.6	-0.2

Source: ‘Service Sector Productivity’, Chapter 7, ‘Twenty Years On: The UK and the Future of the Single Market’, BIS 2012.

11 Europe’s Sources of Growth, Presentation by President of the European Commission Jose Manuel Barroso to the European Council of 23 October 2011 http://ec.europa.eu/europe2020/pdf/barroso_european_council_23_october_2011_en.pdf

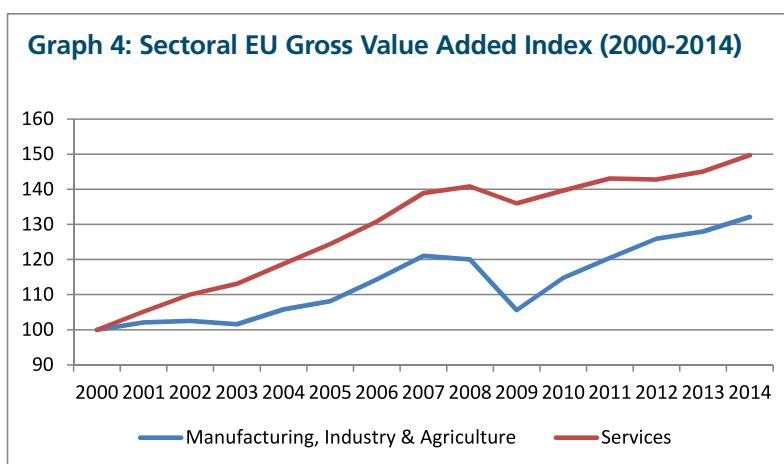
12 In 2012, Mustilli and Pelkmans noted that, “Since 1995, EU productivity growth in services has fallen to a low annual average precisely when that of the US increased sharply...Empirical analysis quickly detected that productivity growth differentials, in just a few services sectors, were the main cause of the trend change.” See Mustilli, F. and Pelkmans, J., ‘Securing EU growth from services’, CEPS, October 2012, p9

13 ‘Reallocation’ refers to the labour productivity effects of labour switching between sectors. This varies across the time period and from country to country therefore an adjustment is needed for the EU aggregate. The figures in the table may not add up exactly due to rounding.

The EU, as a whole, has generally performed poorly in the most technology-intensive areas, such as the Internet, biotechnology, and computer software, compared to the US and the UK's individual performance in these new sectors. The EU has tended to do better in the more established manufacturing sectors, especially industrial machinery, electrical equipment, telecommunications, aerospace, automobiles, and personal goods.

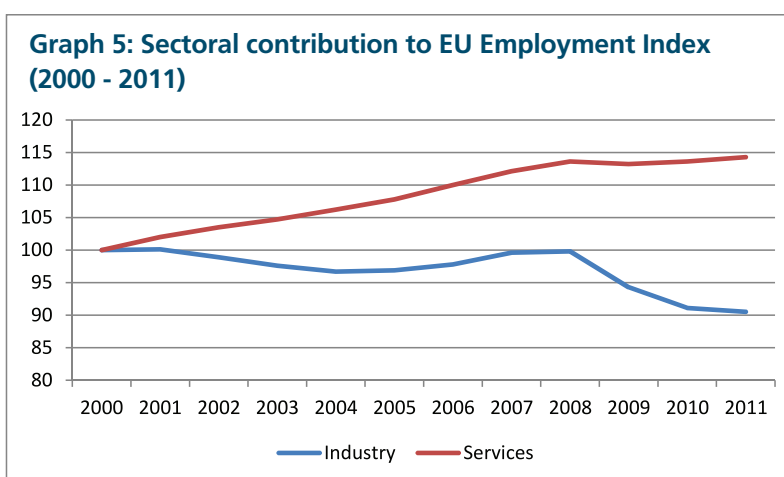
However, services have increased in tradability due to new technologies that have changed the nature of many services from "traditional" to "modern." Traditional services often require face-to-face contact, while modern services can be delivered over longer distances. Modern services, such as banking and financial services, telecom support, and technical support, are now more "impersonal" and can be stored and traded digitally, thereby providing new opportunities to create employment and promote innovation.¹⁴

Since 2000, services have contributed more to EU gross value added (GVA) than the manufacturing sectors and this trend looks set to continue in the coming years. Therefore, the EU's competitiveness and productivity in these sectors is increasingly vital.



Source: Eurostat and Open Europe calculations¹⁵

Similarly, the graph below illustrates that, since 2000, the services sector has continued to create employment, while the industrial sector has remained relatively flat and, in recent years, shed jobs.



Source: Eurostat and Open Europe calculations

All these factors highlight the absolutely vital importance of services to the EU economy and underline why it is essential that the EU becomes more competitive in these sectors.

14 Open Europe, 'Trading Places: is EU membership still the best option for UK trade?', 2012, p19-20; <http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUTrade.pdf>

15 The figures for 2012 – 2014 are forecasts. To produce the forecast we use the Eurostat's forecasts for overall GVA and scale them to the services and manufacturing sectors assuming a share of GVA growth based on the average over the past decade. The share could of course change but we do not expect the gap between the two to close substantially over the next few years.

2. UNLOCKING THE EU'S GROWTH POTENTIAL IN SERVICES

2.1. The problem

The Services Directive hasn't fulfilled the EU's potential

For various reasons (see Annex I for background), services liberalisation at the EU level has proved difficult to achieve. The Services Directive, adopted in 2006, was subject to fierce political negotiation and the European Commission's proposal was heavily amended in the legislative process. As a result, the liberalising "country of origin principle" contained in the original proposal tabled by the Commission in 2004, was removed.

Instead, the adopted Directive states that, notwithstanding the limitations of "non-discrimination", "proportionality" and "necessity" laid out in the Directive, member states:

"Shall not be prevented from imposing requirements with regard to the provision of service activity, where they are justified for reasons of public policy, public security, public health or the protection of the environment..."¹⁶

The result is that, although what is left of the original Directive obliges member states to liberalise their services sectors and has provided some economic benefits, there remains a great deal of ambiguity with regard to what barriers member states can keep in place. This ambiguity has often resulted in poor implementation across the EU, and requires constant policing by the European Commission and the European Court of Justice.

Despite these shortcomings in the current Directive, due to domestic politics and ideological preferences, some EU countries are likely to continue to block attempts to push through a new pro-competition Services Directive based on the "country of origin principle". In addition, the European Parliament, which was a driving force in watering down the original Services Directive, has shown few signs of changing its stance in recent years.

The number of regulated professions is a continued obstacle to services

In addition, barriers to the free movement of services can also be imposed by regulation governing the access to certain professions or particular service activities. The EU's Recognition of Professional Qualifications Directive was designed to facilitate the free movement of services by setting common rules for the recognition of professional qualifications, and therefore make it easier for professionals to establish or to provide services in another member state where a particular profession is regulated.

However, according to the European Commission, there are 800 different activities in the EU that are "considered to be regulated professions in one or more Member States and are reserved for providers with specific qualifications." The justification for regulating many of these professions seems weak given that "more than 25%" of the regulated professions in the EU are regulated in just one member state. Examples cited by the Commission are the services of photographers, barmen, corset makers or chambermaids.¹⁷

2.2. The solution

In February 2012, the UK, the Netherlands, Italy, Estonia, Latvia, Finland, Ireland, the Czech Republic, Slovakia, Spain, Sweden and Poland signed a 'pro-growth' letter, which read:

"Services now account for almost four fifths of our economy and yet there is much that needs to be done to open up services markets on the scale that is needed. We must act with urgency, nationally and at the European level, to remove the restrictions that hinder access and

¹⁶ Article 16(3) of the Directive

¹⁷ European Commission, 'Towards a better functioning Single Market for services – building on the results of the mutual evaluation process of the Services Directive', 27 January 2011, p7; <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0020:FIN:EN:PDF>

competition and to raise standards of implementation and enforcement to achieve mutual recognition across the Single Market.”¹⁸

In addition to fully implementing the existing Services Directive, a like-minded group of EU member states such as this could use enhanced cooperation (see Box 1) to press ahead with a more ambitious approach to services liberalisation. Indeed, this was an idea floated by Mark Rutte, the Dutch Prime Minister, in 2011. Back then, he said that:

“We want to form a mini-Single Market for all the professional services, and then obviously the hope is that all 27 countries would like to join, even if some are currently vehemently opposed. I am absolutely convinced the Scandis, the Baltics and other countries will be willing to group together to have the original services directive implemented.”¹⁹

One way of doing this would be to return to the principle of mutual recognition originally proposed in the Commission’s draft Services Directive, and for the participating member states to agree amongst themselves to implement the “country of origin principle”.

If the “country of origin principle” were adopted, it would mean that a service provider would only need to comply with the regulations of their home state and that member states could not restrict services supplied by a provider established in another member state. Based on the principle of mutual recognition, this would make EU cross-border trade in services far less burdensome without requiring regulatory harmonisation or the imposition of further regulatory obligations on firms that chose to supply services exclusively in their home country.

In general terms, it would also introduce greater ‘market pressure’ to liberalise, in addition to the ‘government pressure’ that exists under the current approach, as there would be greater and more open competition between different member states’ services sectors. In turn, this would also place a greater emphasis on realising the benefits of increasing cross-border services trade and creating a genuine EU-wide services market.

In the area of regulated professions, enhanced cooperation should take the form of a political commitment to reduce the number of regulated professions by at least 15%. This would be both liberalising but also give the participating member states the flexibility to pick which professions to deregulate – allowing them to start with ‘low hanging fruit’.

¹⁸ For full letter see Telegraph, ‘David Cameron and EU leaders call for growth plan in Europe: full letter’ 20 February 2012; <http://www.telegraph.co.uk/finance/financialcrisis/9093478/David-Cameron-and-EU-leaders-callfor-growth-plan-in-Europe-full-letter.html>

¹⁹ Guardian, ‘Cameron looks to Dutch in move to boost EU free market’ 25 January 2011, <http://www.guardian.co.uk/politics/2011/jan/25/davidcameron-netherlands?INTCMP=SRCH>

Box 1: What is enhanced cooperation?

Enhanced cooperation has been used only three times so far, once for trans-EU divorce law, once for European patent law and now for the FTT. It allows a minimum of nine countries that wish to continue to work more closely together to do so, while respecting the EU treaties. The Member States concerned can thereby move forward at different speeds and/or towards different goals.²⁰

Conditions for enhanced cooperation

Enhanced cooperation should:

- aim to further the objectives of the EU, protect its interests, and reinforce its integration process;
- not undermine the internal market or economic, social and territorial cohesion;
- not constitute a barrier to or discrimination in trade between Member States or distort competition between them;
- respect competences, rights and obligations of non-participating Member States;
- only be adopted as a measure of last resort when it has been established that the objectives of such cooperation cannot be attained within a reasonable period by the Union.

Procedure for enhanced cooperation

Once the conditions for enhanced cooperation are met, the procedure is as follows:

- at least nine Member States must send a request to the European Commission specifying the scope and objectives;
- the Commission “may” submit a proposal to the Council to that effect, but if it does not do so it must explain why;
- authorisation to proceed with enhanced cooperation based on the Commission’s proposal must be granted after obtaining the consent of the European Parliament and by the Council acting by a ‘qualified majority’;
- non-participating Member States must not impede its implementation;
- all Member States may participate in the Council’s discussions but only Member States participating in the enhanced cooperation can vote (in respect of its implementation, either by QMV or by unanimity depending on the treaty base of the legislation in question);
- enhanced cooperation must be open at any time to all Member States.

2.3. Potential practical and legal obstacles to enhanced cooperation

The need to show that agreement at 27 isn’t possible

In the three examples of enhanced cooperation to date, EU divorce law, an EU patent, and the FTT, enhanced cooperation proceeded after a proposal was discussed by the Council of Ministers and it was decided that agreement at the level of 27 member states was not possible.²¹ However, if the Commission is broadly supportive of the idea, this hurdle could be overcome within a relatively short space of time. In principle, there should be sympathy for this proposal within the Commission given that it is a pro-Single Market measure (see below) which also involves more integration.

Would there be a qualified majority to authorise enhanced cooperation?

A small group of countries seeking to use enhanced cooperation for services might require the tacit approval of some non-participating states. Under the EU treaties²² it is clear that the Council of Ministers

²⁰ See Article 20 TEU and Articles 326 to 334 TFEU

²¹ See COUNCIL REGULATION (EU) No 1259/2010 of 20 December 2010 implementing enhanced cooperation in the area of the law applicable to divorce and legal separation, COUNCIL DECISION of 10 March 2011 authorising enhanced cooperation in the area of the creation of unitary patent protection (2011/167/EU), and Proposal for a COUNCIL DECISION authorising enhanced cooperation in the area of financial transaction tax 23.10.2012 COM(2012) 631 final 2012/0298 (APP)

²² See Article 329 TFEU: “Authorisation to proceed with the enhanced cooperation referred to in the first subparagraph shall be granted by a decision of the Council, on a proposal from the Commission and after obtaining the consent of the European Parliament.”

must authorise the use of enhanced cooperation by a Qualified Majority Vote (QMV). For instance, in the case of the FTT, the states wishing to proceed managed to gain a qualified majority, with the Czech Republic, Luxembourg, Malta and the UK abstaining.²³ In addition, the European Parliament could in theory block the actual launch of enhanced cooperation if a majority of MEPs vote against it (but once launched MEPs will have no say). However, given the economic benefits – and the constructive nature – of this proposal, it would be odd for member states and MEPs to seek to block it.

Could the “country of origin” principle conflict with the existing Services Directive or undermine the Single Market?

A key prerequisite for enhanced cooperation is that it doesn't undermine the Single Market. Enhanced cooperation on the EU patent was subject to legal challenge at the European Court of Justice. Italy and Spain contested a range of legal areas including whether the decision was in line with the Single Market, illustrating that a similar proposal, too, could be open to a legal challenge. But given the precedent that is being established by the patent and the FTT, it is unlikely that such a challenge would be successful.

The case regarding the patent is pending, but in his preliminary opinion²⁴ the ECJ Advocate-General Yves Bot argued that the patent,

“contributes to the harmonious development of the Union as a whole, since it has the consequence of reducing the existing disparities between those Member States.”

Similarly, in its proposal for an FTT, the Commission argued,

“Today’s proposal states that enhanced cooperation on FTT would contribute to a stronger Single Market, with less barriers and competitive distortions. A common system of taxing the financial sector, even if not applied by all Member States, is preferable to the fragmentation that would result from 27 different national systems.”²⁵

With the same logic, far from undermining the Single Market, enhanced cooperation in the Services Directive would reduce the overlapping services regulation, align the number and type of regulated professions, remove competitive distortions and reduce the significant barriers to services trade within the EU.

An argument might be made that the “country of origin” regime for services under enhanced cooperation could be in conflict with the existing Services Directive’s rules, which essentially mean that a service provider must comply with the rules in the “country of destination”. But for similar reasons to those discussed above this too seems unlikely.²⁶

²³ Council of the European Union ‘Financial Transactions Tax: Council agrees to enhanced cooperation’, 22 January 2013 <http://register.consilium.europa.eu/pdf/en/13/st05/st05555.en13.pdf>

²⁴ Info Curia, Opinion of Advocate-General Bot, 11 December 2012, Joined Cases C-274/11 and C-295/11 Kingdom of Spain (C-274/11), Italian Republic (C-295/11) v Council of the European Union. <http://curia.europa.eu/juris/document/document.jsf?text=&docid=131666&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=133168>

²⁵ Enhanced Cooperation on Financial Transaction Tax – Questions and Answers http://europa.eu/rapid/press-release_MEMO-12-799_en.htm

²⁶ Even if so, one potential solution would be for the countries implementing the “country of origin” principle under enhanced cooperation to commit to also apply the principle to countries that haven't signed up. This would essentially mean that, under the principle of “unilateral free trade”, the enhanced cooperation group would open their services markets up to the other member states which had chosen not to reciprocate by maintaining the existing Services Directive.

3. WHY IS THIS THE RIGHT TIME FOR ENHANCED COOPERATION?

There are several arguments for why this would be an appropriate time to table this type of proposal:

The economic case is overwhelming: Fundamentally, both in the short-term and long-term, Europe needs to explore all possible measures to boost growth and competitiveness. The eurozone is set for recession in 2013 but more worryingly, the EU is facing relative economic decline in global terms. The EU's share of world GDP is expected to be 60% of its 1990 level within five years. As we have noted, a lot of the growth potential in Europe lies in the services sector, and this would send a strong signal to the rest of the world – and indeed financial markets – that Europe is taking its challenges seriously. Therefore, there is an overwhelming economic case for not letting political obstacles in some member states stand in the way of what is a desperately needed boost to growth.

The eurozone crisis is driving liberalisation in individual countries: Lagging competitiveness is precisely the reason why the Commission, IMF and European Central Bank are pushing for the liberalisation of closed professions in Greece and Portugal (see Box 2). Structural reform and competitiveness have long featured heavily in summit communiqués but there is now some genuine momentum behind this agenda in several countries. It is the right time to capitalise on the change in the political climate (though growing popular resistance to 'austerity' has also undermined support for structural reforms to some extent).

A multi-tier Europe is already a reality: There is a school of thought that warns against more differentiated integration in the EU, on the grounds that it can lead to political and institutional fragmentation, therefore undermining the Single Market. While this concern needs to be taken seriously it is, in fact, fighting yesterday's battle. First, a multi-tier EU has been in existence for some time, with for example, the euro, Schengen and justice and home affairs being subject to differentiated participation. Secondly, the creation of an EU banking union, in particular, is further entrenching a multi-tier structure, whether we like or not – with the UK, Sweden, the Czech Republic and possibly others not taking part – despite the fact that the new construction has the potential to cut across the Single Market. Finally, as we noted, the FTT and the EU patent have already set a precedent. This is an acknowledgement that flexible integration should be embraced and not feared – particularly if it has the potential to generate such a massive boost to growth.

The more progress on reform, the less need for repatriation: For those who want the UK to stay in the EU, which includes most other countries in the EU, this would be the ideal opportunity to channel the frustration that exists in Britain into a constrictive, positive, pro-growth and – indeed – pro-European agenda. The more headway the UK can make in the traditional, pro-competitiveness areas such as Single Market liberalisation, the more credibility any future UK Government will have when making the case for continued EU membership. This, in turn, will reduce calls not only for the UK to leave the EU, but also for unilateral attempts to repatriate powers. It is a win-win.

Box 2: The growing momentum behind services liberalisation

Many aspects of our proposal on services are already being pursued in certain parts of the EU – notably the countries which have received bailouts (Greece, Ireland and Portugal). The European Commission, along with the IMF and the ECB, has strongly emphasised the need for further reform and liberalisation of the services market in these countries:

The Economic Adjustment Programme for Ireland, February 2011:

“Enhanced competition in the services sector modelled in the simulations...translates into a 0.1% increase in employment and a 0.5% increase in GDP over a 10-year period.”

“[The Irish] Government will introduce legislative changes to remove restrictions to trade and competition in sheltered sectors including: [the legal profession, medical services and the pharmacy profession]”.²⁷

The Second Economic Adjustment Programme for Greece, December 2012:

“Highly regulated services markets for retailing, transport and professional services have for a long time limited competition and increased costs for exporters.”

“To foster competitiveness...services markets need to be comprehensively reformed by removing the remaining unnecessary restrictions and barriers to entry that currently impede competition and price adjustment. In many areas, such as business environment, energy, transport, retail trade and regulated professions, ambitious reforms have been designed and implemented.”²⁸

At least 16 of the 72 ‘prior actions’ which Greece must complete under the Second Economic Adjustment programme in order to access funding relate to improving the services sector – this is larger than any other area, even fiscal consolidation.

The Economic Adjustment Programme for Portugal, June 2011:

“Portugal has a number of sheltered sectors, notably in services and network industries, which are marked by excess profits...Removing distortions in non-tradable sectors (notably services), will be key in promoting competitiveness adjustment.”

“Beyond the mandatory provisions of the Services Directive, the limits to exercising regulated professions (such as accountants, auditors, lawyers and pharmacists) will be reviewed.”

“The Programme includes several measures to facilitate the ease of doing business, including the extension of ‘Points of Single Contact’ to services not covered by the Service Directive.”²⁹

Importantly, in Portugal, the Troika (and therefore the Commission) has already actively pushed for services reform to go further than required under the Services Directive.

27 European Commission, ‘The Economic Adjustment Programme for Ireland’, Occasional Papers 76, February 2011 http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/op76_en.htm

28 European Commission, ‘The Second Economic Adjustment Programme for Greece’, Occasional Papers 123, December 2012 http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp123_en.pdf#29 See Open Europe, ‘Off target: The case for bringing regional policy back home’, 2012; <http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf>

29 European Commission, ‘The Economic Adjustment Programme for Portugal’, June 2011.

3.1. What are the potential political drawbacks?

The worry for non-eurozone countries in particular is that such a proposal could open a Pandora's box, whereby the eurozone might begin to use enhanced cooperation to create a two-tier Single Market. Under the new voting rules of the Lisbon Treaty, the eurozone has an inbuilt qualified majority in the Council of Ministers³⁰ so could always push enhanced cooperation through.

This risk needs to be considered carefully, but has probably been overstated. Firstly, as we saw with the proposal for an FTT (primarily a eurozone initiative), countries inside the single currency have already started down this road, and indeed moved first. However, the fact that not all eurozone countries managed to agree to the FTT, with Ireland, Luxembourg and the Netherlands remaining outside, also shows that the eurozone is still far from constituting a cohesive block. Likewise, there are also significant differences of opinion within the eurozone on issues such as banking union, debt pooling and the role of the ECB. It is therefore unlikely that a eurozone block would launch a barrage of enhanced cooperation initiatives – at least in the near future.

Some governments may also feel uncomfortable about 'giving up' on achieving services liberalisation at the level of all 27 states, and missing out on future possible levers to push it through. In particular, the appointment of a new Commission in the autumn of 2014 could provide an opportunity for reform-minded governments to seek specific portfolios and prioritise services liberalisation in the next Commission's term. However, successful liberalisation via enhanced cooperation could serve as a springboard to get all 27 countries on board at a later stage.

Box 3: What's in it for Germany?

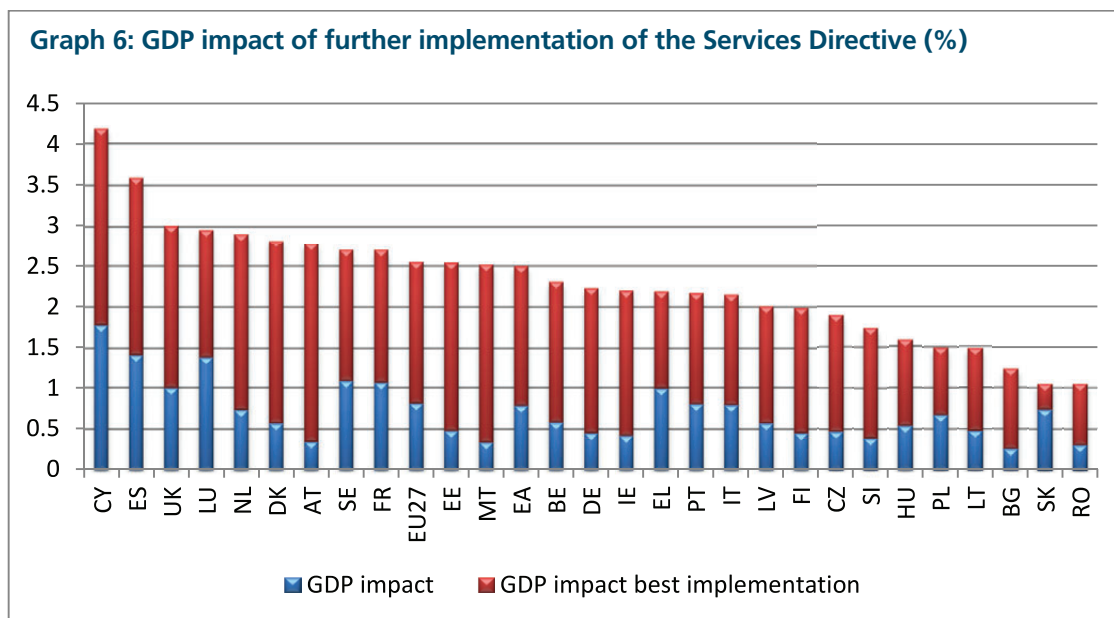
Germany has traditionally been considered reluctant to throw its weight behind greater services liberalisation, due its strong competitive advantage in manufacturing and comparatively tightly regulated professions. Getting Germany on-board would also generate the greatest proportionate benefit, by far. This proposal would offer three compelling reasons for Germany to give its support:

1. It would be a positive, constructive, and pro-European means by which to secure continued UK engagement in the EU, which remains very important for Berlin.
2. It would provide a new legal framework to improve competitiveness and growth in the Southern euro member states and therefore boost the economic prospects of the eurozone, but without an extra cent of German taxpayers' money.
3. It would improve EU-wide growth, competitiveness and employment.

³⁰ See Open Europe, 'Continental shift: safeguarding the UK's financial trade in a changing Europe', December 2011, p22; <http://www.openeurope.org.uk/Content/Documents/Pdfs/continentalshift.pdf>

4. WHAT ARE THE ECONOMIC BENEFITS OF GREATER LIBERALISATION?

The graph below highlights the estimated impact of the Services Directive so far (blue bars). It also shows, according to European Commission estimates, how much more could be gained (red bars) if the Directive was implemented in all member states to the 'best-practice' level seen in the five most liberalised member states.



Source: European Commission, *First Assessment of economic impact of the Services Directive*, June 2012

The Commission estimates that the Services Directive has already led to benefits of €101bn (0.8% of EU GDP). Previous economic studies estimate that the benefits of further liberalisation under the Services Directive for the EU as a whole are a boost to EU GDP of between 0.55% (€69.5bn) and 1.81% (€228.8bn) a year. They estimate that the country of origin principle is worth between an extra 0.1% (€12.6bn) and 0.5% (€63.2bn) to EU GDP a year.³¹ As we argue above, introducing the country of origin principle could increase the market pressure to liberalise and existing studies are likely to have underestimated the potential benefits to cross-border trade. In total, the permanent benefit to the EU as a whole could be between 0.65% (€82.2bn) to 2.31% (€294.1bn) of GDP in addition to the gains already achieved.

The Commission has previously estimated total economic gains from full implementation of the original Services Directive of €330bn (this figure refers to total gains compared to before the Directive was introduced, whereas our figure refers to additional gains over existing levels of implementation).³²

Open Europe has scaled these estimates, based on the size of individual countries' services sectors, (see Annex II for methodology and literature review) to three potential groups of EU member states operating under enhanced cooperation, with the following results:

Enhanced Cooperation group 1: The UK, Netherlands, Italy, Estonia, Latvia, Finland, Ireland, Czech Republic, Slovakia, Spain, Sweden and Poland – all of which signed pro-growth letter in February 2012. Total benefit: 0.33% to 1.17% boost to EU GDP (€41.6bn to €147.8bn a year)

Enhanced Cooperation group 2: As above minus Spain and Italy. Total benefit: 0.19% to 0.67% boost to EU GDP (€23.9bn to €85.1bn a year)

³¹ See Annex II for a full methodology and literature review which details our calculations.

³² European Commission, 'The economic impact of the Services Directive: A first assessment following implementation', June 2012, p34. The figure is represented as 2.6% of EU GDP, which in 2011 was €330bn.

Enhanced Cooperation group 3: Group 2 plus Germany, Austria, Denmark, Portugal and Luxembourg.
Total benefit: 0.35% to 1.25% boost to EU GDP (€44.5bn to €158bn a year)

Table 2: The economic benefits of greater services (% of GDP and €bn)

2011 prices	EU-wide		Enhanced Coop group 1		Enhanced Coop group 2		Enhanced Coop group 3	
	% of EU GDP	€bn	% of EU GDP	€bn	% of EU GDP	€bn	% of EU GDP	€bn
Benefits of further implementation of Services Directive	0.55% - 1.81%	69.5 - 228.8	0.28% - 0.92%	35.2 - 115.9	0.16% - 0.52%	20.3 - 66.7	0.30% - 0.98%	37.6 - 123.8
Country of origin principle	0.1% - 0.5%	12.6 - 63.2	0.05% - 0.25%	6.4 - 32	0.03% - 0.14%	3.7 - 18.4	0.05% - 0.27%	6.8 - 34.2
Total	0.65% - 2.31%	82.2 - 294.1	0.33% - 1.17%	41.6 - 147.8	0.19% - 0.67%	23.9 - 85.1	0.35% - 1.25%	44.5 - 158

These groups are fluid and a range of combinations are possible but the figures nonetheless illustrate the massive benefits of any successful attempt at enhanced cooperation in this area.

4.1. How does services liberalisation compare to other proposals aimed at boosting growth?

The benefits of fully implementing the Services Directive and introducing the country of origin principle dwarf other measures put forward at the EU level to promote growth.

For example, in June 2012, the EU agreed on a “compact for jobs and growth”,³³ hailed by some (including French President Francois Hollande and Italian Prime Minister Mario Monti) as essential to kick-starting growth across the EU – though most of the cash came from unused structural funds whose actual impact on growth is contested.³⁴ It also called for a deepening of the Single Market, but as of yet no clear proposals have been put forward on this front. The table below compares the likely impact of services liberalisation with that of some existing measures.

Table 3: Services liberalisation compared with other proposals aimed at boosting growth

2011 prices	OE Services proposal (EU wide)	Increased EIB Lending capacity	Project bonds	Annual EU budget spending on Structural Funds
Total benefit (% 2011 EU GDP)	0.65% - 2.31%	0.47%	0.04%	0.40%
Total benefit (€ bn)	82.2 - 294.1	60	4.5	50.6

³³ EU compact for jobs and growth amounted to €120bn, divided as follows: increased EIB lending capacity - €60bn (€10bn of capital); Project bond - €4.5bn; Reallocated Structural funds - €55bn

³⁴ See Open Europe, ‘Off target: The case for bringing regional policy back home’, 2012; <http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf>

ANNEX I: WHY HAVEN'T THE EXISTING RULES FULFILLED THE POTENTIAL OF THE SINGLE MARKET FOR SERVICES?

Developing and liberalising trade in services is far more complex than trade in goods, and is contingent on a number of factors, often requiring the movement of people across borders, ease of establishment in another state, and comparable regulation between home and host state to create a level playing field. Many of these factors are inherently 'domestic' and greater liberalisation of services within the EU Single Market has therefore often faced political opposition in many of the member states and in the European Parliament.

Services are subject to many different national and EU regulatory instruments. Some important sectors are excluded from the Services Directive, such as financial, telecommunications, transport services and healthcare, but most of them covered by other EU internal market legislation.³⁵ In addition, the Posted Workers Directive established a legal framework for businesses to send workers from their home member state to another host member state in order to provide a service for a limited period of time. The Directive seeks to facilitate the provision of cross-border services whilst also ensuring a minimum level of protection for posted workers.³⁶ Finally, the EU's Mutual Recognition of Professional Qualifications Directive, governs the right of certain professionals, such as doctors and architects, to practice in other member states and is seen as complementary to the Services Directive.

The Services Directive has not fulfilled its potential

The aim of the Services Directive was to make it easier for service providers to exercise freedom of establishment in another member state and facilitate the free movement of services throughout the EU. The temporary provision of services is traditional cross-border trade i.e. situations where either the service company or the customer travels to the other's country. Establishment refers to services sold through the service company being established in the country where the services are to be sold.

Freedom of establishment

The current Directive aims to make it easier for service providers to establish themselves in another EU country by requiring member states to establish "Points of Single Contact", one-stop shops where service providers can obtain all relevant information and complete all procedures relating to their activities, and to ensure that all these procedures and formalities can be completed at a distance and by electronic means.³⁷ It also requires member states to abolish discriminatory authorisation schemes or requirements, such as nationality or residence requirements, the involvement of competitors in authorisation decisions, or "economic needs" tests, where businesses have to prove that there is a demand for their services.³⁸

The Directive also compels member states to assess the compatibility of their legal systems with the conditions regarding non-discrimination in the Directive. However, some requirements can be retained if they are "justified by an overriding reason relating to the public interest."³⁹

Free movement of services

In the adopted Services Directive, the basis on which services may be provided temporarily or occasionally without establishment in another member state changed from the country of origin principle originally proposed by the Commission to a 'country of destination' principle. If the former had been adopted, it would have meant that a service provider would only need to comply with the regulations of their home state and that member states could not restrict services supplied by a provider established in another member state. Based on the principle of mutual recognition, this was intended to make EU cross-border trade in services less burdensome without requiring regulatory harmonisation or the imposition of further regulatory obligations on firms that chose to supply services exclusively in their home country.

³⁵ European Commission, 'The economic impact of the Services Directive: A first assessment following implementation', June 2012, p6

³⁶ <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmeuleg/86i/8603.htm>

³⁷ Articles 5-8 of the Directive

³⁸ Articles 9-14 of the Directive

³⁹ Article 15(3) of the Directive

Instead, the final legislation says that, notwithstanding the limitations of “non-discrimination”, “proportionality” and “necessity” laid out in the Directive, member states “shall not be prevented from imposing requirements with regard to the provision of service activity, where they are justified for reasons of public policy, public security, public health or the protection of the environment...”⁴⁰

Some particularly prohibitive restrictions are banned, such as the requirement to set up an office, but this loophole creates opportunities or excuses for member states to keep barriers in place. At the very least, it creates ambiguity that has to be policed by the European Commission and the ECJ.

In 2006, the Federation of Small Business told the House of Lords EU Select Committee that the benefits of temporary operations had largely been lost in the new draft and that although it would “make [the provision of services across Member State borders] easier” it would not “entice people to do it, that would have been a major bonus from a small business point of view. That is not the case anymore.” The Confederation of British Industry suggested that the Directive left something of a “grey area” where “Member States could argue that they have directed a specific kind of requirement which is, in essence a barrier” and that this barrier “still exists even though perhaps it has been reduced.”⁴¹ As the 2012 European Commission report noted, “the Directive left some room to Member States when deciding which existing regulation was incompatible with the provisions of the Directive.”⁴²

What practical barriers to services trade and growth remain?

A 2011 ‘peer-review’ of the Services Directive, whereby member states challenged each other on the regulatory requirements they had retained despite the Services Directive, reported more than 34,000 requirements still in force.⁴³ A follow-up report published in June 2012, which focused on the business services, construction, real estate, retail and tourism sectors, detailed the progress made but also some of the specific barriers that remain in place.⁴⁴

Discriminatory barriers based on nationality or residence

Despite the Services Directive, requirements based on nationality or residence are still applied in some member states, i.e. regulations stating that a service provider has to be a national of the country or be resident in the country to start a business or, in the case of a company, that its registered office has to be located in the Member State in order to trade. For example:

- In **Austria**, the nationality requirement for chimney sweeps has been removed, but a residence requirement still applies.
- In **Cyprus**, both natural and legal persons working in the real estate sector must have a registered office or place of business in the country.
- Residence requirements for ski instructors remain in place in **Italy**.

Economic needs tests

Despite being banned by the Directive, so-called ‘economic needs tests’ – the obligation for service providers to prove the existence of an economic need or market demand, or to assess the potential or current economic effect of their activity for instance on competitors, are still in force in some member states. These costly and time-consuming exercises generally hinder or severely delay the establishment of newcomers. For example:

- In **Austria**, an economic needs test has to be carried out before the relocation of a tobacco shop can be authorised.
- In **Greece**, the authorisation for open air casual trading is linked to an economic test connected with the opinion of a committee involving potential competitors.

40 Article 16(3) of the Directive

41 House of Lords EU Select Committee, ‘The Services Directive Revisited’, 24 July 2006, p17; <http://www.publications.parliament.uk/pa/ld200506/ldselect/lducom/215/215.pdf>

42 European Commission, ‘The economic impact of the Services Directive: A first assessment following implementation’, June 2012, p2; http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp_456_en.pdf

43 European Commission, ‘On the process of mutual evaluation of the Services Directive’, SEC(2011) 102, 27 January 2011, p9

44 European Commission, ‘Detailed information on the implementation of Directive 2006/123/EC on services in the internal market’, SWD(2012) 148, 8 June 2012, Chapter III

Involvement of competing operators in the decisions of regulators

The direct or indirect involvement of competitors, including within consultative bodies, in the granting of individual authorisation or in the decisions of regulators is forbidden by Article 14(6) of the Services Directive. The involvement of competitors in an individual decision, for instance an authorisation, goes against the basic goal of favouring the market entry of newcomers. For example:

- In **Sweden**, lawyers already established in Sweden have to confirm the good reputation of candidate lawyers wanting to establish themselves in Sweden.
- In **France**, committees granting authorisation to those organising and managing events include competitors.
- In **Germany**, boards consisting partly of competing operators still have to confirm to the competent authority that an applicant company in the field of structural inspection engineering fulfils all the necessary application requirements for being authorised.

Obligations to apply fixed, minimum or maximum tariffs

Several member states have maintained fixed tariffs in the professional services sector. For example:

- **Bulgaria** (lawyers, architects, engineers in investment design, cartographers and cadastre service providers, veterinarians)
- **Cyprus** (lawyers)
- **Germany** (veterinarians, insolvency administrators, architects, engineers)
- **Poland** (lawyers and patent agents)
- **Slovakia** (insolvency administrators)
- **Slovenia** (lawyers, insolvency practitioners)
- **Sweden** (professional housing agents)

Regulated professions

Barriers to free movement of services can also be imposed by the regulation of people qualified to provide certain professional services. The EU's Recognition of Professional Qualifications Directive was designed to facilitate the free movement of services by setting common rules for the recognition of professional qualifications, and therefore making it easier for professionals to establish or to provide services in another member state where a particular profession is regulated.

Member States can have valid reasons for regulating professions in different ways. For example, some countries regulate the construction of buildings and others regulate the people constructing houses. However, more often than not, the impact of this national regulation on cross-border trade is not considered. The mutual evaluation process for the Services Directive, also frequently raised the issue of barriers among regulated professions.⁴⁵

- According to the European Commission, there are 800 different activities in the EU that are "considered to be regulated professions in one or more Member States and are reserved for providers with specific qualifications."
- Meanwhile, the justification for regulating many of these professions seems weak given that "more than 25%" of the regulated professions in the EU are regulated in just one member state. Examples cited by the Commission are the services of "photographers, barmen, corset makers or chambermaids."⁴⁶
- An evaluation of "reserved activities" in 13 member states, carried out on behalf of the Commission⁴⁷, found that "There was a range from a high of 55 regulated professions in Germany to a low of 16 in Finland". The study noted that, "there was strong recourse to the use of exclusive reserves of activities in southern EU countries (Greece, Italy and Spain) and in the new member states (Czech Republic, Slovenia and Poland)."⁴⁸

45 European Commission, 'On the process of mutual evaluation of the Services Directive', SEC(2011) 102, 27 January 2011

46 European Commission, 'Towards a better functioning Single Market for services – building on the results of the mutual evaluation process of the Services Directive', 27 January 2011, p7; <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0020:FIN:EN:PDF>

47 Centre for Strategy & Evaluation Services, 'Study to Provide an Inventory of Reserves of Activities linked to Professional Qualifications Requirements in 13 EU Member States & Assessing their Economic Impact: Executive summary', January 2012; http://ec.europa.eu/internal_market/qualifications/docs/news/20120214-summary_en.pdf

48 In contrast, countries such as Denmark, Finland, the Netherlands and the UK had "low numbers of exclusive reserves of activities". The report suggested that "This reflected a greater tendency towards the use of alternative means of regulating the market, such as through reserved professional titles overseen by professional associations and licensing schemes." See Centre for Strategy & Evaluation Services, 'Study to Provide an Inventory of Reserves of Activities linked to Professional Qualifications Requirements in 13 EU Member States & Assessing their Economic Impact: Executive summary', January 2012, p3; http://ec.europa.eu/internal_market/qualifications/docs/news/20120214-summary_en.pdf

In December 2011, the European Commission tabled a proposal to amend the Directive, currently under negotiation between national governments and the European Parliament, which would oblige member states to notify the Commission with a list of regulated professions and examine whether their national requirements are discriminatory, justified in the public interest and proportionate. Member states would then need to justify their regulatory requirements to the Commission.⁴⁹

ANNEX II: METHODOLOGY FOR CALCULATING BENEFITS OF ENHANCED COOPERATION AND ECONOMIC LITERATURE REVIEW

Methodology

To calculate the benefits of further implementation we took the European Commission's estimates from summer 2012 and applied them to 2011 GDP. The range estimate for completing the implementation of the Services Directive is between 0.4% and 1.6% (see literature review). The benefit for improving the Point of Single Contact is estimated at between 0.15% and 0.21%. We combined these to get the potential overall additional effects. We also incorporate a number of earlier studies, however, most of these estimates fall within the range cited above (see literature review below).

For the enhanced cooperation group we weight this by the size of service sector (as % of GDP) of those economies involved, since the larger the service sector the more likely it is to boost the level of overall EU growth. This is admittedly not perfect since some countries may have much larger benefits but given that the magnitudes are fairly small in GDP terms this should not make too much difference. It also stops small countries with very large growth rates distorting the share.

To work out the benefits of including the country of origin principle we looked at the original estimates. They are varied and the actual impact even without the country of origin has been above what was expected. We took a range from the literature and followed the same process as above. The share of GDP here refers to their expected share of the overall EU benefits, which is essentially a scaling exercise.

Literature review

In a 2005 study on the potential economic benefit of the Services Directive, Copenhagen Economics suggested it could lead to an economy-wide increase of employment of around 600,000 (0.3%) and a GDP boost of 0.6%. According to the study the provisions relating to the Country of Origin Principle (CoOP) account for around 7-9% (€2-4 billion p.a. across the EU) of the welfare gains for the EU.⁵⁰

In 2006 a study by the Netherlands Bureau for Economic Policy Analysis (CPB) suggested the Services Directive could result in an increase to GDP of 0.4% to 1.5% in the long run (by 2040).⁵¹

Kox et al., in their 2004 paper, estimated the effects of heterogeneity on bilateral intra-EU trade and intra-EU FDI in services. The main finding of the study was that commercial services trade in the EU (intra-EU flows) could increase by 30 to 60% while the foreign direct investment stock in services might rise by 20 to 35%.⁵²

Gelauff and Lejour, in a report for the DG of Enterprise in 2006, as well as De Bruijn et al. (2006, 2008) estimated the Services Directive could increase total intra-EU trade by between 2% and 5%. They also estimated that GDP could rise by 0.3% to 0.7%. The results of these studies were considered as a lower bound given that the model used did not include FDI flows and lacked economies of scale. A latter study by Lejour et al. (2007, 2008), which focused on the effect of the Services Directive via FDI flows, found that FDI in services could increase by between 20% and 35%. As a result GDP in the EU25 could increase by between 0.4% and 0.8%. Combining the FDI and trade effects gives a total GDP effect ranging between 0.4% and 1.5%.⁵³

49 Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation on administrative cooperation through the Internal Market Information System, Article 59; http://ec.europa.eu/internal_market/qualifications/docs/policy_developments/modernising/COM2011_883_en.pdf

50 Much of the literature review is built upon the excellent review compiled by the European Commission in its First Review of the Services Directive. See Copenhagen Economics, 'Economic assessment of the barriers to the internal market for Services', 2005.

51 De Bruijn, R., H. Kox and A. Lejour, 'The trade induced effects of the Services Directive and the country of origin principle', CPB Document 108, 2006.

52 Kox, H., A. Lejour and R. Montizaan, 'The free movement of services within the EU', CPB Document 69, 2004.

53 Gelouff, G., and A. Lejour, 'The new Lisbon Strategy: An estimation of the impact of reaching five Lisbon targets', Industrial Policy and Economic Reform Papers 1, DG Enterprise and Industry, 2006.

De Bruijn et al. also calculated the impact of excluding the CoOP, which accounted for about a third of the trade-effects of the Services Directive: intra-EU services trade could increase by 20 to 40%. Without the principle the GDP increase would be between 0.2% and 0.4% (compared to between 0.3% and 0.7%).⁵⁴

In a 2008 study Badinger et al. estimated the effects of eliminating the CoOP. Under the assumption that the watering down of the original Services Directive would reduce liberalisation effects by one-third, the proportionate reduction of the macroeconomic effects was expected, accordingly the increase of GDP would go down to 1% from 1.5%.⁵⁵

European Commission First Assessment of the economic impact of the Services Directive⁵⁶

The conservatively estimated EU-level impact on GDP is 0.8%, with the impact varying considerably across Member States (ranging from below 0.3% to more than 1.5%) and mainly determined by the combination of the undertaken barrier reduction and the share of the covered sectors in their economies. Although the results materialise over time, close to 80% of the gains are reaped within the first five years following the policy shock (barrier reduction from implementation). An important finding of the analysis refers to the importance of the domestic channel of transmission, neglected in previous studies and that however turns out to yield very significant productivity results.

Under an ambitious scenario where Member States move to the level of restrictions of the five best countries in the EU per sector, which is de facto close to a full elimination of barriers, will bring additional gains amounting to 1.6% of GDP, on top of the 0.8% under the current level of implementation. Even under a moderately ambitious scenario – where each country would become an “ideal country” composed of sectors with an EU average level of barriers – the further additional gain reaches 0.4% of GDP on top of the 0.8%. An important element to highlight from this exercise is that further gains could be obtained still within the scope of the Directive both in terms of requirements and sectoral coverage.

The findings indicate that, on average, the already achieved economy-wide impact is 0.13% of GDP, and the predicted additional impact from further streamlining could reach 0.15% of GDP in the medium run and 0.21% of GDP in the long run. This suggests that the Member States could reap significant additional gains by pursuing tangible improvements in the PSC implementation, first and foremost its effective capability to benefit all the involved businesses.

⁵⁴ De Bruijn, R., H. Kox and A. Lejour, 'Economic benefits of an Integrated European Market for Services', *Journal of Policy Modelling* 30(2), 2008, 301-319.

⁵⁵ Badinger, H., F. Breuss, P. Schuster and R. Sellner, 'Macroeconomic effects of the Services Directive', Published in 'Services Liberalisation in the Internal Market', F.Breuss, G. Fink, St. Griller (eds.), ECSA Austria Publication Series, Vol. 6. Springer, 2008.

⁵⁶ European Commission, 'The economic impact of the Services Directive: A first assessment following implementation', June 2012.

