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März 2024

REPORT

The potential of the EU's single market

11 recommendations for stronger SME growth

This report proposes **11 specific and effective policy initiatives to strengthen the EU's internal market.**

The 11 recommendations provide a roadmap for a stronger and more united Single Market, with the aim of supporting the European Commission and Member State governments throughout the mandate from 2024-2029.

Based on a survey, interviews and a detailed literature review, this report gives a voice to German small and medium-sized enterprises (SMEs) on the challenges they experience when doing business in the Single Market. The report also points to policy solutions that would help them use the Single Market as a platform for achieving scale and enhancing their competitiveness at a global level.

This study was commissioned by Amazon and conducted by Implement Consulting Group as an independent assessment of how further integration of the European Single Market can support economic growth and resilience in Germany.

The research was supported by the German Association for SMEs (BVMW). As part of the study, a survey of German export-oriented SMEs was conducted among the members of BVMW.

Executive summary

This report puts forward 11 recommendations that aim to **put SMEs back at the centre of the Single Market**.

why

Chapter 1 explains how the continuous integration in the Single Market during the past 30 years has been an engine of competitiveness, growth and prosperity for the German economy and citizens. Its economic size has given the EU political weight in global negotiations and bilateral arrangements. Based on a survey of 715 export-oriented German SMEs (see Appendix 1 for further details on the survey methodology, interviews and a detailed literature review), we find that:

- 95% of the SME exporters confirm that they have benefited from the Single Market.
- 63% of the SMEs find it easier to export other members of the Single Market rather than to non-members
- 43% of the SMEs have indicated that exporting to members of the Single Market has made it easier to start exporting also to non-members.

In its 2024 Annual Economic Report, the German government states that a deeply integrated and innovative European single market fosters innovation and productive forces in Europe and thus also contributes to competitiveness and common European economic security. However, the report also says that a not insignificant proportion of bureaucratic obligations result from EU regulations. The German government sees an opportunity here to reduce bureaucratic burdens in a meaningful way. For example, duplicate or inconsistent documentation and reporting obligations (especially for SMEs) and inconsistencies between EU initiatives are cited as frequent causes of obstacles to doing business in the single market.

what

Chapter 2 finds that differing regulatory requirements are the most critical barrier for German SMEs to leverage the Single Market as a platform for growing, diversifying and becoming globally competitive. In particular, we find that:

- 56% of the SMEs find that regulatory differences between Member States erode their competitiveness.
- 87% of the SMEs state that they could increase their exports if all Member States implemented EU regulation at the same time and in the same way.
- 84% of the SMEs say that harmonising national service and product rules is important for their growth within the Single Market, including climate goods and services needed to reach Europe's net-zero climate target.
- 86% of the SMEs believe that increased use of digital tools can help their company sell more on the Single Market. However, these SMEs identify regulatory obstacles, deficiencies in the technological infrastructure and IT-security as key blockers to more digital adoption.

how

Chapter 3 – 6 explains how the following **11 specific policy initiatives** can help SMEs scale up, become more competitive and contribute to the resilience of the EU economy:

1. Adopt an ambitious Single Market Strategy
2. Strengthen SOLVIT by establishing a Single Market Ombudsman in every EU Member State and commit SOLVIT to act more proactively on structural cases and to raise awareness
3. Conduct a data flow test of all existing and new EU regulations
4. Upgrade the European Semester to include recommendations on how to harmonise the implementation of EU regulations and close the compliance gap
5. Strengthen the use of the Better Regulation Toolbox by integrating implementation in the design of new regulations and consistently respecting impact assessment requirements
6. Map and remove regulatory barriers to trade in climate goods and services within the Single Market
7. Design the European Digital Product Passport in a way that makes it easier for businesses to become more circular and facilitates product compliance
8. Create a one-stop shop for the Extended Producer Responsibility (EPR) systems of Member States
9. Create a single VAT ID and extend the VAT one-stop shop
10. Recognise digit al labelling as a true substitute for physical labelling
11. Create conditions for developing easy, fast, reliable and low-cost cross-border payment methods for both euro and non-euro payments

1 Peace and prosperity from the Single Market

This chapter explains how continuous integration in the Single Market has been a driver of competitiveness, growth and prosperity for the German economy and citizens over the past 30 years. Its economic size has given the EU political weight in global negotiations and bilateral agreements. Based on a survey of 715 export-oriented German SMEs (see Appendix 1 for further details on the survey methodology, interviews and a detailed literature review).

BACKGROUND

In 1993 the Single Market was created to increase economic prosperity and peace in the EU by fostering the free flow of goods, services, capital and people among its members. Germany was one of the initial 12 members of the Single Market.

The establishment of the Single Market created a need to harmonise legislation and establish common standards to ensure that domestic and foreign firms meet the same regulatory requirements, fostering fair competition and a level playing field when doing business in the Single Market.

The size of the Single Market makes the EU an attractive partner for negotiating trade agreements and gives its members leverage to push for a more sustainable future in global policy dialogues.

KEY FACTS AND FIGURES

The Single Market integration from 1995 to 2015 permanently increased German GDP per capita by 2.4%, created 936,000 jobs and increased the citizen's purchasing power by EUR 900.

Standardisation and regulatory harmonisation benefit SMEs in particular, and 64% of German SMEs' total exports are destined for the Single Market.

The focus in this report is on the Single Market but it is highly important that the EU continues to leverage the Single Market in the external dimension as well, particularly to negotiate more EU trade agreements.

1.1 The Single Market opens up Europe to businesses and citizens

The Single Market is designed to enable goods, services, capital and people to move freely across countries by removing border regulation, custom duties and tariffs. It consists of the 27 EU Member States and the four EFTA Member States (Iceland, Liechtenstein, Norway and, to a certain extent, Switzerland). The Single Market is the world's largest trader in both goods and services[1], and its significance will grow if the ambitions of the European Political Community to accept new members to the EU are realised.[2]

Access to the Single Market allows German firms to specialise and export goods and services in which they have a comparative advantage. Also, German consumers benefit from having access to a variety of goods and services imported at lower prices. The Single Market integration from 1995 up until 2015 has permanently increased Germany's GDP per capita by 2.4%. Similarly, the Single Market integration has permanently created 936,000 jobs and increased an average citizen's purchasing power by EUR 900-1,046, see Figure 1.[3]

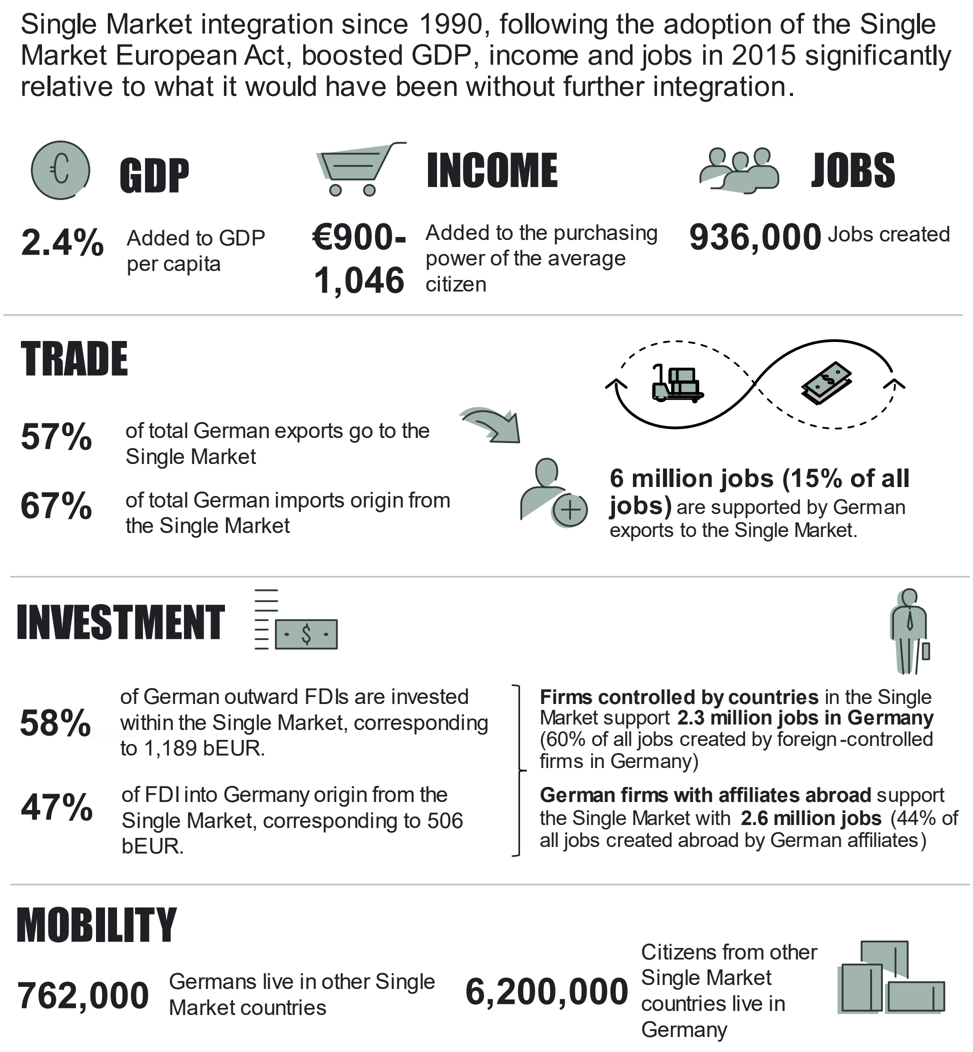
If the continued integration since 2015 is also considered, the economic benefits are likely to be even larger. Today, more than every fifth job in Germany depends on trade[4], and 15% of all jobs depend on trade within the Single Market.[5]

Today, more than 57% of Germany's total exports go through the Single Market, and 67% of Germany's total imports originate from the Single Market, underlining the Single

Market's importance for many German consumers and firms – especially SMEs – where internationalisation is concerned.[6]

The free movement of capital has benefitted the German economy overall. Today, 47% of foreign direct investments (FDI) in Germany originate from members of the Single Market, corresponding to a total stock of inward FDI of EUR 506 billion. Likewise, 58% of all German outward FDI are invested in members of the Single Market, considering that the large German investments into the UK no longer count as intra-EU FDI after Brexit.[7] Similarly, the free movement of people has made it easier to live abroad, and 762,000 Germans currently live in other EU countries, while six million EU citizens live in Germany.[8]

Figure 1: German workers and consumers benefit from the Single Market[9]



Note: LE Europe (2017) finds an increase in purchasing power of the average citizen of 900 EUR, following the increased integration of the Single Market from 1990. Bertelsmann Stiftung (2019) finds a change in welfare in EUR per capita of 1,046 for Germany as an economic benefit of the Single Market using a different approach.

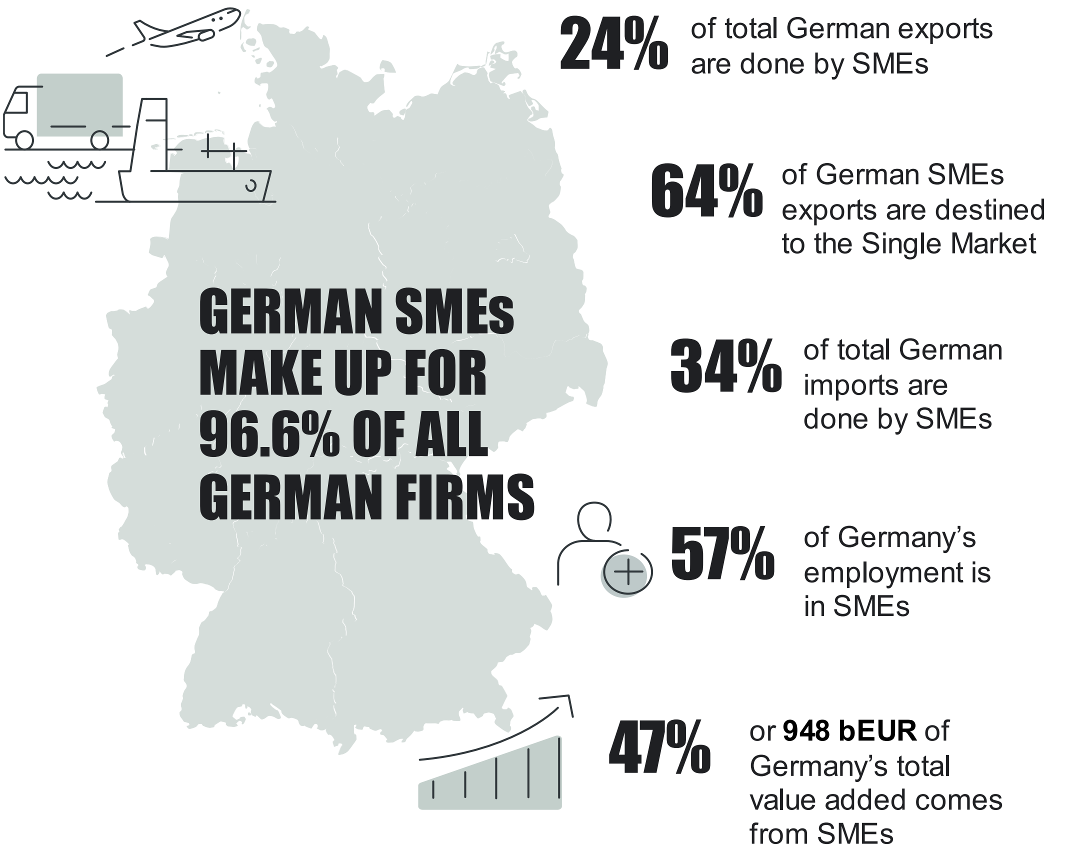
1.2 The Single Market is a platform for SMEs to scale up

SMEs form the backbone of the German economy, accounting for almost 97%[10] of all firms and 47% of the country's GDP. These SMEs account for 57% of Germany's private sector employment[11] and are key drivers of innovation, as they bring innovative solutions to global challenges like climate change.[12]

SMEs generally have fewer resources and capital available compared to larger enterprises, and regulatory burdens and administrative requirements are disproportionately difficult for them to endure. The costs associated with fragmented regulation and excessive administration are typically independent of the size of the cross-border activity, and SMEs tend to use a larger share of their resources to manage trade barriers.[13,14]

Standardisation and regulatory harmonisation are therefore particularly beneficial for SMEs that strive to scale up and enter new markets, access European value chains and strengthen their international competitiveness.[15] According to 2022 Eurostat data, SMEs account for 24% of total German exports, and 64% of the SMEs' total exports are destined for the Single Market.[16]

Figure 2: German SMEs gain from access to the Single Market



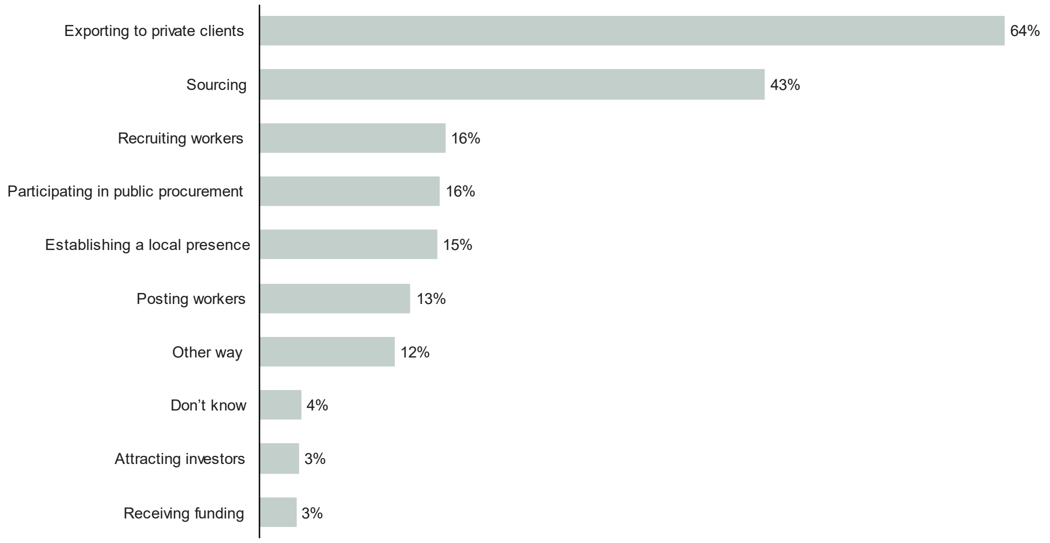
Note: SMEs are defined as enterprises with less than 500 employees.

Among the SMEs that participated in the survey, 95% state that access to the Single Market is important to their business. 25% of the SMEs say that they benefit greatly from the Single Market, while 70% assess that they benefit to some (34%) or a lesser extent (36%), see Figure 18 in Appendix 1. Only 5% of the SMEs say that they have not benefited at all from the Single Market.

The SMEs in the survey mainly export to private businesses as well as individuals (64%) or source (43%) from other firms in the Single Market, Figure 3. Other activities include recruiting workers (16%) and participating in public procurement (16%).

This report aims to demonstrate how the European policy makers and the next Commission can continue to simplify, harmonise and standardise EU regulations to the benefit of innovative European SMEs, enabling them to scale up and become globally competitive. The 11 recommendations in the remaining chapters are specific examples of initiatives called for by German SMEs.

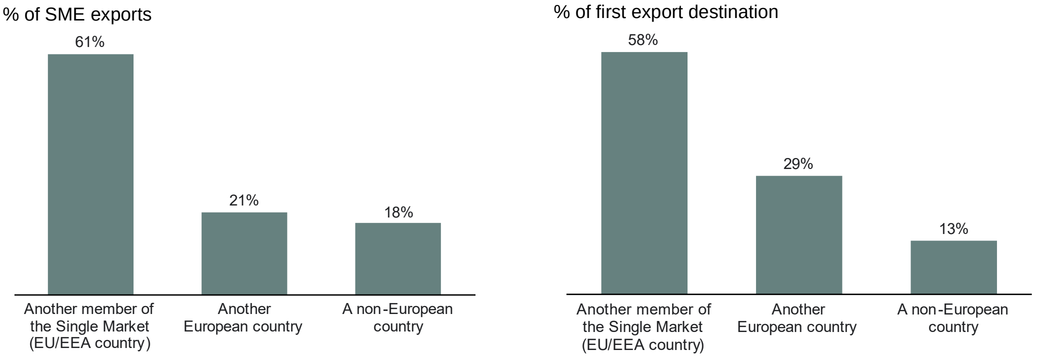
Figure 3: German SMEs gain from access to the Single Market



Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'In which way does your company convey business in the Single Market?', n=438. Shares summarise to more than 100% as respondents can choose multiple answers.

Neighbouring countries are often seen as a natural first export destination for SMEs. On average, 61% of the SMEs' exports are destined for another member of the Single Market, and 42% are exported to other European countries (21%) or non-European countries (18%). 58% of the SME exporters had another Single Market country as their first export destination. In contrast, only 29% had another European country and 13% had a non-European country as their first export destination. The Single Market integration has therefore reduced access barriers to markets that are also of main interest to the SMEs.

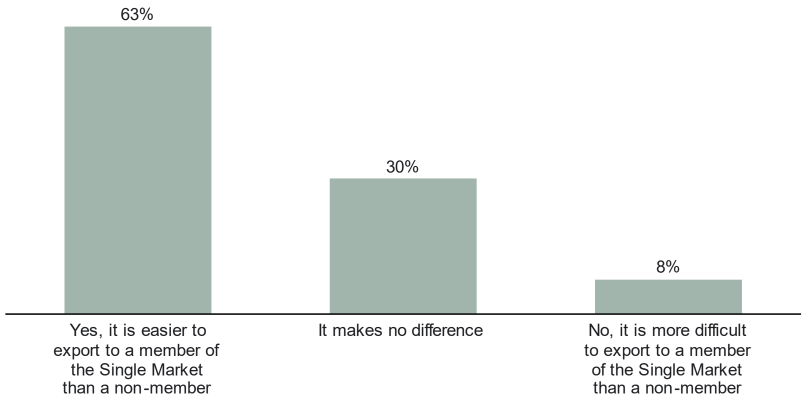
Figure 4: German SMEs mainly export to neighbouring countries



Source: Implement Economics based on an SME survey of 715 German SMEs (see Appendix 1 for further details).
Note: Question from survey (left figure): 'What share of your company's exports is destined for the markets listed below?', n=507. Question from survey (right figure): 'What country was your first export destination?', n=642.

Furthermore, 63% of the German SMEs find it easier to export to a member of the Single market than to a non-member, whereas 30% think that it makes no difference whether they export to a member country or a non-member country, and 8% even find it more difficult to export within the Single Market than outside. Also, 43% of the SMEs have indicated that exporting to members of the Single Market has to some extent made it easier to start exporting to non-members, see Figure 21 and Figure 22 in Appendix 1. The Single Market at full potential offers a strong platform for SMEs to scale up, diversify their exports and grow their business to compete internationally. This will strengthen Europe's competitiveness, industrial growth and ability to create global champions.

Figure 5: German SMEs find it easier to export to members of the Single Market



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'Is it easier for your company to export to members of the Single Market?', n=520.

1.3 The Single Market secures leverage and a global voice

The Single Market has not only stimulated prosperity for Germany by facilitating more trade between its member countries. The size of the Single Market makes the EU an attractive partner for negotiating trade agreements and gives its members leverage so they can push for a more sustainable future. Some examples are:

Manoeuvring through global health crises | Centralising the procurement of vaccines at the EU level gave Member States better bargaining power and access to vaccines on a larger scale, in the required time, with good delivery conditions and a diversified pool of suppliers.[17,18] In total, the EU secured up to 4.2 billion doses of vaccines for EU citizens.[19]

Giving economic power to EU sanctions | Sanctions are an essential tool of the EU's common foreign and security policy. The unifying rationale of most sanctions regimes is the attempt to alter, by economic pressure, the strategic choices of state and non-state actors. The size of the Single Market provides leverage in terms of the economic pressure imposed by EU sanctions, such as those on Russia.[20]

Securing market access and diversifying trade | The size of the Single Market makes the EU an attractive partner for business, and individual EU Member States would not have been able to make as many trade agreements on their own with as favourable conditions.[21] German firms have access to 45 trade agreements with 78 countries, including the EFTA countries,[22,23] and no trading partner has more trade agreements than the EU.[24] These agreements have improved access to and lowered the prices of raw materials and intermediate inputs while also providing preferential access to key export markets.

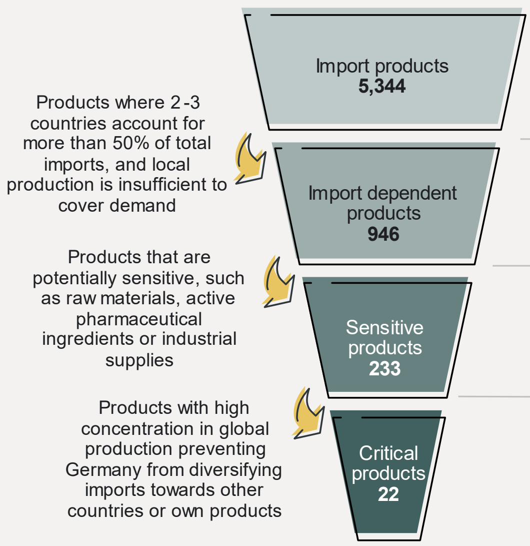
Setting global standards | The harmonisation of regulatory requirements and specifications of goods or services crossing borders within the Single Market have paved the way for a series of European standards. In a globalised world, shaping or ultimately setting the standards can provide a powerful first-mover advantage by minimising the adjustment costs for EU firms, which are then able to operate in export markets based on their home market rules.[25] Several European standards have been adopted at an international level, and modern EU trade agreements serve to boost the global adoption of EU standards to secure a level playing field between European firms and their third-country competitors.[26]

Balancing specialisation and resilience | The Single Market enables Member States to specialise and import what others can produce better, see Figure 6. Germany currently imports 5,344 products.[27] Where 946 of these are concerned, imports are concentrated in just two or three countries, and Germany's production and economy depend on having access to these countries and maintaining good political relations with them. The main bulk of these products are imported from partners where trade takes place under regulated terms (543 products are imported within the Single Market and 87 from trade agreement partners). The remaining 316 products are imported from third countries, and negotiating trade agreements with these countries can help German firms further diversify their imports and build more resilient global supply chains.

Figure 6: The Single Market has enabled specialisation and helped build resilience[28]

Germany imports a total of 5,344 products. Based on a methodology developed by the European Commission, we have assessed the import dependency of Germany based on three different definitions of import dependency:

- **Import dependent products |** For products in this group, imports origin from 2-3 countries, and local production in Germany is insufficient to cover total demand. The high concentration of imports can expose German importers to disruptions in supply from the trading partner (e.g., due to logistic challenges and production lockdowns) and to geopolitical tensions around the trading partner.
- **Sensitive import dependent products|** This sub-group of import dependent products contains products that are particularly important to the well-being of German citizens (e.g., pharmaceutical ingredients) or for maintaining production (e.g., raw materials and intermediate goods). The sensitivity of these products adds to the exposure of the German economy to secure access to these products.
- **Critical import dependent products|** This sub-group of sensitive import dependent products contains products that are highly concentrated in global supply (global supply is concentrated in 2 -3 countries). This means that Germany shares its import dependency with all other countries. In case of supply interruptions, Germany (as well as all other countries) have very limited opportunities to redirect imports to other locations.



	Single Market	Trade agreement partners	Other third countries
Import products	**5,318** products	**5,134** products	**5,141** products
Import dependent products	**543** products (57%)	**87** products (9%)	**316** products (33%)
Sensitive products	**137** products (59%)	**24** products (10%)	**72** products (31%)
Critical products	**10** products (45%)	**2** products (9%)	**10** products (45%)

Source: Implement Economics based on the BACI (Base pour l'Analyse du Commerce International) dataset.
Note: The BACI dataset consists of bilateral trade flows at the product level in 2019. Products correspond to the harmonised system nomenclature (6-digit code).

2 SMEs call for regulatory harmonisation and simplification

Chapter 2 shows that the differing regulatory requirements are the main obstacle for German SMEs to use the Single Market as a platform for growth, diversification and global competitiveness.

BACKGROUND

Initiatives to standardise and harmonise regulation across members have helped dismantle obstacles to doing business within the Single Market, but significant regulatory barriers still exist. Also, the advancement of new directives (particularly in the ESG field) creates a risk of increased fragmentation in the coming years.

In collaboration with BVMW, we have conducted a survey among German SMEs to identify key barriers and possible initiatives that will make it easier for SMEs to conduct business in the Single Market.

This report focuses on regulatory barriers that prevent SMEs from reaching their full potential in terms of trading across borders in the Single Market.

We encourage future EU presidencies and institutions to continue having focus on dismantling regulatory barriers, also within public procurements and recruitment that are not covered by this study.

KEY FINDINGS FROM SURVEY

95% of the SMEs say that they have benefitted from the Single Market, mainly through exports to private clients and sourcing from other firms.

54% of the SMEs say that differing regulation across member states to a great or some extent limits their scope to doing business in the Single Market.

30% of the SMEs perceive regulatory barriers as preventing them from participating in public procurement - an area seen as offering business potential.

91% of the SMEs state that simplification of administrative procedures will help them do more business in the Single Market.

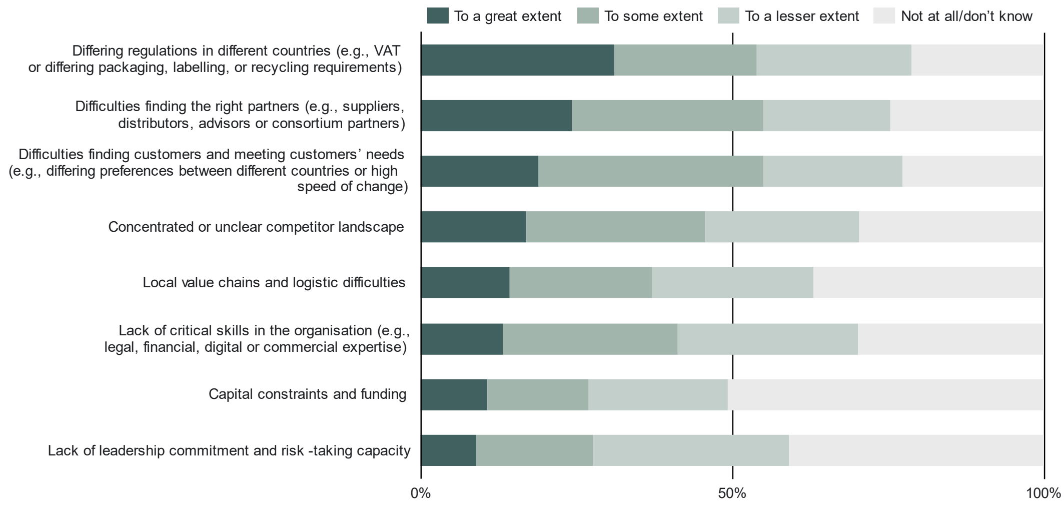
2.1 Differing regulation hinders growth through the Single Market

The Single Market has come a long way in removing obstacles to the free flow of goods, services, capital and people across borders. The German SMEs that participated in the survey confirm that they benefit from the Single Market and, moreover, that there continues to be a potential for simplifying and harmonising regulation.

95% of the SME exporters say that they have benefited from doing business in the Single Market, mainly through exports to private clients (businesses and individuals) and establishing a local presence (see Figure 3 and Figure 18 in Appendix 1). The SME exporters also confirm that there is potential for them to grow their business further within the Single Market. 75% of the SMEs see potential for increasing their exports to private clients, 32% for sourcing, 23% for establishing a local presence in other member states and 22% for recruiting workers (see Figure 19 in Appendix 1).

Differing regulation across Member States is seen as the most critical barrier for German SMEs to do more business in the Single Market. 32% of the SMEs say that this barrier to a great extent limits their scope for doing business in the Single Market (48% say that it to some or lesser extent is a critical barrier), see Figure 7. Almost as critical a barrier as differing regulation is difficulties finding the right partners and customers as well as other traditional export barriers that are typically addressed at the national level, through various export promotion and accelerator activities.[29]

Figure 7: Critical barriers to doing business in the Single Market for exporting SMEs

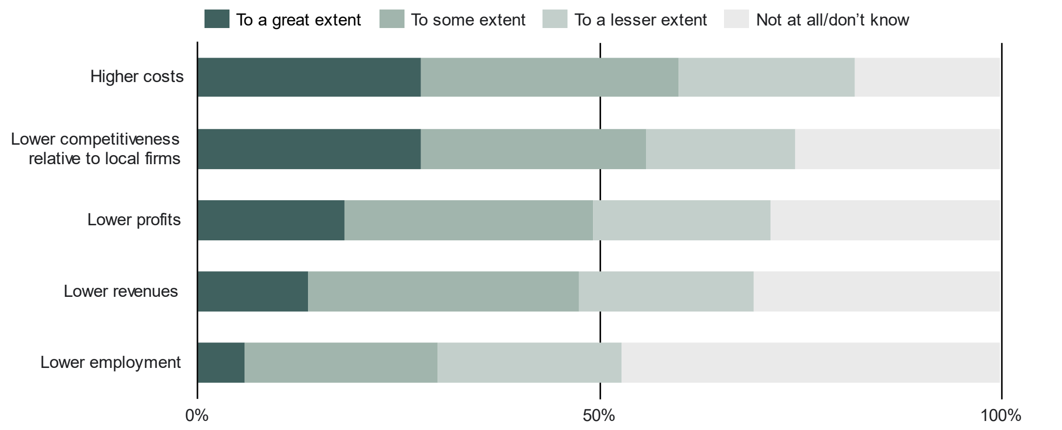


Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'What do you perceive as the most critical barriers to doing business within the Single Market?', n=442.

2.2 Regulatory barriers erode the competitiveness of German SMEs

60% of the SMEs assess that regulatory barriers increase their costs (28% say to a great extent), 56% say that regulatory differences erode their competitiveness (28% say to a great extent) and 49% experience lower profits (18% say to a great extent), see Figure 12.

Figure 8: Consequences of regulatory barriers for exporting SMEs



Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'What are the implications for your business of regulatory barriers to doing business within the Single Market?', n=442.

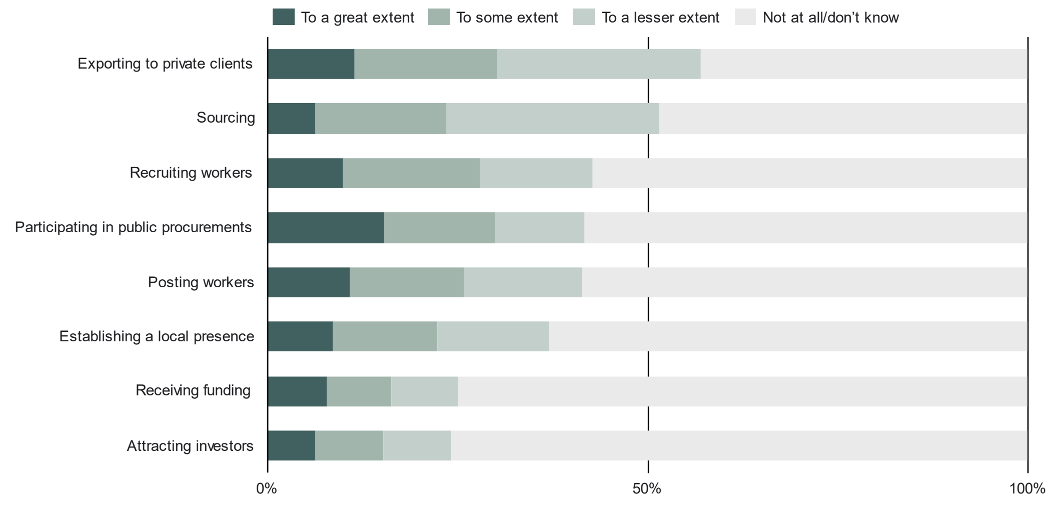
Because of the regulatory barriers and their consequences, the German economy misses out on significant opportunities for creating more benefits for workers through higher job creation, better paid jobs and improved job security. In addition, consumers could benefit from reduced regulatory barriers through lower prices, a wider selection of products, improved product innovation and reduced delivery times.

2.3 Regulatory barriers prevent SMEs from scaling their business

57% of the SMEs find that regulatory barriers prevent them from exporting to private clients, Figure 9. Exporting to private clients in another member country of the Single Market is a way for SMEs to expand their business, as it can increase their customer base and lead to increased sales and revenue, as well as the opportunity to diversify their customer portfolio. Reduction of regulatory barriers can therefore help improve long-term success for SMEs internationally.

Moreover, 52% of the SMEs assess that regulatory barriers prevent them from sourcing within the Single Market, but regulatory barriers also limit the scope for recruiting workers and participating in public procurement.

Figure 9: Regulatory barriers prevent exporting SMEs from doing more business in the Single Market



Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'To what extent do regulatory barriers prevent your firm from doing more business in the Single Market?', n=427.

2.4 SMEs call for regulatory simplification and harmonisation

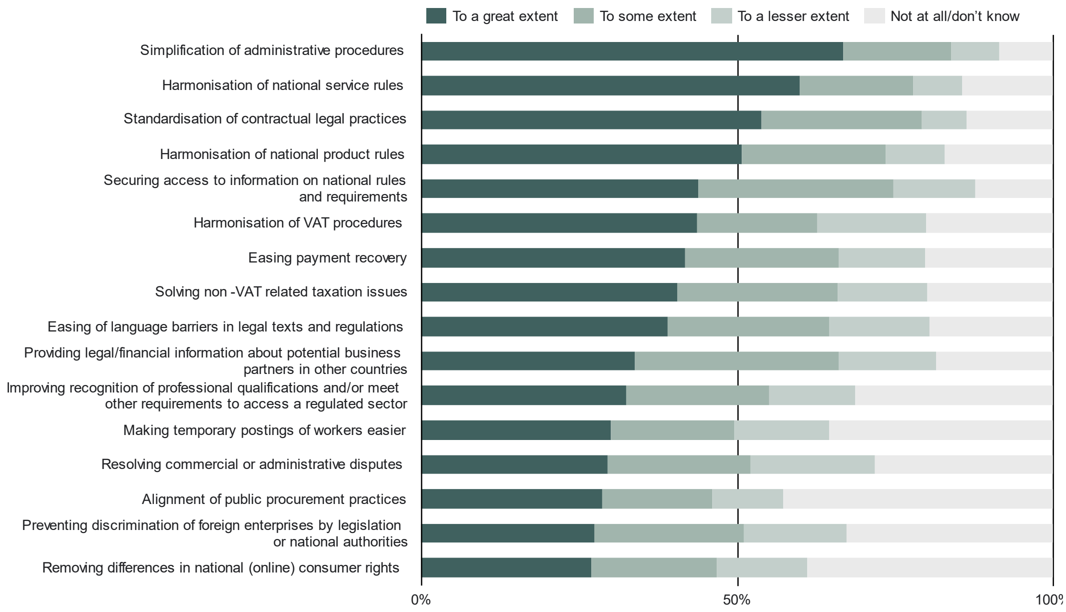
The SMEs identify several policy initiatives that can help reduce regulatory barriers.[30] 91% of the SMEs point to simplification of administrative procedures, of which 67% say that this initiative to a great extent will help them do more business via the Single Market. The call for simplification aligns with several recommendations brought forward in this report, such as the adoption of an ambitious Single Market Strategy (recommendation #1), a data flow test (recommendation #3), a business-oriented design of the digital European product passport (recommendation #7) and the recognition of digital labelling (recommendation #10). More specifically, German SMEs welcome the following initiatives to:

- **Harmonise VAT procedures |** This call for action from German SMEs is directly linked to our recommendation to create a single VAT ID and extend the VAT one-stop-shop (recommendation #9).
- **Harmonise national product and service rules |** The upgrade of the European Semester (recommendation #4) and the removal of barriers to trade and climate goods and services (recommendation #6) aim to harmonise implementation of

EU regulation and reduce regulatory fragmentation across members of the Single Market. Also, our recommendation to strengthen the use of the Better Regulation Toolbox (recommendation #5) aims to make new regulation easier to implement and therefore prevent new regulatory fragmentation from arising in the future.

- **Secure access to information on national rules and requirements |** Our recommendations to strengthen SOLVIT (recommendation #2) and create a one-stop-shop to Member States' extended producer responsibility (EPR) systems (recommendation #8) will make information more accessible for German SMEs.
- **Easing payment recovery |** Our recommendation to create conditions for the development of easy, fast, reliable and low-cost cross border payments (recommendation #11) also aims to ease payment recovery.

Figure 10: Policy initiatives can help SMEs to do more business in the Single Market



Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'To what extent would the following policy initiatives help your company do more business within Single Market?', n=434.

3 Set a bold and ambitious vision for the Single Market

Chapter 3 explains how the first three specific policy initiatives (#1 to #3) can help SMEs realise its full potential through a bold and ambitious vision for the Single Market.

#1 Adopt an ambitious Single Market Strategy

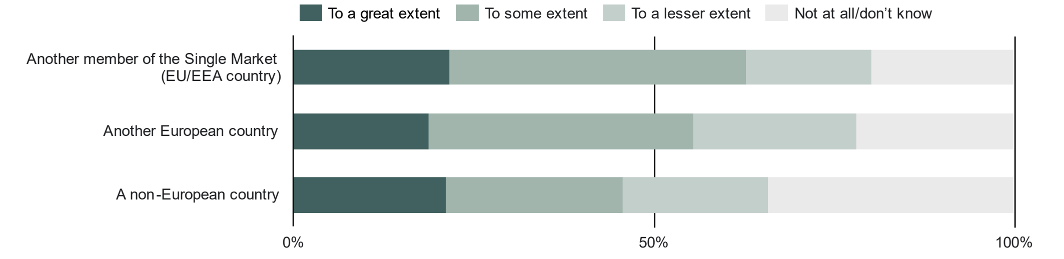
Securing the four freedoms of the Single Market warrants ongoing review and updates of EU regulation. The Single Market will never be a finished product but will instead need to adjust to technological developments, global conditions and key societal challenges. We urge the next European Commission to be ambitious and visionary when setting out to secure the long-term competitiveness of the EU.

> *"The long-term view on competitiveness outlines how the EU can build on its strengths and achieve more than merely bridging the growth and innovation gap. A forward-looking, well-defined and coordinated EU framework will foster thriving businesses, able to compete on the global market, with attractive jobs and setting global standards."*

More than 80% of the SMEs participating in the survey confirm that more simple and harmonized regulation will help them export more in the Single Market, but almost an equal share of the SMEs expect that it will help them export more to other European countries (78%) and even to non-European countries (66%), see Figure 11.

To achieve this, the European Commission should adopt a Single Market Strategy that clearly reinstates the Single Market at the forefront of the EU's integration project. The Single Market Strategy should take a holistic approach to the full business and consumer journey to ensure that regulations do not unnecessarily limit trade in the Single Market. The Single Market Strategy should be backed by strong political leadership and integrate regulation across all pillars of the Single Market and modes of doing business.

Figure 11: Simple and harmonised regulation can help SMEs export more



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'In your experience, to which extent would more simple and harmonised regulation of the Single Market can help your company export more?', n=420.

Adopting an ambitious Single Market Strategy can reduce the complex and uneven regulatory requirements that drive up costs for SMEs, such as Gedack and Pentagon Sports, as described in the business cases below.

COMPLEX AND UNEVEN REGULATORY REQUIREMENTS DRIVE UP COSTS

Gedack is a 40-person globally active SME, based out of Dessau-Roßlau, Eastern Germany. The company develops, designs, and manufactures flexible piping systems according to customer requirements. Their main customers include the railway industry and construction vehicles.

Call for action

The company, Gedack, is exposed to various bureaucratic and regulatory hurdles when doing business in the European Single Market, not least due to the industry it operates in. For example, requirements relating to soot particles and other emissions are complex and often with national nuances. Likewise, the company finds that the requirements related to the packaging materials of their products are often hard to navigate also on the European market. To ensure compliance with various complex requirements, Gedack hires consultants or sales representatives to ensure compliance with EU and country-specific requirements, increasing operational costs.

> ***"The additional costs get unfortunately get passed down the value chain to the customer, posing a potential threat to competitiveness"***
>
> Ralf Mohs, Managing Director at Gedack Rohrsysteme

Potential

The existing patchwork of directives, regulations, and national laws drives up transaction costs for businesses, and these costs are often disproportionately high for SMEs, such as Gedack. Regulatory simplification, harmonisation, and the introduction of common standards will reduce costs, with positive knock-on impacts for public and private entrepreneurs.

DIVERGING NATIONAL AND REGIONAL LEGISLATION INCREASES ADMINISTRATIVE COSTS

Pentagon Sports is based in Southern Germany, Ellwangen, and has been selling bicycles, accessories, and leisure items over the internet for over 10 years. They are one of the largest online bicycle retailers in Germany, employing 40 employees. Approx. 20-25% of their revenue comes from international sales, including the EU.

Call for action

While Pentagon has experienced growth and success in selling to the European market, expanding to other countries has not been without difficulties and risk. Namely, Pentagon has encountered several regulatory obstacles that accumulate through its business journey within the Single Market. Richard Badal, Managing Director of the company, says that there are simply too many national regulations, laws and requirements for a small company like themselves to keep track of. For example, different countries require different safety logos on the packaging of bicycles and related accessories.

> ***"Apart from their subject matter expertise, our employees have to be strongly familiar with the regulations on the product and packaging compliance declaration requiring high efforts."***
>
> Richard Badal, Managing Director at Pentagon Sports

Potential

The diverging national and regional legislation increases administrative costs for Pentagon and constitutes a barrier to doing business across the EU. Currently, the company has a team of 3 employees ensuring compliance with product and packaging requirements.

Regulatory simplification, harmonisation and the introduction of common standards will reduce costs and make it easier for SMEs such as Pentagon to make sales across the Single Market without incurring unnecessary regulatory costs.

#2 Strengthen SOLVIT and commit SOLVIT to act more proactively and to raise awareness

SOLVIT is a problem-solving network that was established in 2002 to help (free of charge) people or businesses when their cross-border rights in the Single Market are breached by public authorities – be it at a local, regional or national level. SOLVIT is based on co-operation between Member States under the auspices of the European Commission. It intends to offer a faster, informal alternative to starting a court case, submitting a formal complaint to the Commission or launching a petition. There are SOLVIT centres in all EU Member States, as well as in Iceland, Liechtenstein and Norway.

A review of the SOLVIT institutions across countries shows that European firms lack awareness about the opportunities offered by SOLVIT and, even when they are aware, they rarely use SOLVIT and often lack confidence in SOLVIT as a relevant partner in finding a solution.[31] These conclusions are also confirmed by the interviews conducted with German SMEs as part of this study. There is also room for improving the functionality of SOLVIT in several countries:

- **Securing staffing and qualifications |** There is a lack of qualified case handlers and excessive staff turnover rate in several SOLVIT centres.[32]
- **Addressing structural issues |** SOLVIT is in many cases an underutilised, valuable source of information regarding more structural problems.
- **Identifying regulatory uncertainties |** SOLVIT is mainly used for reporting cases of misapplication of Single Market rules, but German SMEs, such as KHI Metals, call for more proactive initiatives to remove the regulatory uncertainty that stems from contradictory and/or overlapping regulation.[33]

We propose to establish a Single Market Ombudsman in every EU Member State (as the Head of or in collaboration with SOLVIT) to secure the correct application of EU rules. We also propose to commit SOLVIT to act more proactively on structural cases and to raise awareness, for example through structured roundtables with national business associations. Finally, SOLVIT should be a digital platform for reporting contradictory/ overlapping regulation and addressing regulatory uncertainties.[34] This initiative should be aligned with the Commission's proposed Single Market offices, but we recommend its mandate to require it to act more proactivity and raise awareness among relevant users, particularly SMEs.

AN EFFECTIVELY FUNCTIONING SOLVIT NETWORK WOULD MAKE IT EASIER TO ENTER NEW MARKETS

KHI Metals is a small, 2-person company based in North Rhine-Westphalia, Germany, that was founded in 2006. The company is working as an agent in the commercialisation of steel products, hydraulic systems for aviation as well as special ball bearings for space travel and drones. The company acts as an intermediary between French producers and German off-takers.

Call for action

As a small company, KHI Metals has struggled heavily with bureaucratic hurdles and complying with complex and diverging legal requirements. These include everything from commission settlements and A1 certificates to VAT pre-registration requirements.

The managing director of the company, Kuno Humpert, has not consulted SOLVIT so far but notes but notes that an effectively functioning SOLVIT network could spare internal resources and time when dealing with various legal requirements.

"When sufficiently robust and developed, SOLVIT could significantly simplify dealings with national authorities and serve as a singular source of information on diverging legal and regulatory requirements."

Kuno Humpert, Managing Director at KHI Metals

Potential

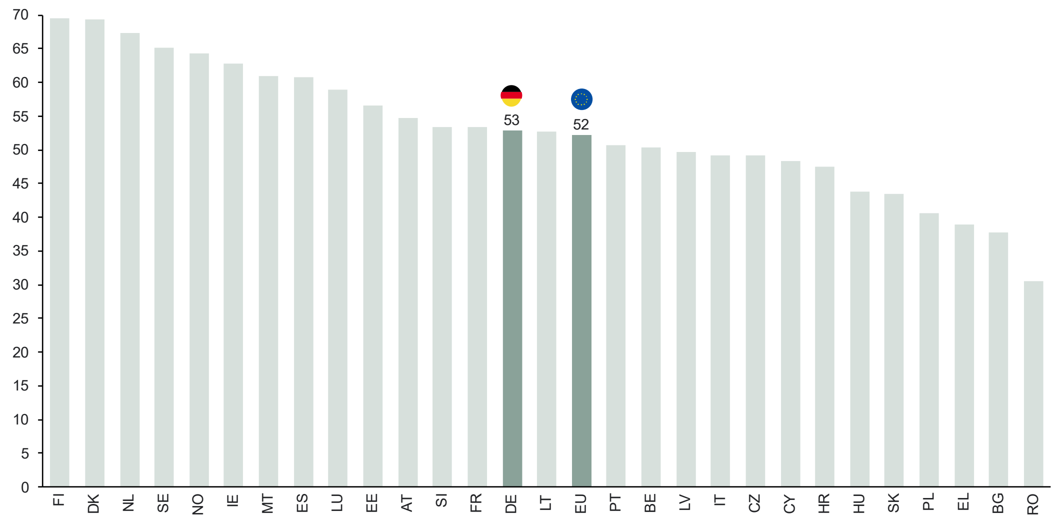
Currently, dealing with bureaucratic hurdles and diverging requirements costs approximately two working days per month for KHI Metals. A strong and proactive SOLVIT network could help SMEs, such as KHI Metals, in having a singular point of up-to-date, comprehensive information on national requirements, laws and legal practices. Such a solution would make it easier and free up time for the company to expand its business.

#3 Conduct a data flow test of all existing and new EU regulation

In today's rapidly evolving global landscape, digitalisation plays a vital role in driving growth, generating employment opportunities and contributing to a sustainable future through its positive impact on environmental objectives.[35] By embracing digital technologies, SMEs are in a better position to navigate international markets, streamline operations and enhance their export capabilities.

According to the 2022 Digital Economy and Society Index (DESI), Germany ranks only slightly above the EU average (53 compared to 52) but remains significantly behind the European digital front runners (such as Finland and Denmark), see Figure 12.[36]

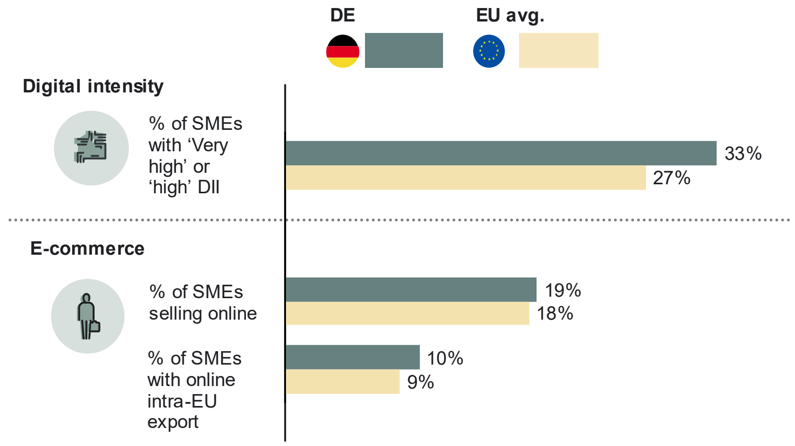
Figure 12: The digital performance of Germany is above the EU average



Source: Implement Economics based on 2022 data from the European Commission.
Note: The DESI score is calculated as a weighted average of four different dimensions: Digital Public Services, Integration of Digital Technology, Connectivity and Human Capital. The dimensions are of equal importance and are therefore given the same weight in the calculation. The indicators within each dimension are weighted according to importance.

Measured by the Digital Intensity Index (DII Version 4), German SMEs are close to the EU average in terms both their digital intensity and e-commerce activities, see Figure 13. 19% of German SMEs sell online (compared to an EU average of 18%), and 10% of German SMEs have online intra-EU exports (EU average of 9%).

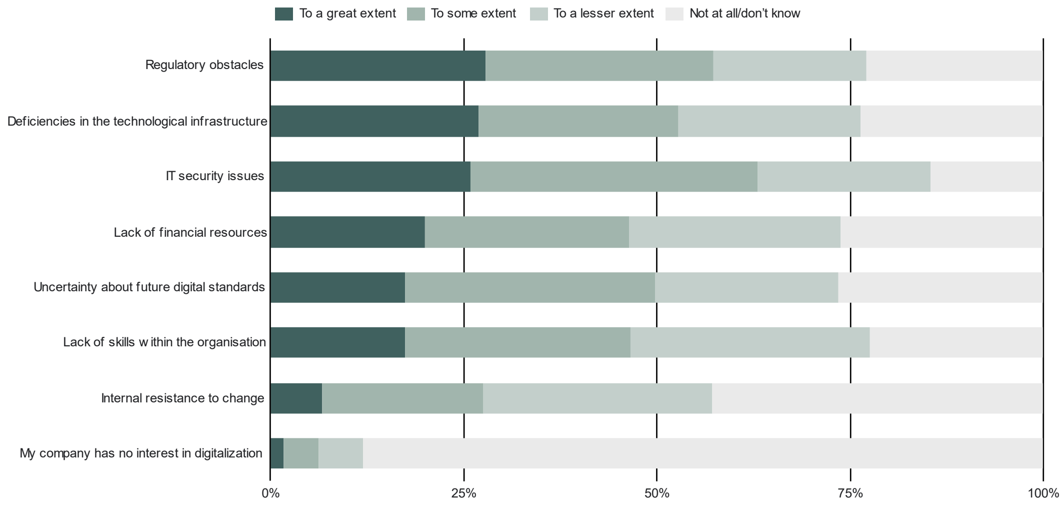
Figure 13: The performance of German SMEs in applying digital tools[37]



Source: Implement Economics based on data from the European Commission on the application of digital tools.
Note: The Digital Intensity Index measures the use of different technologies by enterprises and reflects the extent to which enterprises are digitalised. The data points are only for SMEs defined as companies with 10-249 employees.

Multiple factors hinder German SMEs from adopting more digital tools, see Figure 14. The SMEs point to regulatory obstacles (28%) and deficiencies in the technology infrastructure (27%) as the two main factors that prevent them from adopting more digital tools. Furthermore, IT security issues, lack of financial resources, and uncertainty about future digital standards to a lesser extent hinder the adoption of digital tools.

Figure 14: Multiple factors hinder German SMEs from adopting more digital tools



Source: Implement Economics based on a survey of 715 German SMEs (see Appendix 1 for further details).
Note: Response to question: 'To what extent do the following factors hinder your company from adopting more digital tools?', n=420. Deficiencies in the technological infrastructure include e.g. access to/quality of high-speed internet in the municipality where the company is located.

86% of the SMEs believe that increased use of digital tools can help their company sell more through the Single Market, while 37% even believe that it can largely help their exports, see Figure 25 in Appendix 1.

The tension between data protection and data flow has characterised the digital economy from the beginning. Data flow, i.e., the possibility for firms to have access to, use, and transfer data is a prerequisite for digitisation. For example, this applies to the development of the 'internet of things' and artificial intelligence, which relies on processing large amounts of data.

Digital technologies and solutions also enable and accelerate the green transition across the economy and society.[38] For example, digital solutions are a critical enabler of demand flexibility for the forthcoming doubling of electricity use in Europe towards 2050. Also, the provision of real-time data to support climate-friendly transport choices or more climate-conscious heating behaviour in people's homes is a cost-effective way of decarbonising. Moreover, energy security measures to reduce the EU's imports of fossil fuels also depend on digital solutions. Around 40% of the pathway to the desired level of EU gas demand will require a degree of digital enablement.

For these reasons, it is important to remove unjustified obstacles to data flows in the Single Market as the European Commission has attempted to do for example in the regulation of free flow of data.[39] Several data flow obstacles persist and are often rooted in rules aimed at protecting personal privacy (data protection).[40] This is a legitimate protection interest regulated in the EU statute on fundamental rights.

Given the overriding protection interest in personal privacy, we recommend the European Commission to put forward a proposal to promote data flows as far as possible. The proposal is to introduce a 'data flow test' intended to remove unjustified barriers. The starting point is that obstacles aimed at protecting personal privacy must be designed in a way that is least restrictive for data flows.

Such a test would oblige the legislator and regulator (at both EU and national levels) to systematically consider the free flow of data when applying data protection rules (e.g., devising new requirements, adopting guidelines or decisions in individual cases). Thus, the test would acknowledge the supremacy of the principle of data protection in the EU but limit the risk of abuses that would be harmful to data flows, innovation and the green transition. Removing unjustified barriers to data flows will reduce administrative costs for European firms – one of the main barriers to doing business in the Single Market according to German SMEs, such as VecCtor as described in the business case below.

IMPROVEMENTS CAN BE DONE TO AID DATA FLOWS IN THE SHIPPING OF TECHNOLOGICAL COMPONENTS

VecCtor is a small, five-person solution provider and technology supplier for digitisation and automation of processes around industry 4.0, IoT, interfaces, security applications and telematics. Their core product is a software as a service digital hub, custom-made for clients. The company is based in Northern Germany, Lübeck, and its main customers are in the DACH region, but also in Middle East and Africa.

Call for action

As a provider of diverse technology and IT services, VecCtor operates within an industry subject to multiple data regulations and requirements. Moreover, the company occasionally provides technologies directly to customers as part of its full-service offerings, presenting numerous additional challenges. The vast and varied data requirements and documentation necessary for shipping certain technologies or components, such as batteries, pose significant hurdles. Since there is no common platform or central service provider in the EU to streamline these processes, VecCtor has to manage them manually.

Potential

The lack of uniform and simplified technology, as well as the absence of a common platform (with required data) to manage shipping processes creates a lot of additional work for VecCtor and obstructs potential dataflows.

> ***"Since our product range is broad and regulations vary significantly, we don't talk about one-of-a-time but re-occurring efforts and costs."***
>
> Thorsten Möller, Sales Manager at VecCtor Gmbh

4 Build a culture of trust and compliance

Chapter 4 highlights two additional specific policy initiatives (#4 and #4) that can help SMEs realise the full potential of the Single Market through a culture of trust that ensures compliance.

BACKGROUND

Single Market directives can only achieve their intended effects if they are completely and correctly transposed into national legislation within the given deadline.

Removing existing barriers related to incomplete implementation of Single Market legislation can add an additional EUR52-61 billion to the French economy.

National governments can lack the incentive to correctly transpose EU rules into national legislation without delays and in a harmonised way, in a misinterpreted attempt to protect local firms.

Close integration of implementation and application in the design of new legislation will help build a culture of compliance.

SOLUTIONS

#4 Upgrade the European Semester to include recommendations on how to harmonise implementation of EU regulation and close the compliance gap

#5 Strengthen the use of the Better Regulation Toolbox by integrating implementation into the design of new regulation and consistently respecting impact assessment requirements

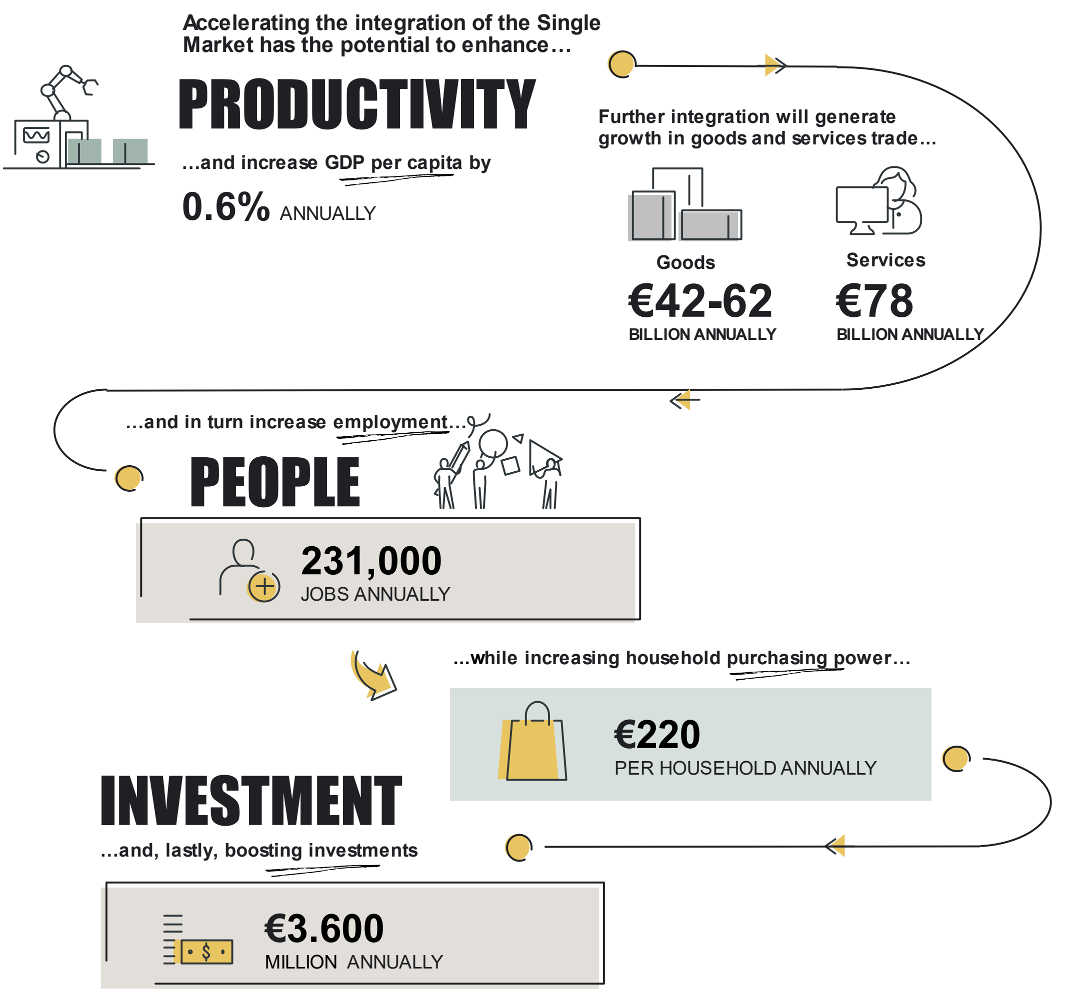
#4 Upgrade the European Semester to include recommendations on how to harmonise implementation of EU regulation and close the compliance gap

Removing existing barriers due to incomplete implementation of EU rules is foreseen to generate large EU-wide economic benefits.[41] The European Commission estimates that removing existing barriers related to the incomplete implementation of EU rules on the Single Market would add an additional EUR 520-600 billion to EU GDP annually (a permanent increase in EU income level).[42]

Similar impacts can be expected in Germany. If benefits for Germany correspond to Germany's contribution to total intra-EU trade, GDP per capita could increase by 0.6%, and the goods and services sectors would permanently add EUR 120-140 billion to German GDP every year (EUR 42-62 billion and EUR 78 billion for goods and services, respectively[43]). Furthermore, the increased production of goods and services is expected to support 231,000 jobs annually. Benefits will spread to German households, where household income (purchasing power) is expected to increase permanently by EUR 220. Lastly, investments are expected to increase by EUR 3.6 billion (see Figure 15). These gains are recurring each year and growing over time.[44]

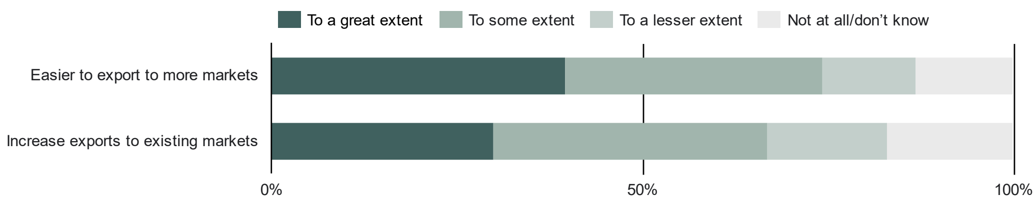
Given Germany's existing share of trade within the Single Market and the trade potential identified by the SMEs that participated in the survey, benefits for German firms from improved market access are likely to be high.

Figure 15: Potential benefits for Germany from removing existing barriers in the Single Market



The SMEs that participated in this survey generally agree that a national alignment of EU regulation can help them increase exports by either making it easier to increase exports to both existing markets and export to more markets, see Figure 16.

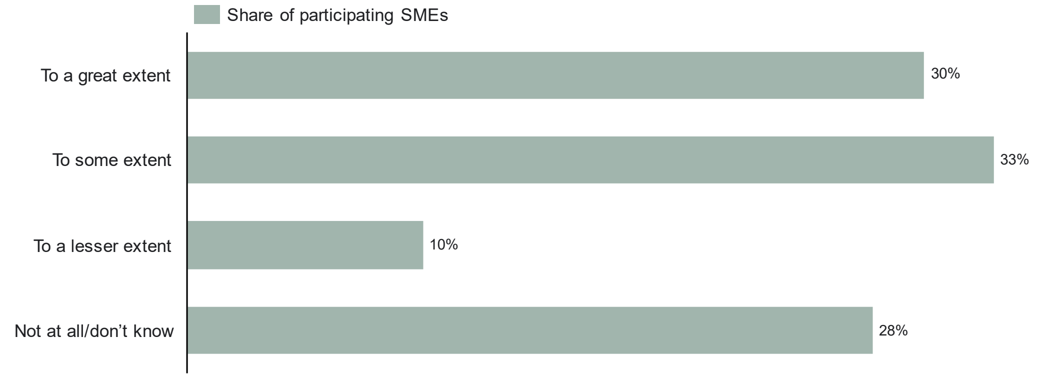
Figure 16: More aligned EU regulation across Members States would help SME exporters grow



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent would it help your company to export more if all Member States implemented EU regulations at the same time and in the same way?', n=428.

The persistent compliance gap undermines the trust of firms and citizens in the effective functioning of the Single Market. The gap also sends a clear signal to individual governments that lack of compliance has little consequences. The majority of SMEs that participated in the survey (63%) find that the Commission to a great or some extent should have greater authority to compel Member States to comply with EU regulation, see Figure 17.

Figure 17: Many SMEs believe that the European Commission should have greater authority



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent do you believe the European Commission should have greater authority to compel Member States to comply with EU regulations?', n=428.

We therefore propose to make recommendations on closing the compliance gap and harmonising the implementation of EU regulation a part of the European Semester. The advantage is that the European Semester is governed by a combination of hard and soft law due a mix of surveillance mechanisms and possible sanctions, which can be utilised to incentivise governments to close the compliance gap.

The proposed solution will address several of the regulatory barriers that currently prevent German SMEs, such as BabyFORTE described below, from doing more business through the Single Market.

'GREY ZONES' BETWEEN NATIONAL AND EU REGULATIONS CREATE UNCERTAINTY

BabyFORTE Medical is a 20-person company, operating from Berlin and specialising in high-quality nutritional supplements for women and men, with pregnancy wishes, as well as expectant mothers. The company has two brands related to fertility – BabyFORTE® and MascuPRO®, which it sells domestically as well as on the European Single Market.

Call for action

Regulatory fragmentation is a considerable challenge for BabyFORTE and affects a large share of the company's product portfolio. Individual countries within the Single Market have different regulations of BabyFORTE's ingredients, e.g. maximum quantities of micronutrients such as B vitamins, zinc or selenium. Further, it varies whether they classify the product food supplements or pharmaceuticals. In the EU, nutritional supplements are regulated as foods, but the list of regulated nutritional supplements is limited and lacks many natural substances and herbs. However, pharmaceuticals are regulated at the national level, and the legal interpretations and applications vary considerably from country to country.

> ***"EU countries have different interpretations of nutritional substances and rules on what statements may be made related to our products. For example, there are different requirements for the maximum amount of folic acid."***
>
> Anna-Maria Silinger, Founder and CEO at BabyFORTE Medical

Potential

The 'grey areas' in regulation that exist in some industries and for some categories of products, such as nutritional supplements, create significant uncertainty for businesses and result in regulatory fragmentation. Limiting these ambiguities is a precondition for ensuring the correct and even application of EU regulations and eventually closing the compliance gap, which is required to lower costs for legal advisory and enable SMEs, such as BabyFORTE, to expand across the EU.

#5 Strengthen the use of the Better Regulation Toolbox by integrating implementation in the design of new regulations and consistently respecting impact assessment requirements

High-quality legislation is a prerequisite for delivering on EU policy objectives in the most efficient and effective way possible. Moreover, high-quality legislation is a means to avoiding overregulation and unnecessary administrative burdens for citizens, administrations and businesses (particularly SMEs). Finally, high-quality legislation is designed to facilitate its transposition and practical application in the first place.

The persistent compliance gap and large administrative costs reported by firms doing cross-border activities in the Single Market indicate that more can be done to design EU legislation that effectively reduces complexity and administrative costs of doing business in the Single Market. The Better Regulation Toolbox, with impact assessments as a key ingredient, is a way for the Commission to design, deliver and support the implementation of high-quality policies.[45]

We recommend the European Commission to strengthen the use of the Better Regulation Toolbox by upholding the impact assessment requirement and putting more weight on integrating implementation into the design of new regulation. The recommendation put forward in this paper is aligned with the request for better regulation by 15 EU governments:[46]

> *“Better regulation is the cornerstone in ensuring a properly functioning Single Market and a future-proof, transparent and stable legislative framework aiming to reduce regulatory burden and facilitate competitiveness. In general, a horizontal and technology-neutral approach enables the use of most innovative technologies.”*

In particular, the 15 governments call for the new European Commission to apply impact assessments more consistently and thoroughly:

- Add a thorough, timely and high-quality impact assessment to each legislative proposal and ensure consultation with stakeholders.
- Include a Competitiveness Check and consider the cumulative impacts and costs of different initiatives and existing rules on the competitiveness of EU businesses, particularly SMEs and micro-enterprises.
- The impacts on the Single Market and its four freedoms should also be considered to avoid overlap and ensure consistency of the legislative framework.
- Assess the extension of the mandate of the Regulatory Scrutiny Board so that it can specifically ask for impact assessments in cases when they were not done.

The proposed solution will contribute to reducing several of the existing regulatory barriers pointed out by German SMEs, and the high-quality design of future regulation will reduce the risk of new administrative barriers and unintended negative impacts to emerge in the future.

5 Remove regulatory trade barriers to create a green and circular Single Market

Chapter 5 presents two specific policy initiatives (#6 and #7) that can help SMEs contribute to the creation of a green and circular Single Market by removing regulatory barriers to trade, thus realising its full potential.

BACKGROUND

Trade is a vehicle for incentivising innovation, spreading innovations across markets and reducing the costs of transitioning to more sustainable production and consumption systems. Frictionless trade of climate goods and services is a prerequisite for the green transition.

The development of a circular EU economy rests on smart regulation to avoid new administrative burdens, limit compliance costs for business and create a simple framework governed by legal certainty. Fragmentation in the Single Market risks slowing down the green transition, and it is crucial that the harmonisation of EU rules continues and is made as easily accessible to EU firms as possible.

SOLUTIONS

#6 Map and remove regulatory barriers to trade for climate goods and services within the Single Market

#7 Design the digital European product passport in a way that makes the circular work of businesses easier

#6 Map and remove regulatory barriers to trade in climate goods and services within the Single Market

The transition to a new, decarbonised production and consumption system requires that climate-related technologies and services become available and are fully deployed. Removing regulatory barriers to trade in climate goods and services within the Single Market can accelerate decarbonisation in Europe by structuring market signals, incentivising innovation and reducing the costs of adopting new technologies. A fully integrated Single Market in climate goods and services will also strengthen the international competitiveness of EU producers.

The German National Energy and Climate Plan (NECP) has committed to achieving a 55% reduction in greenhouse gas emissions by 2030 compared to 1990 levels. In doing so, Germany is advancing investments into renewable energies and committing to 30% of final energy consumption originating from renewable energy sources by 2030. The additional investments for realising the energy and climate objectives are estimated to amount to EUR 42.8 billion in 2030, a significant share of which will be dedicated to new renewable energy and networks.[47]

Regulatory barriers pose significant obstacles to global trade in climate goods (up to 10 times more than tariffs[48]). The top three barriers include technical barriers to trade (mainly standards, technical regulations and labelling requirements as well as conformity assessment procedures, product testing and certification), local content requirements and challenges concerning government procurement.

Regulatory barriers also hinder the free flow of climate goods and services within the Single Market. The wind industry, for example, experiences complex, contradictory and fragmented regulation that erode their global competitiveness.[49] As wind energy is expected to cover 43% of Europe's electricity by 2030, regulatory barriers make the green transition excessively costly and put pressure on public budgets.[50]

It is difficult to formulate an exact definition of climate goods and services, and there is a risk that the complexity of the problem ends up stalling progress and perhaps even hindering the dismantling of regulatory barriers to trade within the Single Market. A "step by step" approach to regulatory harmonisation with the following three steps will accommodate the challenges raised by the SMEs:

- **Step 1 |** Define an initial list of climate goods and services. A preliminary list is offered in deep dive analysis of Single Market barriers to trade in climate goods and services, which could be a starting point for the work.[51] This could be a minimum list of climate goods and services that are generally accepted as being critical for the green transition.

- **Step 2 |** Map regulatory barriers that hinder free trade in the defined climate goods and services across borders in the Single Market. The mapping should be exhaustive and cover the full business and consumer journey. The mapping should also aim to cover all sources of regulatory barriers, such as lack of compliance with EU regulation, fragmentation in the national implementation of EU regulation, intellectual property rights, uneven access to public procurement, etc.

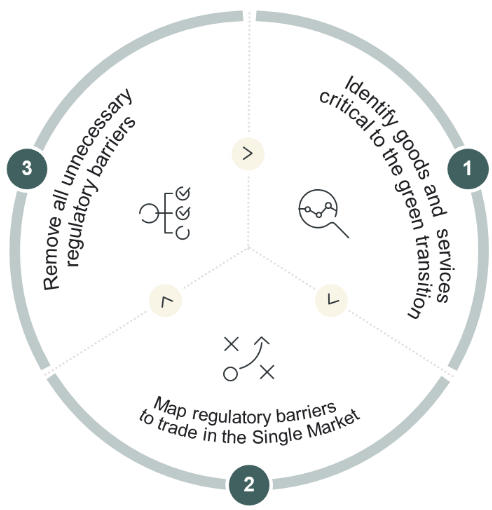
- **Step 3 |** Take bold steps to remove unnecessary or unjustified regulatory barriers to trade in climate goods and services that are hindering the green transition at both the EU and national level.

The iterative process is illustrated in the figure below. The three steps should be repeated for an expanded list of green goods and services.

A roadmap to creating a true European Green Single Market

We propose to take a step-by-step approach to removing unnecessary regulatory barriers to trade in climate goods and services within the Single Market:

- Complete the three-step process for an **initial list of climate goods and services** that are critical to the green transition and remove regulatory barriers that are unnecessarily restrictive to trade within the Single Market.
- Expand the list as new innovative climate solutions emerge and repeat the three-step process.
- Continuously ensure that new regulations do not create fragmentation in the European Green Single Market.



#7 Design the digital European product passport in a way that makes the circular work of businesses easier and facilitates product compliance

The Digital Product Passport (DPP) is a key proposal of the Ecodesign for Sustainable Product Regulation (ESPR), which looks to gather information on a product over the value chain to provide a comprehensive understanding of materials and products as well as their associated environmental impact. In addition, sector-specific product legislation is looking to extend this to also improve the display of product compliance information.

A well-designed DPP can make important product-specific information available in a digital form, making it more accessible to actors in the value chain. As such, it can also serve as a powerful tool for businesses in their contribution to the decarbonisation of the economy. However, if not designed carefully and with stakeholder input, including especially the views of SMEs, such as Klümper, there is risk that the DPP will introduce high administrative burdens and costs for businesses, therefore limiting its potential and creating a lack of cohesion within the Single Market.

Therefore, we recommend that the DPP is designed with the following features:

- That only mandatory product information is required, understanding the complexity of and time requirement for gathering detailed information along the entire value chain.
- The required data needs to be aligned with existing databases and systems as to not create silos or duplication of efforts.
- That intellectual property rights are protected – again requiring a careful consideration of the data that is absolutely relevant for meeting the objectives (essentially requiring only ‘need-to-know’ and not ‘nice-to-know’ data).

DPP REQUIREMENTS NEED TO BE RELEVANT, FAIR AND NON-DISCRIMINATORY TOWARDS SMEs

Klümper is a family-owned company in Lower Saxony, Germany, specialising in gourmet ham goods. The company is a market leader in innovation and premium products, despite a shrinking market. While Germany is their main market, Klümper sells globally – with approximately 14% of their revenue originating from the EU market.

Call for action

Dennis Badberg, sales manager at Klümper, finds that EU countries are increasingly sealing themselves off with various country-specific requirements and specifications relating to their industry. For example, the specification requirements related to raw materials differs from country to country. In the Netherlands and Austria, there is an increasing need to report on the label if only Dutch or Austrian raw materials have been used. Likewise, the company is exposed to various country-specific requirements for packaging design and labelling, e.g. related to nutritional value specifications. Reporting required information, especially when requirements are various and changing, is costly and time-consuming.

> ***"We have one FTE that does nothing else full-time than process various specifics of the product passport across dealers."***
>
> Dennis Badberg, Sales Manager at Klümper

Potential

Reporting required information for product passports can entail high administrative burdens and costs, especially for SMEs, and risks making the circular work of businesses more difficult, thereby limiting the potential of a proposed union-wide digital product passport (DPP).

SMEs such as Klümper highlight that the DPP should be designed in a way that takes into consideration the resources required for gathering detailed information along the entire value chain, and therefore should only require data that is considered relevant. Furthermore, there should be efforts to harmonise requirements to ease compliance and lift the potential of the DPP.

6 Use digital tools to cut costs and create conditions for growth

Chapter 6 presents the last four specific policy initiatives (#8 to #11) that can help SMEs to use digital tools to reduce costs and create growth conditions in the Single Market and thus realise its full potential.

BACKGROUND

Policy makers play a key role in ensuring a good business environment and keeping regulation updated to changes in economic and technical conditions.

The efficiency and effectiveness of EU legislation can be undermined by a high level of complexity in the application by European firms, particularly by SMEs that have less resources available to cover administrative costs.

Digital tools can be applied to lower the costs of collecting, updating and making information available. Reducing regulatory barriers will enable SME exporters to upscale their business and make it profitable for more French SMEs to start doing business in the Single Market.

SOLUTIONS

#8 Create a one-stop-shop to Member States' extended producer responsibility (EPR) systems

#9 Create a single VAT ID and extend the VAT one-stop-shop

#10 Recognise digital labelling as a true substitute for physical labelling

#11 Create conditions for the development of easy, fast, reliable, and low-cost cross-border payments for both euro and non-euro payments

#8 Create a one-stop-shop to the extended producer responsibility (EPR) systems of Member States

Extended producer responsibility (EPR) is an EU environmental policy tool that assigns responsibility to producers for the collection, sorting and treatment of products at the post-consumer stage. EPR schemes vary widely across the EU, both between Member States and between different product categories within Member States. Across the EU, there are well above 81 different EPR regulations (Packaging, WEEE – Waste of Electronical and Electrical Equipment, SUP – Single Use Plastics) to comply with.[52]

Harmonised EPR schemes can help strengthen the circular economy within the Single Market, while lowering unnecessary costs and bureaucratic burdens for businesses to act in an environmentally responsible manner.

We recommend establishing a truly all-encompassing EU-wide mechanism to handle EPR: a digital EPR 'one-stop-shop' solution that would facilitate single EPR registration and reporting across all Member States. This one-stop-shop would also serve as a centralised and up-to-date information portal on EPR requirements across all Member States.

Such a solution should drastically reduce bureaucracy, both for the producers as well as for the authorities. The solution should help making EPR more cost effective for EU producers to comply with EPR regulations related to all the products sold in any given Member State, while at the same time lowering regulatory barriers to trade (and therefore increasing trade) within the Single Market and strengthening circularity.

#9 Create a single VAT ID and extend the VAT one-stop-shop

Currently, an SME will require on average 13 documents to complete one VAT registration process, 100 days to get a VAT number, around EUR 8,000 per country per year in compliance costs and up to 60 VAT filings per country per year to be submitted.[53] In 2022, the European Commission proposed a series of measures to modernise and make the EU's VAT system work better for businesses and more resilient to fraud by embracing and promoting digitalisation (the VAT in the Digital Age proposal). Despite simplifications introduced by the European VAT one-stop-shop system, SMEs (such as Atec and Heim & Büro below) continue to encounter challenges with VAT procedures.

VAT REGISTRATION REQUIREMENTS PROHIBIT EU EXPANSION

Atec is a leader in universal exhaust system solutions in the plastic and stainless steel sectors – selling B2B to heating technology manufacturers and specialized wholesalers. The company currently employs 47 employees and boasts an annual revenue of EUR 38 million. Headquartered in Neu Wulmstorf, Germany, the company exports to Switzerland, Austria, Hungary and Belgium – accounting for approximately 23% of revenues.

Call for action

In comparison to selling to Switzerland, which involves cumbersome customs clearance procedures, Atec can see the benefit of the Single Market and the VAT OSS. However, the company still faces challenges related to VAT registration and reporting that could be simplified. Obtaining VAT numbers forward from different foreign authorities are not straightforward to receive.

In addition, there are also several specific practical improvements that could be done to the VAT OSS portal to make it easier to verify companies behind new enquiries – for example, Managing Director of Atec, Guido Jobst, finds that foreign VAT numbers are often reported in different formats that are incompatible with the portal, and therefore, reference to country-specific portals is required.

> ***"For example, non-German numbers are often in different format and not accessible via portal, which requires us to search in the country-specific portal."***

Guido Jobst, Managing Director at Atec

Potential

The VAT OSS has been a step in the right direction, however, the introduction of a single VAT number would have significant impacts on the costs and speed at which companies, such as Atec, are able to expand their business across the Single Market. Such an improvement would also significantly facilitate sales, directly impacting access to cheaper and better services and goods in the EU.

VAT REGISTRATION REQUIREMENTS MAKE EU EXPANSION MORE DIFFICULT AND COSTLY

Founded in 2010 in Nister, Heim & Büro started off as a start-up and is now a company operating well beyond Germany. Their main brand, ONVAYA®, includes various products from household items and elderly care to office products, and more.

Call for action

Despite many simplifications to European VAT processes due to the introduction of VAT one-stop-shop (OSS) system, Heim & Büro, like many other SMEs, still faces considerable difficulties related to VAT procedures. To store and sell its products in other countries, such as Spain, the company needs to be VAT-registered in these countries. This applies to all countries in which Heim & Büro stores or would like to store its products. Generating and filing VAT reports in various countries imposes great administrative costs and requires considerable time.

"Registration requires several thousand EUR per year, staggered by turnover in each country, as it increases in stages."

Thomas Weigel, Managing Director at Heim & Büro

Potential

Creating a single VAT ID in the EU and extending the VAT OSS to cover all goods transactions, would allow SMEs, such as Heim & Büro, to comply with VAT obligations using a single registration number. This would help reduce complexity and cut costs associated with VAT registration.

We call for the European Commission to adopt the VAT in the Digital Age proposal with no delays and thereby create a single VAT ID in the EU and extend the existing VAT one-stop-shop concept to cover all goods transactions (including pan-EU inventory placement and onward sales). Such a simplification will allow SMEs to comply with their VAT compliance obligations using a single VAT registration number, cutting down cost and complexity and helping drive growth. Less burdensome VAT procedures is one of the policy initiatives that German SMEs would find most beneficial for doing more business in the Single Market.

As well as reducing administrative burdens on SMEs and granting them greater access to the European Single Market, tax authorities will also benefit from a Single VAT ID, as reduction in complexity increases compliance.[54] From the perspective of national governments' public finances, the simplification is likely to result in increased trade leading to additional VAT revenues and a more competitive market in the EU. Finally, customers will benefit from a larger selection, more competitive prices and a better shopping experience when buying goods online.

#10 Recognise digital labelling as a true substitute for physical labelling

To place products on the EU market, producers are required to indicate a variety of product compliance and conformity information on their products – both at the EU and Member State level. Varying labelling requirements present a high resource and administrative cost to producers, especially for SMEs selling smaller quantities. Additionally, the EU still relies exclusively on physical marking on products and/or product packaging, whereby EU legislative proposals thus far have maintained digital communication on product labels as a voluntary complement to the physical labels.

Digital labelling (e.g. through a QR code on the physical label) can respond to the increased demand for transparency on products purchased by producers. It can convey more information to consumers, beyond what is possible on physical labels. For instance, in the EU medical device regulations, standards are already in place prescribing how a device needs to be labelled so that the user understands that further information and instructions can be found online.

Digital labels also have the advantage of being easy to update, easy to read (due to no constraints on size or space) and able to be provided in all official languages for a specific product – at a much lower cost and higher convenience to producers than physical labels.[55] Once-written product information may quickly become irrelevant as technologies advance, legislations change, the economy becomes increasingly circular and trade expands to different regions. Digital labelling provides a more flexible, efficient and scalable option to address this challenge. Digital labelling, as an alternative to physical labelling, can facilitate trade across borders within the Single Market by removing undue barriers between Member States with different language requirements.

We welcome the European Commission’s global leadership in introducing meaningful digital labelling solutions. There is significant potential in embracing digital tools, such as the Digital Product Passport accessible via a QR code (or other equivalent data carrier), to communicate hazard, sustainability and safety information as well as use instructions to users in all EU languages and in a prominent manner that can easily be kept up to date. This shift to digital solutions should also be complemented by reduced information on the physical pack/label, simplifying product information display for consumers.

We therefore recommend that the European Commission brings EU labelling requirements to the digital era by providing manufacturers the option to choose whether to market their product digitally or physically – i.e., recognising digital labels as true substitutes for physical labels across product groups and Member States. This should build on the momentum and learnings already taking place within the digital labelling proposals of the chemical regulations.[56] Also, we ask that physical labelling should only contain the minimum essential information.

#11 Create conditions for the development of easy, fast, reliable and low-cost cross-border payments for both euro and non-euro payments

As the survey clearly shows, German SMEs find it critical for the functioning of the Single Market that cross-border payment methods are affordable and effortless for businesses and consumers. The European Commission has already presented a Proposal for a Regulation of the European Parliament and of the Council on combating late payment in commercial transactions.

We encourage the EU to design an enabling, open and competitive legislative framework to facilitate low-cost, easy, safe and reliable cross-border payments. Regulators should avoid foreclosing access to seamless provision of cross-border solutions. Instead, appropriate incentives should foster a competitive ecosystem to empower consumers to make informed decisions, while reducing cost of payments for merchants.

A more competitive framework for cross-border payments would ensure that EU citizens have access to a diverse range of providers, all of whom operate within an open, competitive setting, including traditional financial providers such as banks, fintech providers and platform operators. The EU should also lead the regulatory development concerning instant payments and central bank digital currencies to further modernise cross-border financial services, set high standards internationally and ensure the competitiveness of the EU.

Appendix 1 Description of the SME survey

SMEs form the backbone of the German economy, accounting for almost 97% of all firms but only for 24% of total German exports. These numbers reflect that exporting is a difficult activity that requires significant financial and human resources. Nevertheless, 63% of the SMEs' total exports are destined for the Single Market[57], and the results presented in this study confirm that the Single Market is a platform for SMEs to internationalise, diversify exports and grow muscles to compete globally.

For this reason, we have conducted a survey of export-oriented German SMEs. This appendix presents the structure of the SME survey and includes the detailed survey responses. The export-oriented SMEs consist of companies that currently export (SME exporters) or would like to start exporting (potential SME exporters). This a unique target group that is difficult to isolate and engage. Many SMEs are mainly oriented towards their home markets with little interest in (and potential for) expanding abroad. Also, SMEs generally have limited resources available to overcome market access barriers, and landing their first export order is difficult. Finally, SME exporters are often extremely busy and rarely engage in consultations, surveys and interviews.

SME survey structure

According to Eurostat data, around 230,400 German SMEs are currently exporters (around 9% of the German population of SMEs). 67% of the German SME exporters have less than 10 employees and 33% have more than 10 employees. The latter group of larger SMEs account for a large share of total exports by the SMEs.

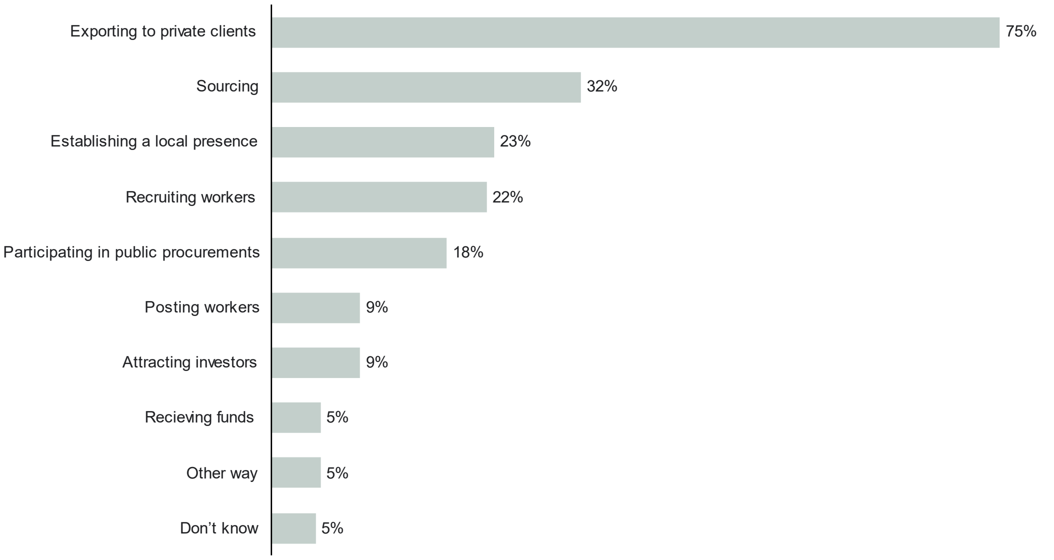
In total, 715 German SMEs participated in the survey. 646 of the respondents are exporters (90%). Of these SME exporters, 28% of the SME exporters have less than 10 employees. This implies that the small SME exporters are underrepresented compared to the population of SME exporters. However, this also implies that the larger SME exporters are very well represented and that implications for a large share of SME exports are covered by the survey. Most of the respondents conduct business in 'Manufacturing' (34%) and 'Information and communication (13%).

69 (10%) of the respondents currently do not export but would like to begin exporting (potential exporters). Since we have no information about how large a share of the full SME population is potential exporters, it is difficult to assess their representativeness. The detailed responses in this appendix indicate that there are only minor differences between the responses from SME exporters and potential SME exporters.

Figure 18: Benefits from doing business in the Single Market, exporters

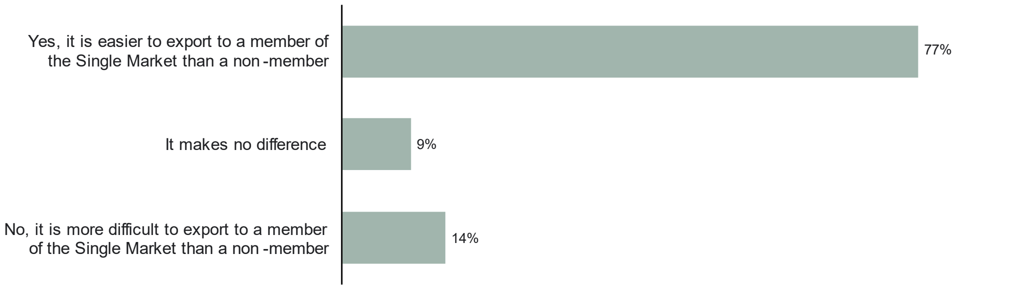
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent does your company benefit from the Single Market?', n=437.

Figure 19: Potentials for growing business in the Single Market, exporters



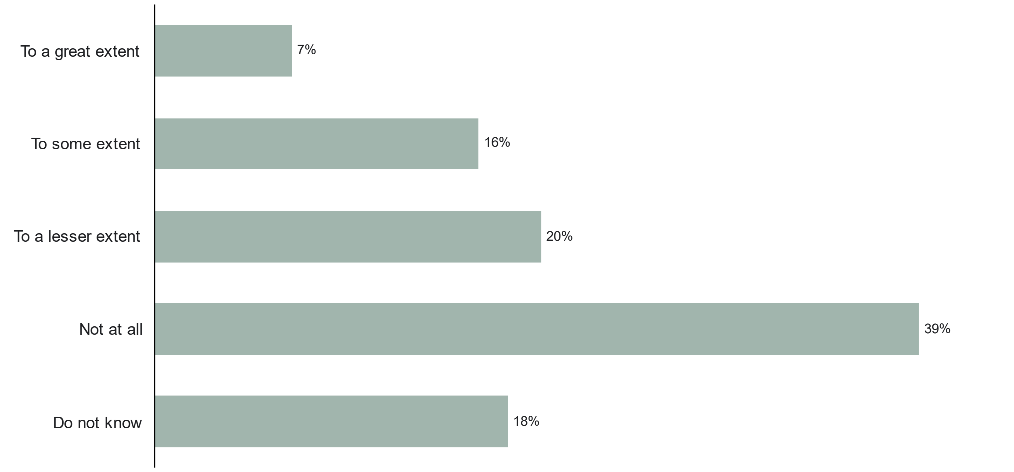
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'Where do you see the largest potentials within the Single Market for growing your business?', n=394.

Figure 20: Potential exporters expect it to be easier to export to members of the Single Market compared to non-members, potential exporters



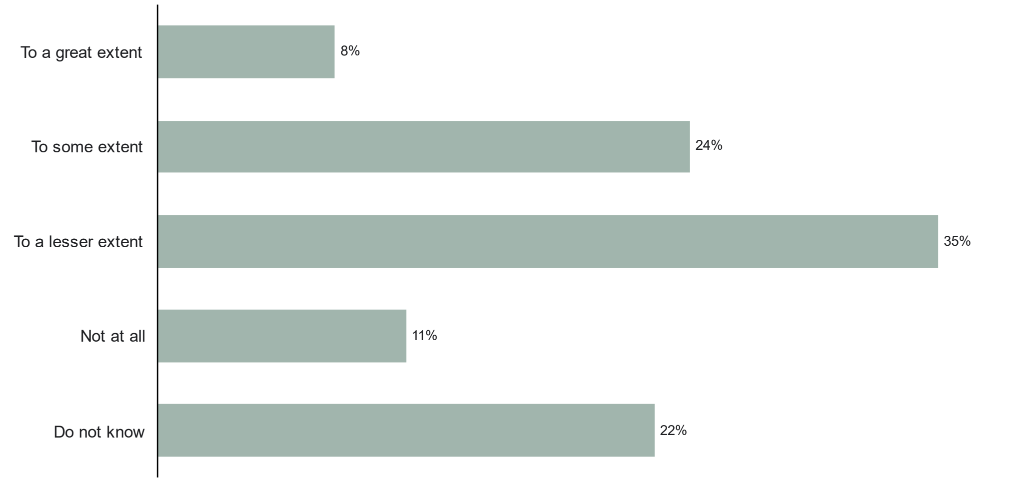
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'Do you expect it to be easier for your company to export to members of the Single Market compared to non-members?', n=65.

Figure 21: Some SMEs find it easier to start exporting to non-members after exporting to members of the Single Market, exporters



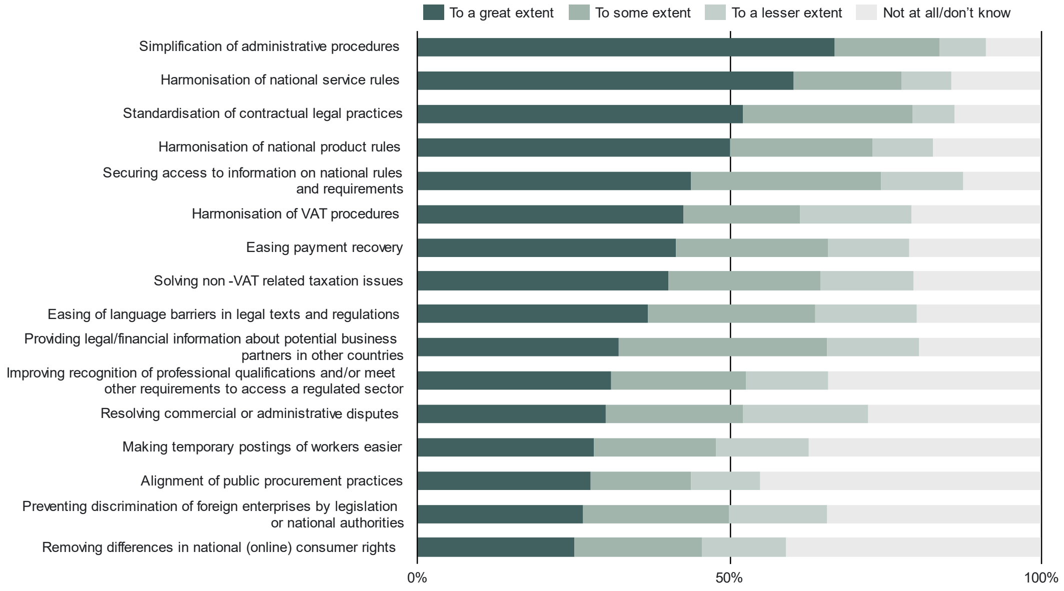
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: ‘To what extent has exporting to members of the Single Market made it easier to start exporting to non-members?’, n=473.

Figure 22: Potential exporters expect it to be easier to start exporting to non-members after exporting to members of the Single Market, potential exporters



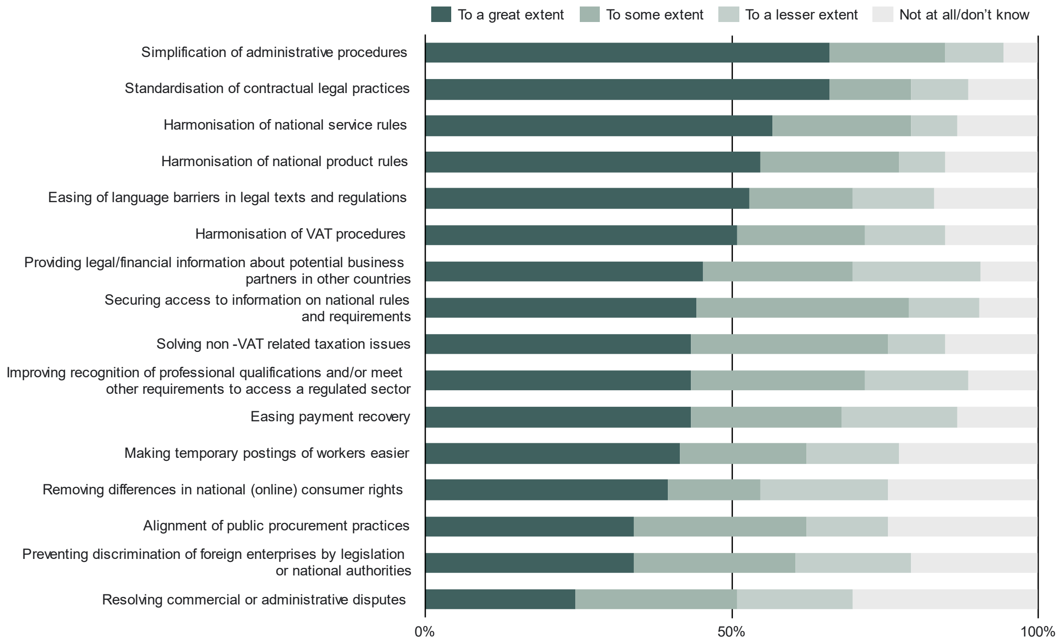
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: ‘To what extent do you expect that has exporting to members of the Single Market will make it easier to start exporting to non-members?’, n=63.

Figure 23: Policy initiatives that can help doing business in the Single Market, exporters



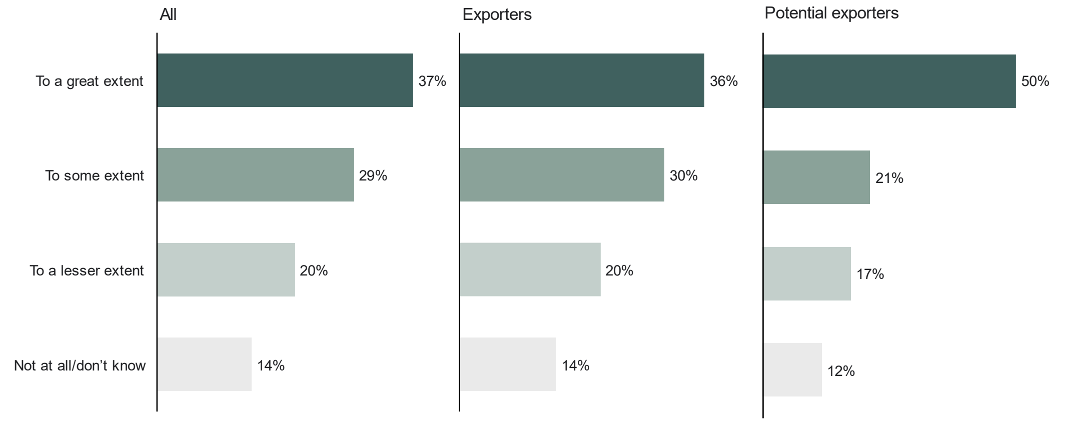
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent will the following policy initiatives help SMEs with doing business in the Single Market?', n=381.

Figure 24: Policy initiatives that can help doing business in the Single Market, potential exporters



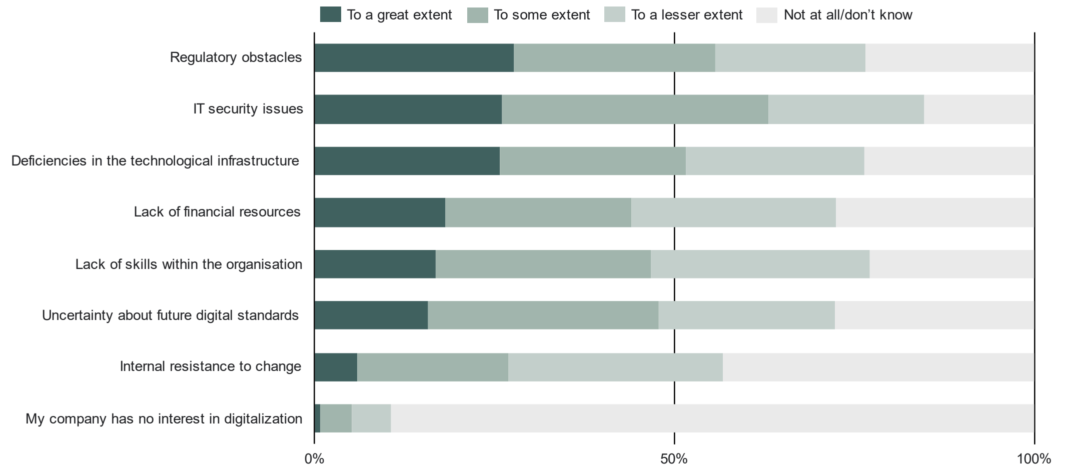
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent will the following policy initiatives help SMEs with doing business in the Single Market?', n=53.

Figure 25: How increased use of digital tools can increase exports through the Single Market



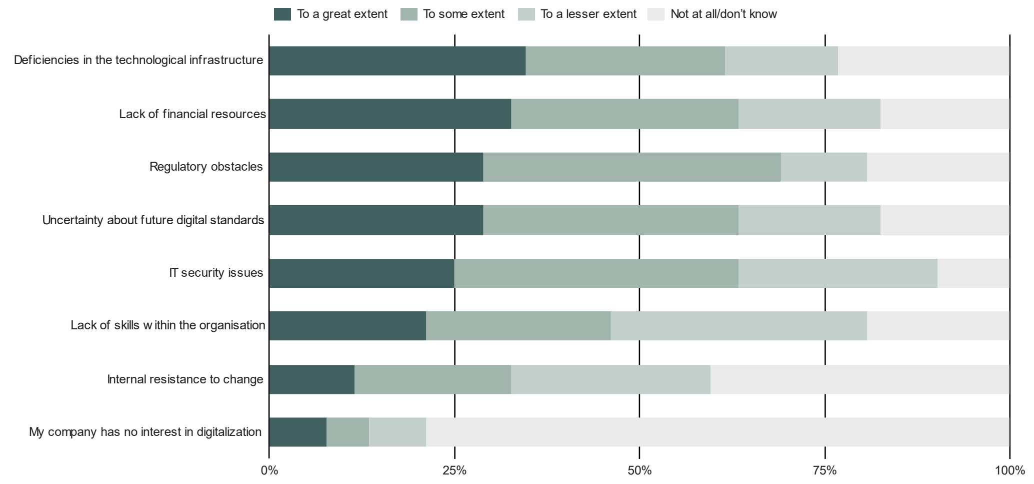
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent do you think that increased use of digital tools would help your company export more to the Single Market?', n=428 (376 exporters and 52 potential exporters).

Figure 26: Factors hindering the adoption of more digital tools, exporters



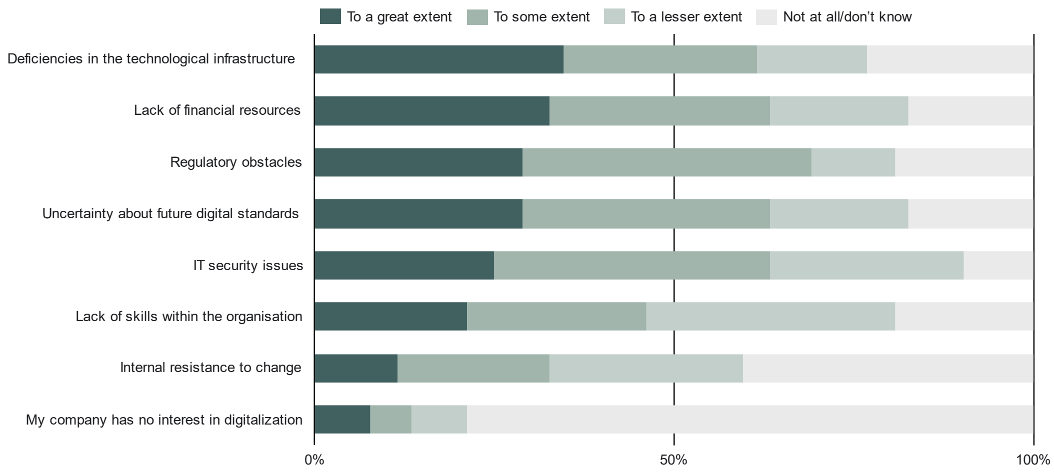
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent do the following factors hinder your company from adopting more digital tools?', n=368.

Figure 27: Factors hindering the adoption of more digital tools, potential exporters



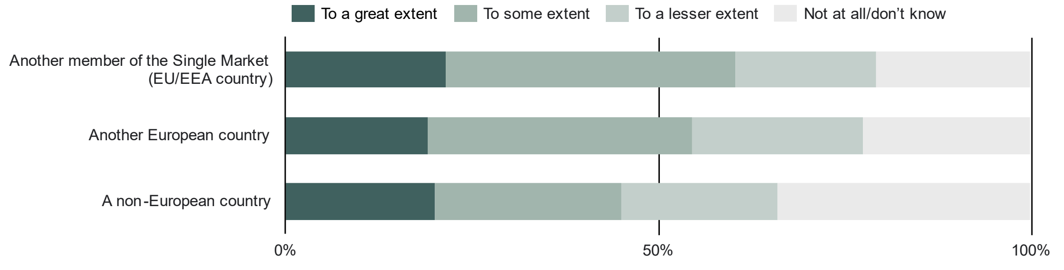
Source: Implement Economics based on a survey of 387 German SMEs.
Note: Response to question: 'To what extent do the following factors hinder your company from adopting more digital tools?', n=52.

Figure 28: Factors hindering the adoption of more digital tools, potential exporters



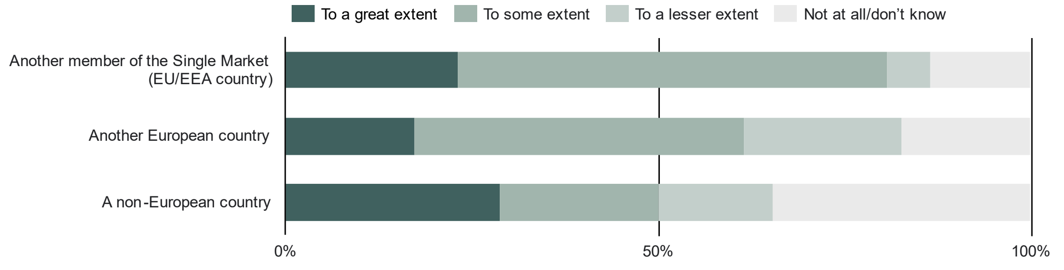
Source: Implement Economics based on a survey of 387 German SMEs.
Note: Response to question: 'To what extent do the following factors hinder your company from adopting more digital tools?', n=52.

Figure 29: Simple and harmonised regulation can help SMEs export more, exporters



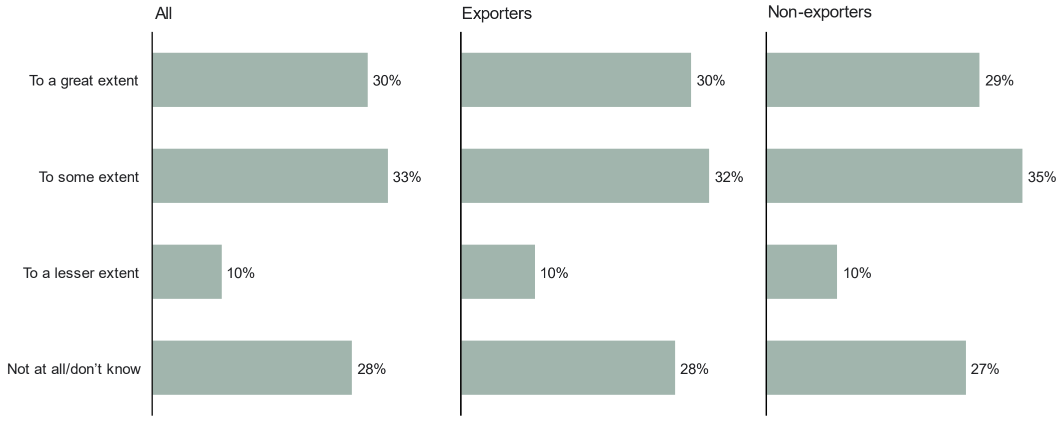
Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'In your experience, to which extent would more simple and harmonised regulation of the Single Market can help your company export more?', n=368.

Figure 30: Simple and harmonised regulation can help SMEs export more, potential exporters



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'In your experience, to which extent would more simple and harmonised regulation of the Single Market can help your company export more?', n=52.

Figure 31: Many SMEs believe that the European Commission should have greater authority



Source: Implement Economics based on a survey of 715 German SMEs.
Note: Response to question: 'To what extent do you believe the European Commission should have greater authority to compel Member States to comply with EU regulations?', n=428 (376 exporters and 52 potential exporters).

List of endnotes

1 OECD (2022). *Trade in goods and services*.

2 See https://www.epcsummit2023.md/president-maia-sandus-message-regards-organisation-epc-summit.

3 LE Europe (2017). *The EU Single Market: Impact on Member States.*

4 In Germany, 14.5% of jobs depend on Intra-EU export (European Commission (2018). *EU export to the EU: Effects on employment and income*) and another 18.2% depends on extra-EU export (European Commission (2021): *EU exports to the world: effects on employment*), according to the newest publications.

5 European Commission (2018). *EU export to the EU: Effects on employment and income.* Here using the share of jobs supported by intra-EU exports, as no estimate exists for the Single Market.

6 OECD (2023). *X – TEC by partner countries and size-class [TEC3_REV4].*

7 OECD (2023). *FDI statistics by partner country and by industry – Summary [BMD4].*

8 Eurostat (2023). *Population on 1 January by age group, sex and country of birth [MIGR_POP3CTB] and* Eurostat (2023). *EU and EFTA citizens who are usual residents in another EU/EFTA country as of 1 January [MIGR_POP9CTZ].* No datapoint exist for Malta, Cyprus, and Estonia in the last source, implying that Spaniards living in these countries are not included.

9 The sources behind the infographic include the following: Overall benefits: LE Europe (2017). *The EU Single Market - Impact on Member States* and *Bertelsmann Stiftung (2019). Estimating economic benefits of the Single Market for European countries and regions*, Trade: Eurostat [TEC3_REV4], [LFSI_EMP_A] and WKO (2023). *30th Anniversary of the Single Market – An unfinished milestone of integration,* Investment: Eurostat [FATS_OUT2_R2], [FATS_G1A_08], OECD [FDI statistics according to Benchmark Definition 4th Edition (BMD4)] and lastly Mobility: Eurostat [MIGR_POP3CTB], [MIGR_POP9CTZ]. Note: intra-EU export-supported jobs are estimated using data on export to the Single Market from WKO (2023) and the assumption used in WKO (2023) stating that every billion exported secures around 10,000 jobs.

10 European Commission (2023). *2023 SME COUNTRY FACT SHEET – GERMANY.*

11 European Commission (2023). *2023 SME COUNTRY FACT SHEET – GERMANY.*

12 European Commission (2022). *Internal Market, Industry, Entrepreneurship and SMEs*.

13 WTO (2016). *Levelling the Trading Field for SMEs.*

14 USITC (2019). *U.S. SME Exports: Trade-related Barriers Affecting Exports of U.S Small and Medium-sized Enterprises to the United Kingdom*.

15 HBS (2018). *25 Years of the European Single Market*.

16 Eurostat (2023). *Trade by NACE Rev. 2 activity and enterprise size class [EXT_TEC01].* Note, data is only available for intra-EU export. Therefore, the calculation excludes exports to Norway, Liechtenstein and Iceland.

17 BEUC (2022). *Making the most of EU Advance Purchases of Medicines*.

18 European Commission (2022). *Questions & Answers on Vaccine Negotiations*.

19 European Commission (2022). *Safe COVID-19 Vaccines for Europeans*.

20 European Council (2022). *EU Sanctions against Russia Explained*.

21 Bradford, A. (2020). *The Brussels Effect: How the European Union Rules the World* (p. 71). Oxford Academic.

22 European Commission (2022a). *Negotiations and Agreements*.

23 WTO (2022). *Regional Trade Agreements Database*.

24 European Commission (2022). *EU Trade Agreements: Delivering for Europe's Businesses*.

25 Bradford, A. (2020). *The Brussels Effect: How the European Union Rules the World* (p. 23). Oxford Academic.

26 Bradford, A. (2020). *The Brussels Effect: How the European Union Rules the World* (p. 63). Oxford Academic.

27 The number of products is measured at the HS 6-digit level.

28 European Commission (2021). *Strategic Dependencies and Capacities*.

29 The response categories used in this survey questions are from a survey commissioned by Business Finland and conducted by Implement Consulting Group, see Implement Consulting Group (2022). *Impact study on economic growth.*

30 The response categories used in this survey questions are based on the business survey from Eurochambres (2020). *The State of the Single Market: Barriers and Solutions*.

31 Eurochambres (2019). *The State of the Single Market: Barriers and Solutions*.

[32] European Commission (2020). *Single Market Scoreboard.*

[33] The country-of-origin principle states that, where an action or service is performed in one country but received in another, the applicable law is the law of the country where the action or service is performed. Strengthening this principle ensures a regulatory regime that either provides full harmonisation of law or effectively applies country of origin principles based on a culture of trust among Member States and their administrations. This is necessary to address over-implementation and gold-plating. National authorities should fully respect the principle of mutual recognition and stop restricting market access based on national rules. Following this principle is important for the free movement of people and will pave the way for a full implementation of the Services Directive.

[34] De Streel et al. (2020). *The E-commerce Directive as the Cornerstone of the Internal Market, requested by the IMCO Committee*.

[35] Implement Consulting Group (2022). *Digital Decarbonisation – How the Digital Sector is Supporting Climate Action.*

[36] European Commission (2021). *Digital Economy and Society Index (DESI) 2020 – Germany* and European Commission (2023). *Digital Economy and Society Index (DESI) 2022 – Germany.*

[37] European Commission (2022). *SME Performance Review 2023 – Graphs Germany,* Eurostat (2023). *Digital intensity by size class of enterprise [ISOC_E_DII].*

[38] Implement Consulting Group (2022). *Digital Decarbonisation - How the Digital Sector is Supporting Climate Action,* commissioned by Google.

[39] See EUR-Lex (2018). *Regulation (EU) 2018/1807 of European Parliament and of the Council of 14 November 2018 on a framework for the free flow of nonpersonal data in the European Unio*n.

[40] Kommerskollegium (2021). *Främja Dataöverföring och Datadelning genom ett Nytt Dataflödestest*.

[41] European Parliamentary Research Service (2014). *The Cost of Non-Europe in the Single Market*.

[42] European Commission (2020). *A Single Market that Delivers for Businesses and Consumers.*

[43] The calculations are based on European Commission (2020). *A Single Market that Delivers for Businesses and Consumers.* We applied the German share of total Intra-EU trade to get a country-level estimate for the growth potential in goods and services trade in Germany from Eurostat (2023). *Trade by NACE Rev. 2 activity and enterprise size class [EXT_TEC01].*

[44] Implement Economics calculation based on LE Europe (2017). *The EU Single Market: Impact on Member States*, European Commission (2020). *A Single Market that Delivers for Businesses and Consumers,* and Eurostat (2023). *Trade by NACE Rev. 2 activity and enterprise size class [EXT_TEC01].*

[45] European Commission (2021). *Better Regulation' Toolbox 2021* (Ch.1).

[46] Non-paper by 15 European governments, .

[47] Federal Ministry for Economic Affairs and Energy (2020). *Integrated National Energy and Climate Plan.*

[48] De Melo, J. and J-M Solleder (2019). *The Role of an Environmental Goods Agreement in the Quest to Improve the Regime Complex for Climate Change.*

[49] Implement Consulting Group (2023). *A European Green Single Market.*

[50] Wind Europe (2022). *WindEurope Panel at COP27: Permitting, Permitting, Permitting.*

[51] Implement Consulting Group (2023). *A European Green Single Market.*

[52] Implement Consulting Group (2024). *Extended Producer Responsibility in the EU.*

[53] European Commission (2017). *Modernising VAT for E-commerce: Question and Answer*.

[54] European Commission (2022). *VAT in the Digital Age: Final Report, Volume 3: Single Place of VAT Registration and Import One-Stop Shop* (p. 41).

[55] VVA (2018). *Study for the Introduction of an E-labelling Scheme in Europe.* DigitalEurope.

[56] European Commission (2021). *Simplification and Digitalisation of Labels on Chemicals.*

[57] Eurostat (2023). *Trade by NACE Rev. 2 activity and enterprise size class [EXT_TEC01].* Note, data is only available for intra-EU export. Therefore, the calculation excludes exports to Norway, Liechtenstein and Iceland.

About us

Implement Economics is the economics expert unit of Implement Consulting Group. Our experts are advisers to corporate and government decision-makers within regulation, trade, digitisation, decarbonisation, and globalisation.

The team has conducted several studies on the Single Market and provided a series of studies for the European Commission and governments in Europe, Asia, and the Americas. The team applies economic modelling, data analytics and econometrics to help solve worthwhile problems.

Headquartered in Copenhagen and with offices in Aarhus, Stockholm, Malmo, Gothenburg, Oslo, Zurich, Munich, Hamburg, and Raleigh (NC), Implement Consulting Group employs more than 1,000 consultants working for multinational clients on projects worldwide.

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