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THE EXTERNAL DIMENSION OF THE SINGLE MARKET REVIEW

Accompanying document to the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

A single market for 21st century Europe

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A single market for 21st century Europe

EXECUTIVE SUMMARY

This working paper accompanies the Commission Communication "A single market for 21st century Europe" adopted on 20 November 2007 and as such is a contribution to the Single market review. It focuses on the external dimension, which is a central element of the review as the increasing pace of global economic integration and further opening of the EU are probably the biggest changes the Single market is facing since its launch in 1985. It shows that the Single market is a unique asset for Europe in meeting the challenges and opportunities of globalisation and sets out how the Single market Review can further enhance this contribution.

Globalisation is a formidable source of dynamism and change. The single market enables Europeans to benefit from global market opening through reduced prices and increased choice. It prompts firms to improve efficiency and innovate and enables them to hone their competitiveness so as to enter global markets. It makes Europe more attractive for investors and companies from across the world.

Importantly it enables Europe to take the lead in setting rules and standards worldwide, facilitating European exports and ensuring that imports meet necessary standards, thereby effectively protecting European citizens. Creating a borderless Single market from different national regimes and traditions has necessitated thorough work at all levels which has led us to develop a modern and innovative regulatory and supervisory framework in many sectors. In many areas - product safety, environmental protection, competition rules, accounting, financial or e-commerce regulation, the EU is looked upon as a regulatory leader and standard-setter.

However the international context is changing rapidly. Many challenges increasingly require coordinated global action – be it to tackle climate change, or fight against piracy and counterfeiting. A new international approach focusing on regulatory cooperation, convergence of standards, and equivalence of rules is emerging. This approach should be further developed in the mutual interests of the EU and its partners. It can go a long way in fostering "convergence to the top" rather than a "race to the bottom".

The way forward must build upon three pillars identified in the "Global Europe" communication¹:

- First, **expanding the competitive space** for European firms beyond the physical boundaries of the single market, opening up major current or future markets through multilateral and bilateral trade liberalisation, as well as active enforcement of our market access rights.
- Second, **expanding the regulatory space of the single market**, by projecting our norms and values abroad and further enabling European regulations to benefit from best practices everywhere, thus making European norms the reference for global standards.
- Third, **actively ensuring that European citizens fully reap the benefits of this openness**, through better safety, health and environmental standards, lower prices and greater choice, to be achieved by close monitoring of markets and appropriate action, whether these relate to contesting regulatory restrictions, improving market mechanisms or encouraging a more competitive environment, at EU level or within the Member States.

¹ Commission communication "Global Europe: competing in the world" - COM(2006) 567, 4.10.2006.

THE EXTERNAL DIMENSION OF THE SINGLE MARKET REVIEW

1. INTRODUCTION

This working paper accompanies the Commission Communication "A single market for 21st century Europe" adopted on 20 November 2007 and as such is a contribution to the Single market Review. It focuses on the external dimension, which is a central element of the review as the increasing pace of global economic integration and further opening of the EU are probably the biggest changes the single market has been facing since its launch in 1985. It is also intended to be a key contribution to the Lisbon strategy, where the external dimension has become a critical aspect as well².

The Single market cannot be seen in isolation but as part of a bigger, global economy. EU rules need to be attractive and function effectively - not only at home but also in the global context. The rationale for the single market has changed as a result. It is no longer only about the benefits to be expected from European integration but also about the leverage it provides to meet the challenges and opportunities of globalisation.

Against this background, the Single market should serve as the springboard to meet the challenges of a global world, so as to:

- **Strengthen the position of the EU economy in the world**, help it seize the benefits of globalisation, and increase EU competitiveness. Operating in the Single market must allow European firms improve their efficiency and be more able to compete both in Europe and outside.
- **Protect EU citizens by ensuring high quality products and services through the promotion of the most appropriate rules and standards in Europe and beyond.** The single market must be a means to promote high quality rules and standards in Europe and in the world. This is particularly relevant today when many challenges require coordinated global action – be it to tackle climate change, fight against piracy and counterfeiting or strengthen the social dimension of globalisation. Conversely, in furthering the single market we must take advantage of our engagement with other countries and take due account of regulatory solutions developed across the world to ensure that the Single market is always built around the best rules.
- **Ensure that citizens reap the benefits of globalisation.** European citizens want to see the benefits of open markets passed on to consumers and the society in general, in terms of greater choice and availability, and of lower prices. In particular, the single market must ensure that reductions in import prices do not evaporate through the distribution chain and that imported products fully respect EU requirements, notably in terms of safety and quality.

² Commission communication, "The European Interest: Succeeding in the age of globalisation" - COM(2007) 581, 3.10.2007.

2. THE SINGLE MARKET BRINGS CLEAR BENEFITS IN THE CONTEXT OF GLOBALISATION

(a) An asset to strengthen the position of the EU economy in the world

The single market is Europe's best asset in meeting the challenges and opportunities of globalisation. A competitive single market provides a stimulating domestic environment for EU business. It allows EU companies to exploit market size and economies of scale, encourages the efficient allocation of resources and innovation. It creates a platform from which to explore opportunities beyond Europe's borders, making the EU's economy more competitive at the global level, leading to more growth and jobs. The single market remains the EU's main competitive advantage in attracting foreign direct investment (FDI), which benefits European citizens and the economy through more growth and jobs.

Thanks to its position as world trade leader, the EU can effectively engage in strengthening the rules-based trading system internationally and promote open markets, trade reform and new opportunities for jobs and growth. European competition rules also protect European consumers and businesses from the harmful effects of global cartels or abuses of a dominant position by non-European companies. We also work against distorted international competition through the efficient use of trade defence instruments.

As a result, Europe's manufacturing industry has broadly maintained its share of world trade over the past years whilst the US and Japan have lost ground. It enjoys a € 150bn trade surplus in manufacturing. The EU has also become the world's greatest exporter of services. The EU is the world leader in attracting foreign direct investments (FDI) with 45% of world flows, and a record increase in inward FDI in 2006, thanks primarily to the size and the quality, transparency and stability of regulation of the single market.

(b) A tool to foster high quality rules and standards

The Single market has become a powerful engine to promote EU high quality rules and values around the world. Through the enlargement process and the European Neighbourhood Policy, the Community rulebook is gradually being adopted across large parts of the European continent. Beyond this, the EU is emerging as a global rule maker, with the single market framework and the wider EU economic and social model increasingly serving as a reference point in third countries as well as in global and regional fora. This is driven by a unique combination of factors intrinsically linked to the setting up of the single market.

Creating a borderless European market for goods, services, capital and labour has indeed required a very ambitious programme of regulatory and legislative alignment among national regimes leading to the creation of a **modern and innovative regulatory and supervisory framework in many areas**, including financial markets³, e-commerce, industrial product standards, health and safety at work, environmental policy, data protection and telecommunications and food safety. These new internal market rules are often **more ambitious** than those of other jurisdictions, especially where product safety, consumer protection, workers rights and environmental and health requirements are concerned. EU regulations in technical areas are also **based on solid scientific ground**.

³ e.g. on prudential banking regulation, accounting standards, insurance law or the regulation of investment funds.

Moreover, the EU has gathered much experience on how to best cope with differing regulations and draw on the **best features of different regulatory traditions**: this gives European regulators an edge when dealing with international standards – another advantage being the availability of the EU framework in many different languages. At a time when more and more countries face the same challenges and when we need global and coordinated responses, the attractiveness of a regulatory model that is both effective in achieving these aims and trade-friendly is a unique asset.

Finally, the rapid expansion of the EU to 27 Member States with a total of almost half a billion consumers has turned Europe into the **world's biggest import market**. It is now the primary outlet for more than one hundred countries across the world. Therefore, for many companies around the world, complying with EU rules has become both a prerequisite and an asset to access key markets. Many global companies that produce goods for the EU market will also apply the EU's standards elsewhere as they can assume that in many instances their products will then be accepted more easily in view of the resulting high quality. This is further supported by the EU development cooperation, which **supports the capacity of developing countries to cope better with EU rules** thus improving their competitiveness and integration into world trade. All of this has led to a more important role for the EU in the shaping of global norms.

International regulatory success stories

The single market has facilitated the adoption of high-quality EU-wide standards which have been taken up internationally. The success of the early adoption of the **GSM standard** for mobile telephony deserves a special mention. Without doubt this is one of the best examples of the export of European regulatory approaches, European standards and European technology to the benefit of a globally competitive industry in Europe. Today there are 860 GSM networks in 220 countries/areas of the world. The total number of GSM handsets in use is almost 2.5 billion.

Examples of external success stories are now to be found in many areas of EU regulation:

- **Food safety**: EU policy or principles such as the 'precautionary principle' have been adopted in the work of the Codex alimentarius (July 2007). EU hygiene rules have been widely adopted in third countries and EU approval for export is used as a reference by other countries when deciding to accept imports.
- **Public health**: The EU has been very successful in promoting its tobacco control policies – which are among the most progressive in the world – worldwide. EU single market legislation on tobacco products and cross-border advertising has been the key reference for the World Health Organization's Framework Convention on Tobacco Control (FCTC), to which 148 countries are parties. It clearly helped curb the global tobacco epidemic and improve public health beyond EU borders.
- **Climate change**: Europe began its emission trading system on 1 January 2005. Seven north-eastern US states plan to cap-and-trade CO₂ emissions from power plants from 2009. Many parts of the world are now considering following the EU example and starting their own carbon trading system. Australia and New Zealand have also agreed to work together to design a model for carbon trading. Many regions keen to learn from the EU's three year's experience have asked the Commission for technical advice on the

practicalities of emissions trading. California intends to base its planned emissions trading scheme on the EU model.

- **Maritime safety:** The EU's early move towards implementation of double-hull requirements for tankers led to their adoption by the International Maritime Organisation (IMO), with the IMO contracting parties agreeing to follow the calendar adopted by the EU. As a result, citizens will benefit from increased maritime safety and reduced risk of environmental damage.
- **Automobiles:** The EU plays a leading role in regulation with regard to pollutant emissions from vehicles, CO₂ emissions and fuel efficiency, and safety requirements for vehicles. Some of the EURO standards, or their equivalents, have been adopted in Asia for light-duty vehicles, heavy-duty vehicles and motorcycles. This allows them both to export more easily to the EU and contribute to cutting emissions and pollution at home. China, for example, has just adopted the EURO 3 standard (on 1 July 2007) and will adopt the EURO 4 standards in 2009. The EU is an active member of the UN-Economic Commission for Europe working parties on automotives, which elaborates rules adopted by an increasing number of countries around the world well, including major car producers such as Japan, South Korea or South Africa.
- **Financial services:** The EU switched to International Financial Reporting Standards (IFRS) in financial reporting in 2005. Since then more than 100 jurisdictions around the world have decided to require or allow them. The US, too, has taken significant steps in this direction. Both sides confirmed their mutual commitment to removing the reconciliation requirements for IFRS and US GAAP by 2009 or possibly sooner. This will bring more openness to capital markets, decrease costs and contribute to a more coherent global regulatory structure. The same is true for the EU's early implementation of the Basel II Agreement on capital requirements for banks and investment firms and the decision to examine a new prudential framework for insurance (Solvency II), where a modern risk-based framework will be a unique competitive advantage for EU industry.

The leading role of the EU on the international regulatory scene provides many benefits to EU citizens, EU companies and the rest of the world. It helps to make globalisation a “convergence to the top” rather than a “race to the bottom”. A clear lesson from this experience is that the EU should not refrain from developing ambitious rules whenever appropriate and take the lead in new areas by sharing them with its partners.

(c) An interface between EU citizens and the wider world

The Single market facilitates the passing on of the benefits of globalisation to EU consumers. For example, the end of the multilateral arrangement of textile quotas has had a substantial impact on import and producer prices across the EU which in turn had an impact on consumer prices. On average, clothing prices fell by 16.2% from 1996 to 2004 relative to the overall price level over the period of phasing out of the quotas, showing that European consumers have clearly benefited from it.

At the same time, the safety and reliability of imports into the EU must also be closely monitored. Customs controls at EU border against counterfeiting and piracy have been greatly improved. Only safe products should be allowed access to the single market. Rapid alert systems for measures to be taken across the EU against unsafe consumer products

(RAPEX) as well as for food and feed (RASFF) are working well. Cooperation with third countries is developing, although much work remains to be done.

The recent product safety alerts affecting consumer confidence in particular as regards toy imports from China have put the EU safety net to the test. The first analysis is that the system is fundamentally sound. A strategy for improving the safety of Chinese toys has been agreed with China, focusing on training and technical assistance, exchanges of RAPEX information between EU and Chinese authorities, and tracing, feedback and follow-up mechanisms for dangerous products. The on-going stocktaking launched by the Commission and involving Member States, industry and consumer representatives will show the strengths and possible weaknesses of this system. These events have also provided a more targeted agenda in our relations with our external partners.

3. AN ACTION PLAN TO MAKE THE SINGLE MARKET MORE RESPONSIVE TO THE GLOBAL CONTEXT

The Single market has to reposition itself in the global market. As markets are steadily opening up internationally, regulatory barriers to trade and investment in third countries gain increasingly in importance. At the same time, European business is facing increased competition from abroad. Furthermore, despite close monitoring and border controls, the safety and reliability of certain imports still raises concerns, while the number of counterfeited goods seized at EU borders is increasing.

To be most effective, the EU needs to be even more engaged with its partners. The experience shows, for instance, that it is no longer sufficient to rely solely on border controls to protect ourselves from piracy and counterfeiting. We must intensify ongoing efforts to go beyond border controls and to cooperate more directly with the countries of origin of counterfeited goods. In the competition area, to protect European consumers and businesses against cartels, abuses of dominant positions and anti-competitive mergers involving world-wide businesses, we need to push forward with a competition law enforcement system with global reach. Product safety is another example where we need to be more engaged with our partners, and arguably this should be a shared interest.

There is a window of opportunity to push global solutions forward. The EU is in a good position to take a lead, promoting its modern regulatory framework internationally. The single market has laid the groundwork in several areas. Emerging markets are developing their own regulatory framework. Many partners look closely at EU integration, in order to benefit from its expertise in their own reform processes. They also want easier access to our market. We need to build on this. Although the European regulatory model cannot be exported directly, there is considerable scope to promote the key principles of our regulatory approach. It is also part of our growing responsibilities as a mature global player.

The way forward must build upon three pillars. Firstly, we must expand the "competitive space" of the Single market beyond its borders. Secondly, we must expand the "regulatory space" of the EU beyond its borders and at the same time open it up to the outside world. Finally, we must ensure that the positive effects of globalisation reach EU citizens

(a) Expanding the "competitive space" of the Single market beyond its borders

We need to further open major current or future markets abroad to give our firms greater opportunities to exploit the strengths developed in the Single market. The objective should be to ensure that the openness of our markets is matched by access to other markets and undistorted competition. There are two core elements in pursuing this agenda: stronger engagement with major emerging economies and regions; and a sharper focus on barriers to trade behind the border.

- **WTO.** The WTO is the most effective way of opening markets around the world in a fair and regulated manner. It is a central pillar of the international system. The EU helped build it. It benefits from it. It remains committed to a successful conclusion of the Doha Development Round.
- **Global Europe.** We can and should build on the platform created by the WTO to generate new opportunities. Our Global Europe strategy⁴ sets out what we need to do by complementary means to drive European competitiveness in Europe and internationally. This includes a new generation of free trade agreements (FTAs), renewed market access strategy, access to public procurement markets, trade defence instruments review, adequate protection of intellectual property rights (IPR) and a comprehensive strategy towards China.
- **IPR enforcement.** Following the launch of our Global Europe strategy, we have set up new IPR dialogues with priority countries, including China. We have published a list of priority countries for IPR enforcement. In addition to this, the Commission is now proposing to the Council to allow the Commission to negotiate with like-minded partners such as the US and Japan a new plurilateral IPR treaty with the purpose to strengthening global cooperation and establishing new international standards regarding IP enforcement.
- **Subsidies.** State aid control, as one of the instruments of competition policy, ensures an integrated competitive internal market. It needs to be complemented with active use of trade policy tools in order to respond to unfair foreign subsidies and strive for an international level playing field. Since it is a source of Europe's competitive advantage, the Commission will look into ways how to spread its principles to other jurisdictions, through multilateral and bilateral instruments of global governance. It will also consider ways to make the existing anti-subsidy instrument more effective.

(b) Expanding the “regulatory space” of the EU beyond its borders and opening it up to the outside world

We should strengthen our efforts to help construct the best regulatory framework in Europe and beyond. This implies promoting, globally and with like-minded countries, supervisory and regulatory convergence and equivalence, in line with EU rules. Whenever appropriate, this also implies reflecting global standards in our own policy solutions and taking the best practices of foreign regulators into account. By doing so, we will also raise the attractiveness of our rules and facilitate their spread abroad. The promotion of single market rules and opening of the single market must go hand in hand to make it more responsive to the global context.

Pursuing international initiatives

⁴ Commission communication "Global Europe: Competing in the world) - COM(2006) 567, 4.10.2006.

- **Negotiate new trade agreements with a strong regulatory component.** The EU should use the strengthening of the trade and economic component of the European Neighbourhood Policy to push for a high level of convergence of rules and standards, in line with the EU approach. This should be done through the regulatory component of Action Plans with each partner and beyond, by the conclusion of "deep" FTAs, starting with the negotiation of a new enhanced agreement with Ukraine. Promoting regulatory convergence and facilitating market access should also be a priority in future negotiations with Russia. Deep FTAs should also be negotiated with non-neighbouring countries (although in these cases, convergence with EU rules is more difficult, at least in the short term). This will involve a combination of agreement on common principles, regulatory dialogues, and flexible mechanisms to facilitate the resolution of specific non-tariff barriers, increased regulatory transparency and convergence towards EU or international standards at least in selected priority areas. The negotiation of comprehensive FTAs with India, Asean countries and South Korea will offer a first opportunity to test this new approach. Regulatory issues will also be at the heart of the Partnership and Cooperation Agreement (PCA) negotiations with China.
- **Further enhance regulatory cooperation with third countries,** in respect of both products and services regulation. We should focus on our key trade and investment partners, such as the US and Japan, as well as emerging economies, which are in many cases in the process of reforming their legislation. Whilst regulatory cooperation or dialogues do not aim at reaching binding international agreements, they are important tools to foster global regulatory convergence and equivalence of rules. The level of ambition and the selection of sectors for cooperation must depend on the economic situation of the relevant partner. Such cooperation should be fully integrated in and support the overall external economic agenda of the EU vis-à-vis a particular country, thereby complementing trade negotiations and facilitating market access. An effective dialogue also implies adequately addressing new policy making. A mutual exchange of experience, practice and expertise at an early stage should eventually foster better results on both sides. This can be based on involvement of regulators and stakeholders from non-EU countries in EU expert working groups. This will be achieved, for instance, through the forthcoming opening of certain Community programmes and agencies to third countries in the context of the Neighbourhood Policy.

Regulatory cooperation should also comprise **plurilateral initiatives**, such as ad hoc roundtables with key regulators from different countries to address common challenges on targeted regulatory issues such as on financial services. This approach should be complementary to our bilateral dialogues. Such fora provide useful opportunities to share common regulatory experiences and to increase peer pressure towards and interest in improving the international regulatory climate. We should also consider creating (virtual) networks among regulators.

- **Intensify our efforts to train future regulators.** This could be done both in Brussels and in Member States. It should help tomorrow's foreign regulators, especially in emerging countries, to understand and appreciate EU policy-making and, in due course, to develop approaches in their domestic markets based on this experience. Users could also benefit from it, directly or through their governments, so that they can comply more easily and more fully with our requirements. With the review of the Lamfalussy Process, the Commission is considering the possibility of financing common cross-sectoral training

schemes for EU financial services supervisors in the first instance and subsequently non-EU supervisors.

- **Factor in international research cooperation.** Joint research on regulatory cooperation is open to non-EU participants. It will benefit from more support under the 7th Framework Programme for research and development (2007-2013) than under any previous Framework Programme. Collaborative research on standards, measurements and testing will be undertaken, facilitating European exports in external markets (e.g. research to establish agreed plant protocols overcoming sanitary and phytosanitary obstacles).
- **Continue to play a leading role in international rule making bodies,** together with Member States (such as in World Intellectual Property Organisation, Basel Committee, International Labour Organisation (ILO) or multilateral environment agreements) or through private international standard setters like the IASB. This means pushing for the adoption of high quality standards and putting these in place as early movers to provide a competitive edge (such as on IFRS international accounting standards and Basel II implementation). The EU must also take the appropriate steps to make sure that it is adequately represented in the relevant international fora and that it speaks with one voice. The recent accession of the Community to the World Customs Union (WCO) was a positive step forward. Accession by the Community to full membership in the International Maritime Organisation (IMO), as recommended by the Commission in 2002, would ensure optimal conditions for the exercise of its external competence in this area.
- **Support the participation of EU standardisation organisations in international private standard bodies** and encourage them to take into account the global context and support the participation of developing and emerging countries in their activities (see forthcoming Communication on standardisation and innovation).
- **Push forward the issue of regulatory coherence on the WTO agenda** as a major issue for the future of the world trading system after the current Doha Development negotiations, building on a workshop on good regulatory practices which is to be organised by the WTO secretariat in March 2008. The Commission, Member States and European stakeholders should make increased use of existing WTO instruments which aim at the **prevention of new technical barriers** to the access of EU goods to markets abroad, in particular the notification procedures under the “technical barriers to trade” (TBT) and the “sanitary and phytosanitary” (SPS) agreements.

Examples of good practices for international regulatory cooperation

- Early discussion mechanisms in bilateral veterinary or sanitary agreements - to learn from each other; to know in advance the concerns of our partners; to make our concerns heard – all of which result in smooth trade between the partner countries.
- Early consultation mechanisms with both EU and non-EU stakeholders as regards the development or modification of SPS legislation (e.g. review of the Community Animal Health policy).
- Full coordination between the Commission and with Member States in international organisations and/or direct participation by the Community (e.g. UN-ECE in the car sector; the Universal Postal Union; Codex alimentarius; ILO conventions on maritime labour or

health and safety at work, multilateral environmental agreements regulating the use of and international trade in chemical substances).

- Coordination with our main partners in international organisations (e.g. international SPS standards setting bodies; cooperation with the US on maritime security).
- Lead by scientific advance, particularly in the SPS field where there is strong need for scientific justification. Clear commitment to measures which are scientifically-based, proportionate and non-discriminatory.
- Research cooperation providing regulatory cooperation at an early stage of development of a subject matter (e.g. international partnership for a hydrogen economy). Encouraging "brain circulation" among researchers such as done by the new visa procedure for admitting foreign researchers in the EU (directive 2005/71/EC, 12 October 2007).
- Communication and training in the context of the SPS legislation (e.g. "better training for safer food" initiative)
- Involvement of stakeholders from non-EU in the works of the European standardisation body in the IT field (ETSI) to fully respond to international needs.
- Replacement of 38 EC directives by international rules on cars following CARS 21 High Level Group recommendation.
- Simplify financial reporting: Important work is ongoing between EU and US, Japan, China and other countries on mutual recognition of accounting standards without reconciliation by 2009
- Simplify auditing supervision: Work has started between EU and US, Japan and other countries on the mutual reliance on the respective auditor public oversight systems.

Reviewing our internal policy-making

- **Better reflect comparison with international best practices in EU impact assessments.** The current impact assessment (IA) rules already require the Commission to assess the potential impact of their policies on "third countries and international relations" (e.g. possible effects on EU trade policy, its international obligations, etc.). However, there is no explicit requirement to investigate how the problems at stake have been addressed by other countries. Where possible, it would be useful to draw on such a comparison, not to limit our capacity of choice but to help ensure that the Single market is always built around the best rules. The Commission will examine the possibility of introducing such elements in the forthcoming review of the IA system.
- **Develop indicators of "external relevance" of single market rules.** Commission and Member States should be given a set of indicators, drawn from successful past experiences, to assess how new rules could both better exploit foreign experience and better serve as model for foreign regulators. The aim should be to identify, on the basis of experience, what makes these rules not only good for the Single market but also for the EU's place in the global market.

(c) Ensuring that the positive effects of globalisation reach EU citizens

The EU has a specific responsibility to follow up on trade agreements. As it supports the adaptation of workers to structural changes, it has also to ensure that the positive effects of trade opening benefit citizens, be it through greater choice and availability of goods and services or lower prices. In the case of textiles mentioned above, even if there is a good transmission of the benefits of globalisation to EU consumers overall, there are huge geographic variations in the way import prices changes are passed on to consumer prices and consumers have actually benefited from liberalisation. On the other hand, producer prices decrease was higher and more homogenous. This clearly shows the need for more systematic monitoring of the effects for consumers and for further identification of structural, regulatory or behavioural causes of these deficiencies.

There may be several reasons for differences in the translation of lower import prices into consumer prices. These may relate to highly fragmented retail service industries in certain Member States or, on the other hand, significant market power exercised by trade and distribution companies; the continuing regulatory fragmentation of the Internal market for retail services; and cross-border restrictions to parallel imports.

- **Monitoring and reporting of import and consumer prices developments.** The Commission has decided to develop new tools to monitor imports and consumer price developments resulting from trade opening. It has recently completed a study for clothing and footwear⁵ and is currently extending its analysis to a broader range of consumer products. It will publish comparable data on the evolution of import and consumer prices of individual products on a regular basis.
- **Treatment of cases where the gains from openness are not passed on to consumers.** In cases where the benefits from openness are not passed on to consumers, the Commission will consider the need for accompanying measures, whether these relate to contesting regulatory restrictions, improving market mechanisms or encouraging a more competitive environment, at EU level or within the Member States.

This is very much in line with the approach presented in the staff working paper “Implementing the new methodology for product market and sector monitoring: results of a first screening”, which also accompanies the Commission Communication "A single market for 21st century Europe". Such an approach, involving the identification of signs of market malfunctioning and the investigation of its causes, will be pivotal for more targeted and therefore efficient policy interventions. In this framework, the identification of unjustified price evolutions and in particular insufficient pass-through of import prices developments to consumers are fundamental steps for the identification of signs of market malfunctioning.

⁵ http://trade.ec.europa.eu/doclib/docs/2007/june/tradoc_134778.pdf