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April 2024

REPORT

A lean Single Market

– a foundation for openness and competitiveness

How simplified and harmonised policies can help unlock the potential of the Single Market, especially for innovative Italian small and medium-sized enterprises (SMEs) to gain scale and global competitiveness.

This report *A lean Single Market – a foundation for openness and competitiveness*, lists **11 specific and impactful policy initiatives** to strengthen the effective functioning of the Single Market for Italian SMEs

In combination, the 11 recommendations provide a roadmap for a stronger and more united Single Market, leaving the detailed policy development and implementation to the responsible EU institutions.

Based on a survey, interviews and a detailed literature survey, this report gives a voice to Italian SMEs on the challenges they experience when doing business in the Single Market and the policy solutions that would help them use the Single Markets as a platform for gaining scale and building up muscles to compete globally.

The overall work 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 growth and resilience in Italy.

The work is supported by an advisory group composed of representatives from Italian Confederation of Craft Trades and Small- and Medium-Sized Enterprises (CNA) and Amazon. CNA has over 621,000 members and represents artisans, business owners, professionals, the self-employed and small and micro businesses. As part of the study, a survey was conducted among members of CNA and a broader group of Italian SMEs, and the survey results represent perspectives of Italian SMEs doing business in the Single Market.

Executive summary

On its 30th anniversary, the Single Market is still seen as the engine of the EU's society and economy. Further reduction of barriers and integration, particularly a renewed focus on enforcing existing Single Market rules and removing Member State-level barriers, is essential for the Single Market to remain the key driver of EU's competitiveness.[1] EU leaders therefore marked the conclusion of the Swedish Presidency with a call for an independent High-Level Report on the future of the Single Market.[2]

This report brings forward the **call for action from Italian SMEs** who point to the need for continued efforts to simplify and streamline EU policies to fully unlock the potential of the Single Market. Based on a survey of 216 Italian SMEs, interviews and a detailed literature survey, this report gives an Italian perspective on what Italian SMEs need and how an ambitious reboot of the Single Market can help them scale up and develop muscles to compete globally. Key conclusions are:

- **Simplified and streamlined policies can unlock potential |** Differing regulatory requirements are cited as one of the most critical barriers for Italian SMEs to do more business in the Single Market. 73% of the SMEs assess that regulatory barriers increase their costs, 65% say that regulatory differences erode their competitiveness and 62% experience lower profits. Italian SMEs confirm that drawing a red line against red tape will increase intra-EU exports, make it easier to establish a local presence in other Single Market countries and reduce barriers to engaging in public procurement across borders in the Single Market. This will stimulate growth and job creation in Europe.
- **11 recommendations for an ambitious reboot of the Single Market |** The SME survey and business cases in this report confirm that the policy initiatives proposed by Swedish SMEs and described in the report *Reboot of the Single Market – How to support the growth of SMEs through a strong and united Single Market* will also help Italian SMEs do more business via the Single Market. The 11 specific and impactful policy initiatives to strengthen the effective functioning of the Single Market presented to the Swedish EU Presidency in November 2022 are therefore also highlighted in this report, and the relevance for Italian SMEs has been underlined by business cases.

Set a bold and ambitious vision for the Single Market

The Single Market integration from 1995 to 2015 has permanently increased Italy's GDP per capita by 0.5%, created 114,000 jobs and increased the citizens' purchasing power by EUR 190.[3] Today, almost every fourth job in Italy depends on trade, and 11% of all jobs depends on trade within 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 are subject to the same requirements, fostering fair competition and a level playing field when doing business across borders in the Single Market. Securing the four freedoms of the Single Market warrants ongoing review and updates of EU regulations to technological developments, global conditions and key societal challenges.

To reinstate the Single Market at the centre of the EU policy agenda, we propose the adoption of an ambitious Single Market strategy to ensure that regulatory fragmentation does not unnecessarily limit trade and drive-up costs for SMEs such as Baroni Home.

Baroni Home is an Italian e-commerce company, selling furniture and furnishing accessories both domestically as well as to other countries in Europe. The company has encountered several regulatory obstacles that accumulate through its business journey within the Single Market. The most limiting obstacles for the company relate to taxes and fees, which involve considerable administrative procedures and regulatory uncertainty, and make expansion to other EU countries risky and costly.

We also urge the Commission to take specific steps to ensure that existing EU regulations do not place unnecessary burdens on SMEs. Improved access to information, for example by making SMEs aware of the opportunities offered by SOLVIT – a problem-solving network 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 at a local, regional or national level. Getting the SOLVIT-centres to act proactively on structural cases and increasing awareness around SOLVIT can help SMEs, such as Pasticceria Fraccaro when they encounter problems doing business in the Single Market.

Pasticceria Fraccaro is a company that has been selling bread and other bakery items since 1932. Today, the company exports to 45 different countries in the world. The company reports that it is time-consuming and costly to find information on legal and contractual practices, as well as information on product-specific requirements in different EU member states. These challenges have led to the company forming an internal "quality control" office, tasked with finding the right information and ensuring compliance.

Another way to reduce burdens is to implement a data flow test that would give businesses the possibility to challenge data protection decision that are perceived as disproportionate. The test should 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). It should also give businesses a possibility to legally challenge data protection decisions that are perceived disproportionate.

1.	Adopt an ambitious Single Market Strategy	Adopt a Single Market Strategy that clearly reinstates the Single Market at the forefront of the EU's integration project, green transition and innovation agenda. The Strategy should take a holistic approach to the full business and consumer journey as well as to integrate regulation across all pillars of the Single Market.
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	Designate a Single Market Ombudsman (head of or in collaboration with SOLVIT) in each Member State as a national, independent body with access to effective remedies. A network of Single Market Ombudsmen is to be set up under the auspices of the European Commission to safeguard a uniform interpretation of the EU rules in the Member States.

3. Conduct a data flow test of all existing and new EU regulations	Implement a data flow test that acknowledges the supremacy of the principle of data protection in the EU but limits the risk of creating unjustified burdens when applying data protection rules. This gives businesses a possibility to legally challenge data protection decisions that are perceived as disproportionate.

Ensure compliance and simplify administrative procedures

EU directives can only achieve their intended effects if they are completely and correctly transposed into national legislation within the given deadline. Frictionless trade in the Single Market requires fewer, improved regulations as well as complete, correct and immediate transposition into national legislation. Removing barriers that exist due to the incomplete implementation of EU rules across all Member States is foreseen to permanently increase Italy's GDP per capita by 0.6%, and the increased production of goods and services can support 141,000 jobs per year.[4]

We propose the Commission to take new initiatives to close the compliance gap of existing regulations and use the Better Regulation Toolbox (such as the SME test and think small first concept, the digital ready requirement and the "once only" in relations with public administration), to ensure that new EU regulations are designed in a way that is easy to implement and works for SMEs.

4. Upgrade the European Semester to include recommendations on how to harmonise the implementation of EU regulations and close the compliance gap	Incentivise Member States to correctly apply and take political ownership for the correct application of EU rules by integrating recommendations on closing the compliance gap and harmonising implementation of EU regulation into the European Semester, governed by a mix of surveillance mechanisms and possible sanctions.
5. Strengthen the use of the Better Regulation Toolbox by integrating implementation in the design of new regulations and consistently respecting impact assessment requirements	Put more weight on integrating implementation into the design of new regulation and avoid deviations from the requirement to make impact assessments. Impact assessments are critical for avoiding new regulations that are ill-conceived and for ensuring that new regulations achieve the policy objective, with recognition of unintended consequences and/or trade-offs.

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

The Italian National Energy and Climate Plan (NECP) has set a target of a 33% reduction in greenhouse gas emissions compared to 1990. This target relies on 30% of Italy's final energy consumption to come from renewable energy sources. The NECP foresees additional investments of EUR 186 billion, compared with current policies scenario, over the period 2017-2030 (of which a significant share will be allocated to investments in renewables). In the photovoltaic sector alone, over EUR 27 billion will be needed in the period 2017-2030[5]. Barriers to trade in these and other climate technologies make the green transition more costly for countries such as Italy and risk slowing it down.

With this study, we offer a roadmap that outlines an iterative approach to mapping and removing regulatory barriers to trade in climate goods and services within the Single Market. In terms of specific initiatives, we bring forward the request from Italian SMEs, such as Emilia Food Love, as featured below, to design the digital European passport in a way that makes it easier for SMEs to become more circular and comply with new EU regulation, while making labelling a much simpler and less-costly task.

Emilia Food Love distributes and markets Emilian food products. While a small company, Emilia Food Love is truly a globally oriented company in that 98-99% of its annual turnover comes from outside Italy – particularly the EU and the United States. The requirement to have local languages on packages means that Emilia Food Love, like other companies in the food industry, needs to use a larger outer packaging than what is actually required by the size of the product. Being free to replace parts of the physical labelling with a digital product passport would enable Emilia Food Love to reduce the size of their outer packaging, saving significant costs and time.

6.	Map and remove regulatory barriers to trade in climate goods and services within the Single Market	Map and remove regulatory barriers to trade in climate goods and services (solutions that are needed in the green transition) within the Single Market to accelerate decarbonisation by structuring market signals, incentivising innovation, and reducing the price of new technologies. Develop a roadmap for removing critical barriers and monitor its implementation.
7.	Design the European Digital Product Passport in a way that makes it easier for businesses to become more circular	Introduce a well-designed Digital Product Passport based on stakeholder input, including SMEs. This will minimise the risk that administrative burdens and costs for businesses reduce the potential of the passport to support circularity and create a lack of cohesion within the Single Market.

Use digital tools to reduce costs and create conditions for growth

In the experience of Italian SMEs participating in the survey, the efficiency and effectiveness of EU legislation are often undermined by a high degree of complexity in its actual application. Italian SMEs encourage the Commission to apply digital tools and solutions that lower the costs of collecting, updating and utilising information. This for example relates to the diverging extended producer reliability (EPR) schemes, often set at the national level, that are found across the EU. A centralised and up-to-date digital EPR one-stop-shop solution, as proposed in this report, would make it easier for SMEs, such as Remo Sartori, to find information on product-level EPR requirements, while making it easier to comply.

Remo Sartori is an Italian clothing company, producing silk ties and accessories. Approximately 45% of the company's sales are international, with 30% going to the United States and 15% to Europe. The EU textiles industry is met with many diverging EPR schemes, often set at the national level, and Remo Sartori finds it difficult and costly to comply with the various EPR schemes across the EU. The creation of a digital one-stop-shop for EPR can facilitate single EPR registration and reporting, and at the same time serve as a centralised information portal on EPR schemes – therefore making it less costly and time consuming to find information and comply with various EPR schemes.

A single VAT ID and an extended VAT one-stop-shop (OSS) can help companies, such as Angorelle, save time and money when it comes to VAT registering in other Member States.

Angorelle is a small cashmere clothing company based in Italy, selling widely to other countries through the Amazon marketplace. Despite many simplifications to European VAT processes due to the introduction of the VAT one-stop-shop (OSS) system, Angorelle still faces considerable difficulties with VAT registration. To store and sell its products in other countries, the company needs to be VAT-registered in these countries – which imposes great administrative costs and requires considerable time.

Digital labelling, on the other hand, can lower costs for an SME like Afroricci, as it will be easier to update and create new labels that meet the requirements of different Member States.

Afroricci is an Italian cosmetics company selling mainly products for curly and afro-textured hair. The company currently sells mostly to Italy, which accounts for approximately 90% of its revenues, but is trying to expand sales in other EU countries. One of the biggest challenges that the company has faced when trying to expand to other EU countries relates to physical labelling, as labels need to be augmented and separately printed for different European countries in local languages. The costs associated with this are considered proportionately high, given the high uncertainty over expected revenues in a new market.

Finally, a more competitive framework for cross-border payments, including the availability of cheaper payment options, will facilitate cross-border trade among SMEs, such as Koala Babycare, as fees will be lower.

Koala Babycare is an Italian retailer, specialising in baby care products and pregnancy products, including baby carriers, soothers, skincare and more. One barrier that the company has faced when trying to expand its sales across the EU relates to fees on cross-border transactions. Due to a limited number of cross-border payment options available in the EU, the company faces high merchant fees, which risk disadvantaging its position in foreign markets (due to higher prices) relative to domestic companies.

8. Create a one-stop shop for the Extended Producer Responsibility (EPR) systems of Member States	Establish a truly harmonised approach to EPR; a centralised and up-to-date digital EPR one-stop-shop solution that would facilitate single EPR registration and reporting across all Member States at the product-level.

9. Create a single VAT ID and extend the VAT one-stop shop	Simplify VAT procedures by creating a single VAT ID in the EU and expanding the existing VAT one-stop-shop concept to cover all goods transactions (including pan-EU inventory placement and onward sales).
10. Recognise digital labelling as a true substitute for physical labelling	Provide manufacturers the option to choose whether to label their product digitally or physically – i.e., recognising digital labels as true substitutes for physical labels across product groups and Member States.
11. Create conditions for developing easy, fast, reliable and low-cost cross-border payment methods for both euro and non-euro payments	Create a more competitive framework for cross-border payments to ensure that EU citizens and SMEs 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.

1 Peace and prosperity from the Single Market

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. Italy 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 Italian GDP per capita by 0.5%, created 114,000 jobs, and increased the citizen's purchasing power by EUR 190.

Standardisation and regulatory harmonisation benefit SMEs in particular, and 56% of Italian 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.

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[6], and its significance will grow if the ambitions of European Political Community to accept new member countries to the EU are realised.[7]

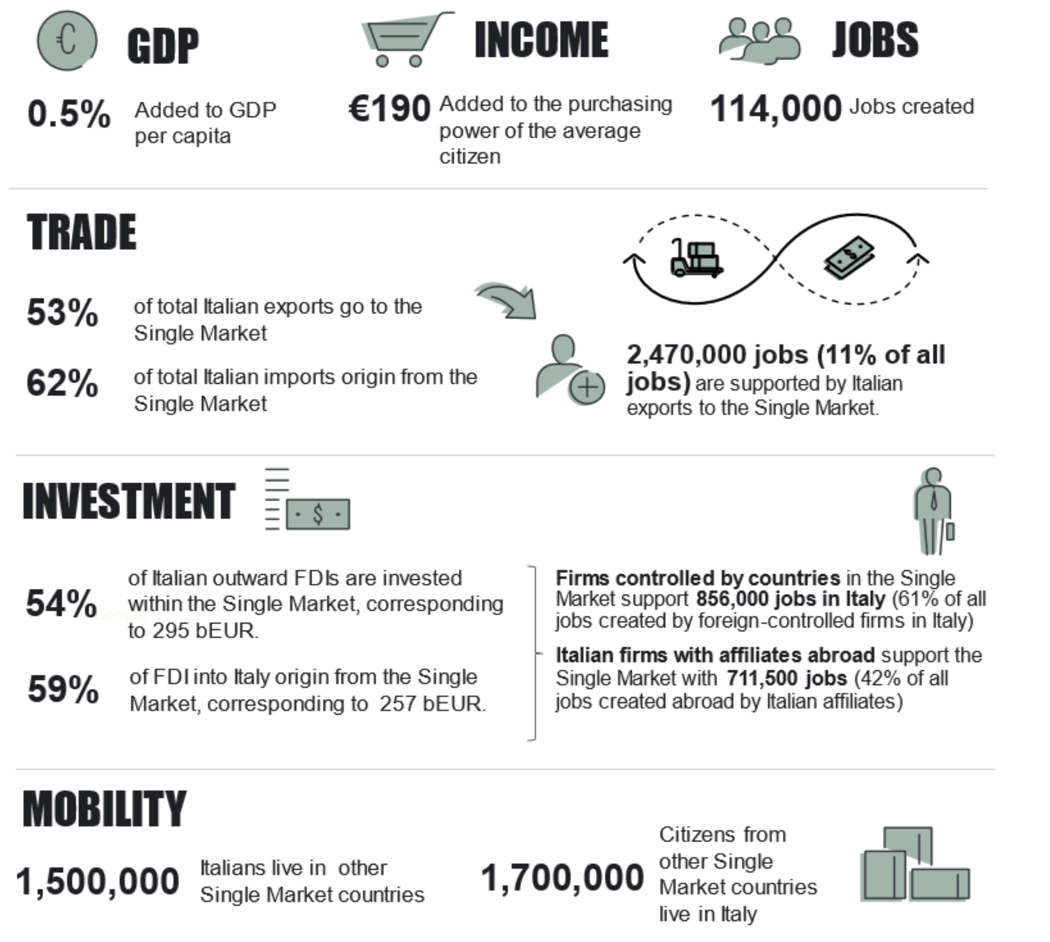
Access to the Single Market allows Italian firms to specialise and export goods and services in which they have a comparative advantage. Also, Italian consumers benefit from having access to a variety of goods and services imported at lower prices. The Single Market integration from 1995 up until 2015 has permanently increased Italy's GDP per capita by 0.5%, compared to a situation without an increase in integration. Similarly, the Single Market integration has permanently created 114,000 jobs and increased an average citizen's purchasing power by EUR 190, see Figure 1.[8] If the continued integration since 2015 is also considered, the economic benefits are likely to be even larger. Today, almost every fourth job in Italy depends on trade[9], and 11% of all jobs depends on trade within Single Market.[10]

Today, more than 53% of Italy's total exports go through the Single Market, and 62% of Italy's total imports originate from the Single Market, underlining the Single Market's importance for many Italian firms – especially SMEs – where internationalisation is concerned.[11]

The free movement of capital has benefitted the Italian economy overall. Today, 59% of foreign direct investments (FDI) in Italy originate from members of the Single Market, corresponding to a total stock of inward FDI of EUR 257 billion. Likewise, 54% of all Italian outward FDI are invested in members of the Single Market, even when considering that the Italian investments into the UK no longer account as intra-EU FDI after Brexit.[12] Similarly, the free movement of people has made it easier to live abroad, and 1.5 million

Italians currently live in other Single Market countries, while 1.7 million Single Market citizens live in Italy.[13]

Figure 1: Italian workers and consumers benefit from the Single Market[14]



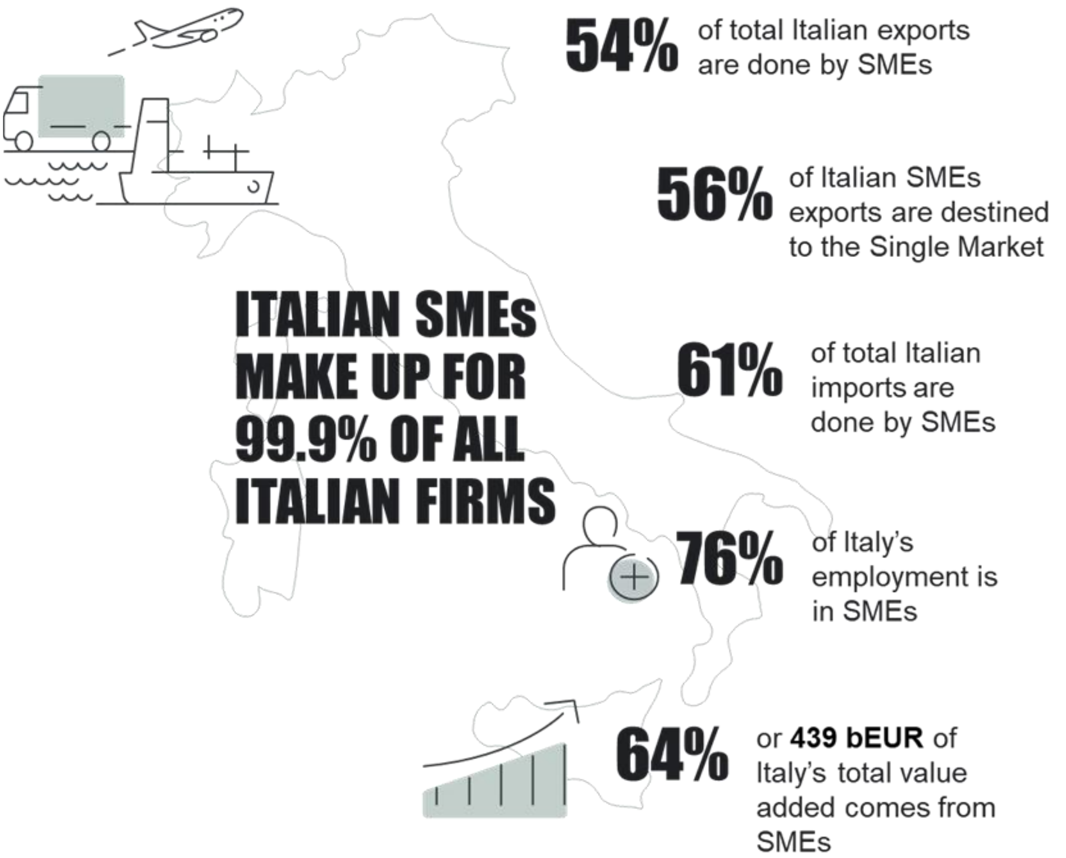
The Single Market is a platform for SMEs to scale up and mature

SMEs form the backbone of the Italian economy, accounting for 99.9%[15] of all firms and 64% of the country's GDP. These SMEs account for 76% of Italy's private sector employment[16] and are key drivers of innovation, as they bring innovative solutions to global challenges like climate change.[17]

SMEs generally have fewer resources and capital available compared to larger enterprises, and regulatory burdens and administrative requirements are disproportionately difficult for them 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.[18,19]

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.[20] According to 2021 Eurostat data, SMEs account for 54% of total Italian exports, and 56% of the SMEs' total exports are destined for the Single Market.[21]

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



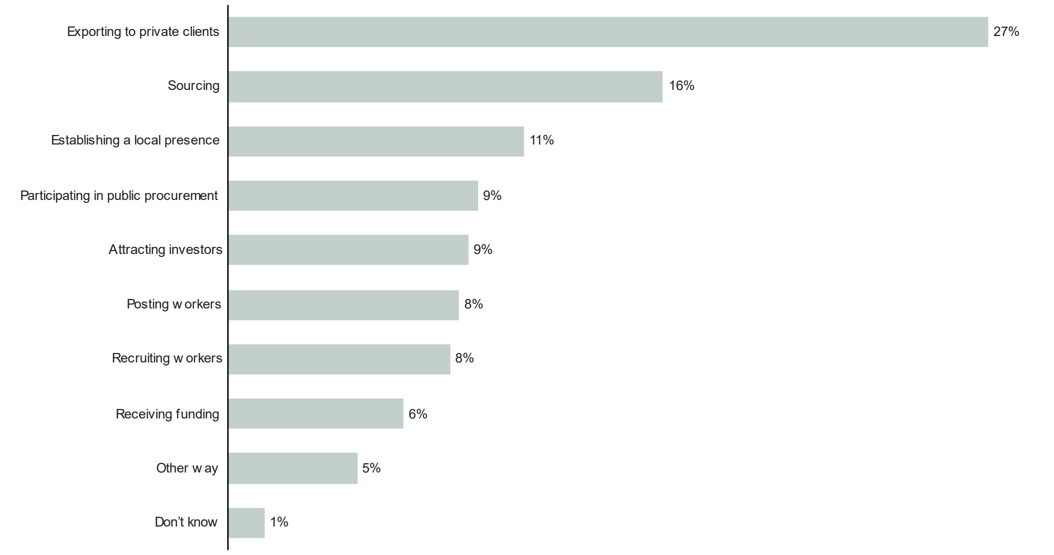
Note: SMEs are defined as enterprises with less than 250 employees.

Among the SMEs that participated in the survey, 94% state that access to the Single Market is important to their business. 37% of the SMEs say that they benefit to a great extent from the Single Market, while 57% assess that they benefit to some (36%) or a lesser extent (21%), see Figure 10 in Appendix 1.

The SMEs in the survey mainly export to private businesses as well as individuals (27%) or source (16%) from other firms in the Single Market, see Figure 3. Other activities include establishing a local presence (11%) and participating in public procurement (9%).

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 Italian SMEs.

Figure 3: Italian SMEs mainly use the Single Market for exporting and sourcing



Source: Implement Economics based on an SME survey of 216 Italian SMEs (see Appendix 1 for further details).
Note: Question from survey: 'In which way does your company convey business in the Single Market?', n=146. Shares summarise to more than 100% as respondents can choose multiple answers.

The Single Market secures leverage and a global voice

The Single Market has not only stimulated prosperity for Italy by facilitating more value-creating interactions 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.[22,23] In total, the EU secured up to 4.2 billion doses of vaccines for its citizens.[24]

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.[25]

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.[26] Italian firms have access to 45 trade agreements with 78 countries, including the EFTA-countries,[27,28] and no trading partner has more trade agreements than the EU.[29] 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.

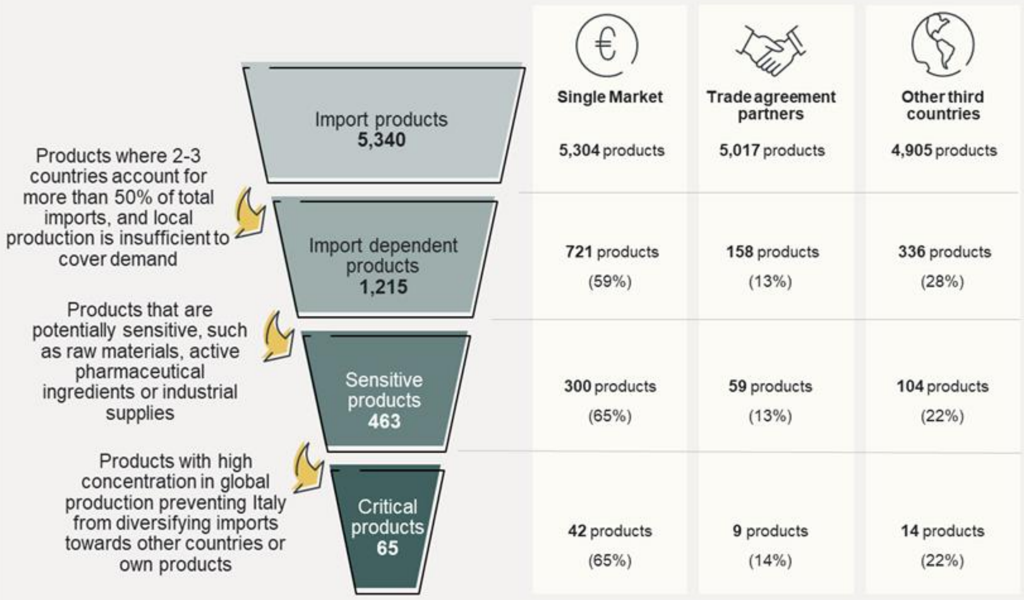
Setting global standards | The harmonisation of regulatory requirements and specifications of goods or services crossing borders within the Single Market have paved the way for a series of European standards. In a globalised world, shaping or ultimately setting the standards can provide a powerful first-mover advantage by minimising the adjustment costs for EU firms, which are then able to operate in export markets based on their home market rules.[30] 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.[31]

Balancing specialisation and resilience | The Single Market enables Member States to specialise and import what others can produce better, see Figure 4. Italy currently imports 5,340 products. For 1,215 of these products, imports are concentrated from only 2-3 countries, and Italy's production and economy is dependent on having access to and good political relations with these countries. The large bulk of these products are imported from partners where trade takes place under regulated terms (721 products are imported within the Single Market and 158 from trade agreement partners). The remaining 336 products are imported from third countries, and negotiating trade agreements with these countries can help Italian firms diversify their imports even more and build more resilient global supply chains.

Figure 4: The Single Market has enabled specialisation and helped build resilience[32]

Italy imports a total of 5,340 products. Based on a methodology developed by the European Commission, we have assessed the import dependency of Italy 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 Italy is insufficient to cover total demand. The high concentration of imports can expose Italian 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 Italian 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 Italian 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 Italy shares its import dependency with all other countries. In case of supply interruptions, Italy (as well as all other countries) have very limited opportunities to redirect imports to other locations.



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 Italian SMEs call for simpler and more harmonised regulation

BACKGROUND

Initiatives to standardise and harmonise regulation across members have come a long way to dismantle obstacles to doing business within the Single Market, but significant regulatory barriers still exist.

In collaboration with CNA, we have conducted a survey among Italian 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 Italian SMEs from reaching their full potential in terms of trading goods and services 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

94% of the SMEs say that they have benefitted from the Single Market, mainly through exports to and sourcing from other firms.

70% of the SMEs say that differing regulation across member state to a great or some extent limits their scope to doing business in the Single Market.

55% of the SMEs perceive regulatory barriers as restrictive for their ability to establish a local presence, an area seen as offering great business potential.

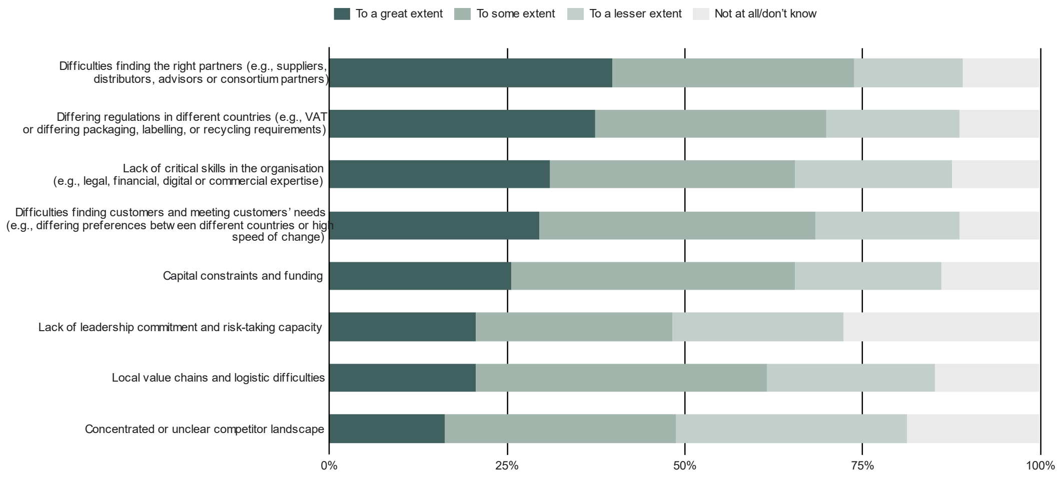
93% of the SMEs state that simplification of administrative procedures will help them do more business in the Single Market.

The Single Market has come a long way in removing obstacles to the free flow of goods, services, capital and people across borders. In this chapter, we present the findings of the quantitative survey of Italian SMEs. Respondents confirm that they benefit from the Single Market and, moreover, that there continues to be a potential for simplifying and harmonising regulation.

In particular, 94% of the SME exporters say that it is important for them to do business in the Single Market, mainly through exports to private clients (businesses and individuals) and sourcing from other firms (see Figure 3 and Figure 10 in Appendix 1). The prospective SME exporters confirm that there is potential for them to benefit from the Single Market. 52% of these SMEs see a potential for increasing their exports to private clients, 34% for establishing a local presence in other members of the Single Market, 23% for attracting investors and 23% for receiving funds (see Figure 11 in Appendix 1).

Differing regulation across member states is seen as the most critical barrier for Italian SMEs (just behind difficulties finding the right partners). 37% of the SMEs say that this barrier to a great extent limits their scope for doing business in the Single Market (51% say that it to some or lesser extent is a critical barrier), see Figure 5. Differing regulations is almost as critical a barrier as difficulties finding the right partners and more critical than a challenging competitor landscape as well as other traditional export barriers that are typically addressed at the national level, through various export promotion and accelerator activities.[33]

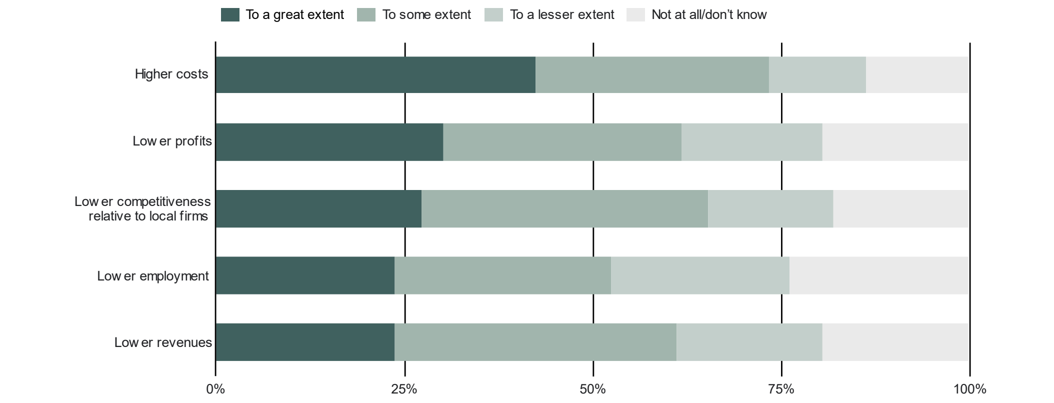
Figure 5: Critical barriers to doing business in the Single Market



Source: Implement Economics based on an SME survey of 216 Italian SMEs (see Appendix 1 for further details).
Note: Question from survey: 'What do you perceive as the most critical barriers to doing business within the Single Market?', n=203.

The SMEs assess that regulatory barriers to a great extent increase their costs (42%), lower their profits (30%) and erode their competitiveness relative to local firms (27%), see Figure 6.

Figure 6: Consequences of regulatory barriers for exporting SMEs



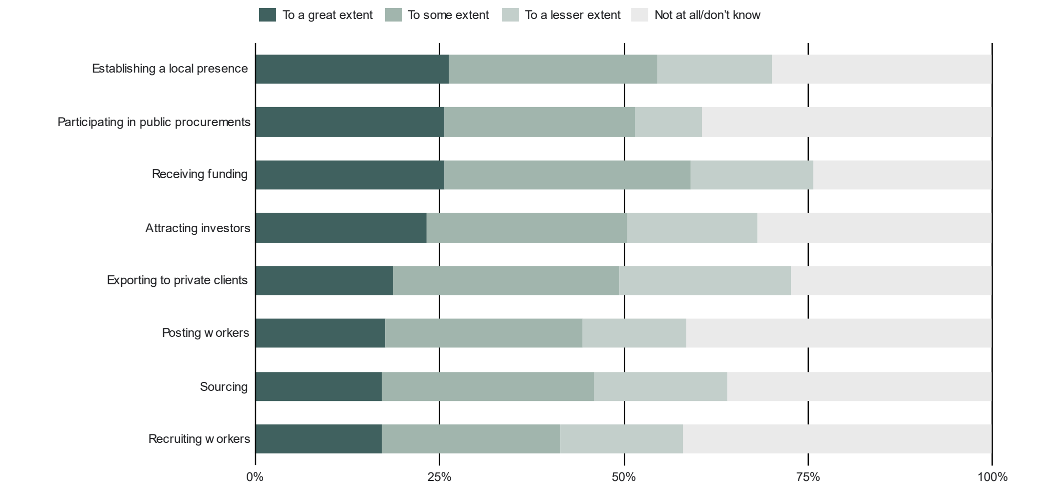
Source: Implement Economics based on an SME survey of 216 Italian SMEs (see Appendix 1 for further details).
Note: Question from survey: 'What are the implications for your business of regulatory barriers to doing business within the Single Market?', n=139.

Consequently, the Italian 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, improved product innovation and reduced delivery times.

55% of the SMEs find that regulatory barriers prevent them from establishing a local presence in other Single Market countries, see Figure 7, while 26% even say that regulatory barriers to a great extent limit their opportunities for establishing presence across borders. This is also an area where the prospective SME exporters see great potential for growing their business within the Single Market (see Figure 11 in Appendix 1). Local presence is a way for SMEs to adapt to local conditions, build trust, and navigate the complexity of foreign markets more effectively, and reduction of regulatory barriers can therefore help improve the long-term success for Italian SMEs internationally.

Moreover, 59% of the SMEs assess that regulatory barriers prevent them from receiving funding from other members of the Single Market, but regulatory barriers also limit the scope for participating in public procurements and attracting investors.

Figure 7: Regulatory barriers prevent SMEs from doing more business in the Single Market



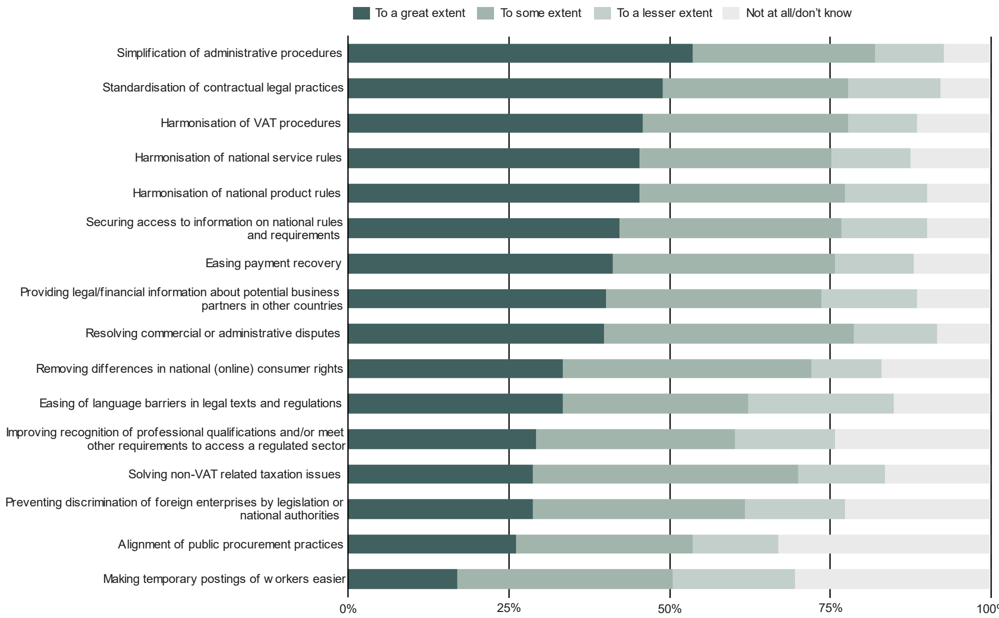
Source: Implement Economics based on an SME survey of 216 Italian SMEs (see Appendix 1 for further details).
Note: Question from survey: 'To what extent do regulatory barriers prevent your firm from doing more business in the Single Market?', n=198.

The SMEs identify several policy initiatives that can help reduce regulatory barriers.[34] 93% of the SMEs point to simplification of administrative procedures, of which 54% 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, Italian SMEs welcome the following initiatives to:

- **Harmonise VAT procedures |** This call for action from Italian 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 Italian 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 8: Policy initiatives can help firms to do more business in the Single Market



Source: Implement Economics based on an SME survey of 216 Italian SMEs (see Appendix 1 for further details).
Note: Question from survey: 'To what extent would the following policy initiatives help your company do more business within Single Market?', n=194.

In the next chapters, we set out our 11 recommendations. Chapter 3 encourages EU policy makers to set a bold and ambitious vision for the Single Market and provides details of the first three recommendations:

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.

Chapter 4 takes steps to build a culture of trust and compliance in the Single Market and specifies the call for action related to recommendations 4 and 5:

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.

The two recommendations in Chapter 5 aim to remove regulatory trade barriers to create a green and circular Single Market:

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.

Finally, the recommendations in Chapter 6 build on digital tools to cut costs and create conditions for growth:

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 digital 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.

3 Set a bold and ambitious vision for the Single Market

BACKGROUND

At its 30th anniversary, Europe has shown how much it can achieve, how ambitiously it can respond, and how swiftly it can act when there is a shared sense of purpose and a united approach.

The Single Market is key to establishing an economy that works for people, securing a stronger Europe in the world, and making Europe fit for the digital age – three of the six headline ambitions in the European Commission's 2023 work programme.

This study calls for Italy and all EU governments and institutions to set a bold and ambitious vision for the Single Market to leverage the historic achievements of regulatory harmonisation.

SOLUTIONS

#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 regulation

#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.[35]

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.

Adopting an ambitious Single Market Strategy can reduce the complex and uneven regulatory requirements that drive up costs for SMEs such as Baroni Home as described in the business case below.

OBSTACLES ACCUMULATE DURING THE BUSINESS JOURNEY

Baroni Home is an Italian e-commerce company, selling furniture and furnishing accessories. The company was founded in 2016 and has been selling on the European market for several years. Baroni Home sells its products to other European countries on the Amazon marketplace, as well as through their own webshop for the Italian, Spanish, German and French markets.

Call for action

While Baroni Home has experienced growth and success in selling to the European market, expanding to other countries has been difficult and risky. Baroni Home has encountered, and continues to encounter, several regulatory obstacles that accumulate through its business journey within the Single Market.

National requirements add layers of complexity on top of EU regulation and require excessive documentation. The most limiting barriers experienced by the Baroni Home are related to taxes and fees, as they involve considerable administrative procedures and regulatory uncertainty, making expansion to other EU countries risky and costly.

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. Realising the four freedoms of the Single Market will make it easier for an SME like Baroni Home to source goods from other suppliers and do more business across the EU. Regulatory simplification, harmonisation, and the introduction of common standards will reduce costs, with positive knock-on impacts for public and private entrepreneurs.

> ***"Adopting an ambitious strategy for the Single Market, which allows us to work and expand with as little barriers as possible, irrespective of the EU country in question, is what is needed to truly upgrade the Single Market for SMEs."***

Alberto Garbocci, Chief Executive Officer at Baroni Home

#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.[36] These conclusions are also confirmed by the interviews conducted with Italian 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.[37]
- **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 Italian SMEs (such as Pasticceria Fraccaro described in the business case below) call for more proactive initiatives to remove the regulatory uncertainty that stem from contradictory and/or overlapping regulation.[38]

OBTAINING INFORMATION ON NATIONAL REQUIREMENTS IS DIFFICULT AND TIME-CONSUMING

Pasticceria Fraccaro is a company that has been selling bread and other bakery items since 1932. Once a small bakery, now the company employs 50 persons and has an annual turnover of 10.5 million EUR. The company exports to 45 different countries in the world, and during peak seasons, such as Christmas and Easter, exports account for 50-75% of total sales.

Call for action

The EU food industry is often exposed to national requirements, different legal definitions and safety standards, that add layers of complexity on top of EU regulation and require excessive documentation. Moreover, important but often complex information on food products, such as list of ingredients, need to be provided in the language of each Member State. Pasticceria Fraccaro has faced these challenges when expanding across the EU member states, and has allocated considerable resources towards an internal "quality control" office, tasked with finding the right information and to ensure compliance.

"Finding information on legal and contractual practices, as well as information on product-specific requirements is time-consuming and costly. We could benefit from a comprehensive and singular contact point for help on such matters."

Paolo Pietrobon, Managing Director at Pasticceria Fraccaro

Potential

A strong and proactive SOLVIT network could help SMEs, such as Pasticceria Fraccaro, in having a singular point of up-to-date, comprehensive information on national requirements, laws and legal practices. Such a solution would make it less costly and cumbersome to export to new EU countries, as currently this is associated with considerable initial investments in terms of money and time.

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.[39]

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

As described in Chapter 2, digitisation is a key driver of productivity and future economic growth.[40] Data flow, i.e., the possibility for firms to have access to, use and transfer data is a prerequisite for digitisation. Digital technologies and solutions also enable and accelerate the green transition across the economy and society.[41]

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.[42] Several data flow obstacles persist and are often rooted in rules aimed at protecting personal privacy (data protection).[43] This is a legitimate protection interest regulated in the EU statute on fundamental rights and thus can be said to have a constitutional value in the EU.

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). It would also give businesses a possibility to legally challenge data protection decisions that are perceived disproportionate. 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 Italian SMEs.

4 Build a culture of trust and 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 EUR45-52 billion to the Italian 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

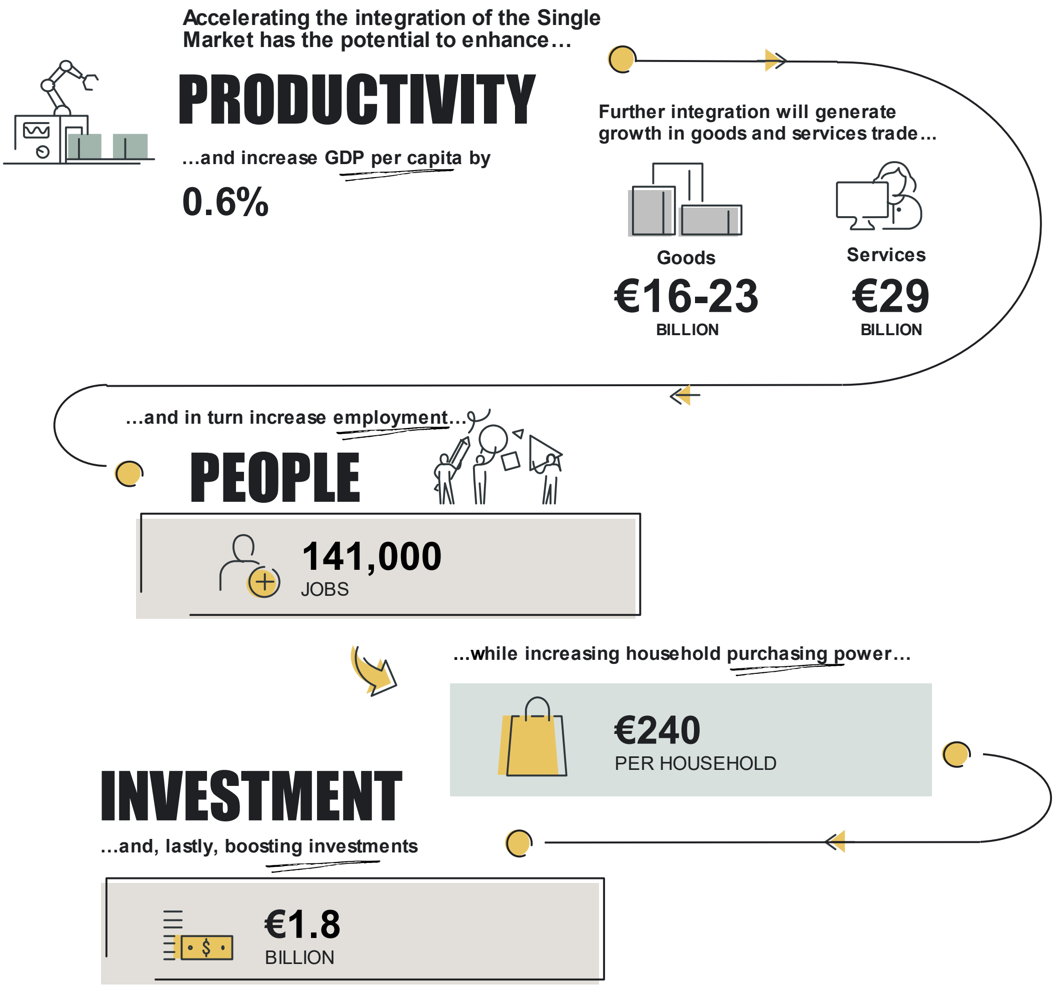
#4 Upgrade the European Semester to include recommendations on how to harmonise implementation of EU regulation and close the compliance gap

Removing existing barriers due to incomplete implementation of EU rules is foreseen to generate large EU-wide economic benefits.[44] The European Commission estimates that removing existing barriers related to incomplete implementation of EU rules on the Single Market would add an additional EUR 520-600 billion to EU GDP (a permanent increase in EU income level).[45]

Similar impacts can be expected in Italy. If benefits for Italy correspond to Italy'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 45-52 billion to Italian GDP (EUR 16-23 billion and EUR 29 billion for goods and services, respectively[46]). Furthermore, the increased production of goods and services is expected to support 141,000 jobs. Benefits will spread to Italian households, where household income (purchasing power) is expected to increase permanently by EUR 240. Lastly, investments are expected to increase by EUR 1.8 billion (see Figure 9).[47]

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

Figure 9: Potential benefits in Italy from removing existing barriers in the Single Market



The persistent compliance gap undermines the trust of firms and citizens in the effective functioning of the Single Market. It also sends a clear signal to national governments that lack of compliance has little consequences. We therefore propose to make recommendations on closing the compliance gap and harmonising 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 Italian SMEs from doing more business through the Single Market.

#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 simplest, 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.[48]

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 proposed solution will contribute to reducing several of the existing regulatory barriers pointed out by 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

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. Addressing and 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 updated Italian National Energy and Climate Plan (NECP) has set a target of a 33% reduction in greenhouse gas emissions by 2030. This target relies on 30% of Italy's final energy consumption to come from renewable energy sources. The NECP foresees additional investments of EUR 186 billion, compared with current policies scenario, over the period 2017-2030 (of which a significant share will be allocated to investments in renewables). In the photovoltaic sector alone, over EUR 27 billion will be needed in the period 2017-2030.[49]

Regulatory barriers pose significant obstacles to global trade in climate goods (up to 10 times more than tariffs[50]), and 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.[51] 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.[52]

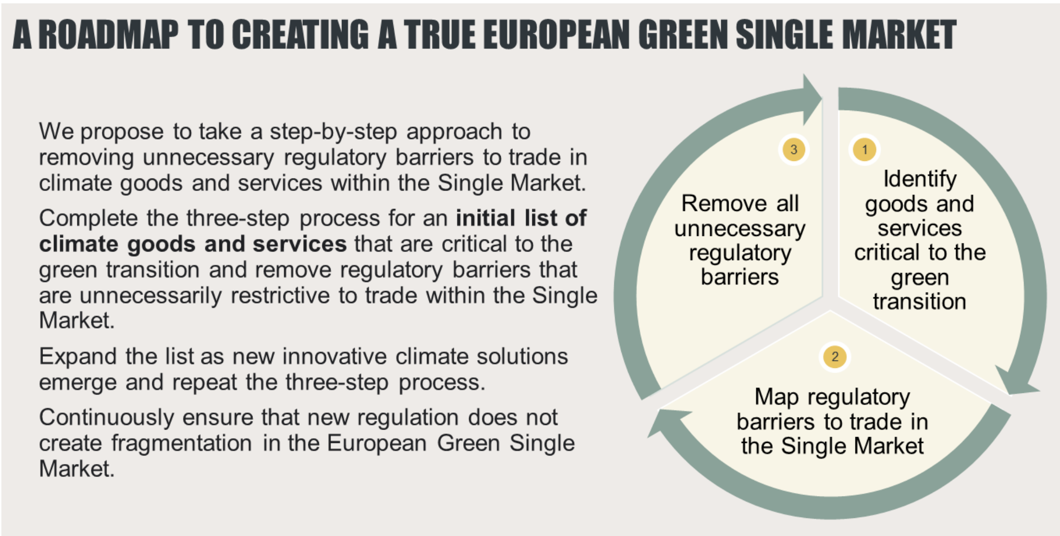
It is difficult to formulate an exact definition of climate goods and services, and there is a risk that the complexity of the problem ends up stalling progress and perhaps even hindering the dismantling of regulatory barriers to trade within the Single Market. We therefore propose that a process be set up where the European Commission applies a "step by step" approach to regulatory harmonisation with the following three steps:

- **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.[53] 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.



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

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.

A well-designed DPP can make important product-specific information available, 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, 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 relevant data 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).

A DIGITAL PRODUCT PASSPORT WOULD SIMPLIFY AND REDUCE COSTS ASSOCIATED WITH LABELLING

Emilia Food Love is an Italian SME that distributes and markets Emilian food products. While a small company, Emilia Food Love is truly a globally oriented company in that 98-99% of its annual turnover comes from outside Italy – particularly the European Single Market and the United States, which are the most important markets

Call for action

Like many other companies operating in the European food industry, Emilia Food Love is exposed to diverging and complex national labelling requirements, related to both the food products as well as their packaging. For example, there are some requirements that are specific to the Italian market, e.g., environmental labelling. Most notably, the labels with information need to be translated into local languages, which either requires larger packaging or the production of country-specific packages, both of which constitute additional costs.

Potential

The requirement to have local languages on packages means that Emilia Food love needs to use a larger outer packaging than what the size of the products actually requires – or otherwise produce country-specific packages. Being free to replace parts of the physical labelling with a digital product passport would enable Emilia Food Love to reduce the size of their outer packaging, saving significant costs and time.

"The possibility to use digital labelling –e.g., through a QR code, for our products would significantly simplify and reduce the costs associated with the labelling and cross-border selling of our products

Andrea Magnone, Founder at Emilia Food Love

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

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

We recommend establishing a truly harmonised approach to EPR: a digital EPR 'one-stop-shop' solution that would facilitate single EPR registration and reporting across all Member States. Overseen by the European Commission, this one-stop-shop would also serve as a centralised and up-to-date information portal on EPR requirements across all Member States, operating at the product-level. Ideally, significant work should be done to improve and speed up the standardisation of EPR schemes across Member States and, as much as possible, across product categories, prior to and otherwise after the launch of the EPR one-stop-shop.

Such a solution would make it easier and less costly for Italian 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.

UNCLEAR REGULATION CREATES UNCERTAINTY AND ADDITIONAL COSTS

Remo Sartori is an Italian clothing company, producing silk ties and accessories. The products are handmade by expert tailors in Italy and sold exclusively online. Approximately 45% of the company's sales are international, with 30% going to the United States and 15% to Europe. Remo Sartori sells its products through its own website in Italy and through the Amazon marketplace in other countries.

Call for action

The European Commission is proposing to introduce mandatory and harmonised Extended Producer Responsibility (EPR) schemes for textiles in all EU Member States. However, today, the EU textiles industry is met with many diverging EPR schemes, often set at the national level. Remo Sartori finds it difficult and costly to comply with the various EPR schemes across the EU. It is difficult and time-consuming to acquire the relevant information on EPR requirements of a given country, and hiring a consultant with the specific information is costly. Although silk products are not very heavily regulated, there is still significant uncertainty as to what the requirements are, for example in terms of EPR:

> *"When the EPR was introduced, I looked for various legal and commercial experts, but no one was prepared for it, in part because each country has its own requirements."*
>
> *Maria Antonietta Orlando, Founder and owner at Remo Sartori*

Potential

The creation of a digital one-stop-shop for EPR can facilitate single EPR registration and reporting. It can also serve as a centralised and up-to-date information portal on EPR requirements across all Member States, operating at the product-level. This will make business less risky and complex for an SME like Remo Sartori and facilitate sales across the Single Market.

#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.[54] 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).

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 Italian 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.[55] 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.

VAT REGISTRATION REQUIREMENTS PROHIBIT EU EXPANSION

Angorelle is a small Italian clothing company, specialising in knitwear and knitwear accessories made of cashmere. The company started selling online in 2010 through their own website, and in 2015 through the Amazon marketplace as part of the Fulfilment by Amazon (FBA) Programme. In 2020, Angorelle also began selling its products on the Zalando platform. Approximately 80% of the company's turnover comes from online sales and its main markets are Italy, France, and Germany.

Call for action

Despite many simplifications to European VAT processes due to the introduction of the VAT one-stop-shop (OSS) system, Angorelle still faces considerable difficulties with VAT registration. To store and sell its products in other countries, including the main export markets of France and Germany, Angorelle needs to be VAT-registered in these countries. This applies to all countries in which Angorelle stores or would like to store its products. Generating and filing VAT reports in various countries imposes great administrative costs and requires considerable time.

"Because of the high costs and time resources required from VAT registration in multiple EU countries, we now only have two VAT numbers abroad – in France and Germany – where we have a larger presence to offset the costs."

Leonardo Dondini, Head of e-commerce at Angorelle

Potential

Extending the VAT OSS to pan-European warehouse storage, including FBA warehouses, would considerably reduce the need for multiple VAT registrations for Angorelle, decreasing the costs and time burden associated with selling to more European countries. A single VAT ID across the EU would allow Angorelle to take full advantage of the Single Market and enable further expansion to other EU countries.

#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 digital communication on product labels is done only on a voluntary basis.

Digital labelling 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 the instructions and more information can be found online.

Digital labels also have the advantage of being easily updatable, findable 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.[56] As once-written product information may quickly become irrelevant as technologies advance and legislations change, 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.

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.[57] Also, we ask that physical labelling should only contain the minimum essential information.

COMPLYING WITH NATIONAL LABELLING REQUIREMENTS CAN BE TOO COSTLY FOR SMES

AfroRicci is an Italian cosmetics company selling mainly products for curly and afro-textured hair. The company sells its products online under their own brand, mainly through the Amazon marketplace. The company currently sells mostly to Italy, which accounts for approximately 90% of its revenues, but is trying to expand sales in other EU countries.

Call for action

AfroRicci has experienced various regulatory obstacles when trying to expand its presence across the EU market. One of the challenges relates to different national labelling requirements when selling to other countries on the Single Market. This problem is especially pronounced with physical labels, which need to be augmented and separately printed for different European countries in local languages. When entering a new country, having to produce labels that comply with national labelling requirements is very risky for a small company like AfroRicci, given the expected administrative costs as well as uncertainty concerning expected revenues.

> *"Tailoring our products, or product labels, to the national requirements of a new country of sale is a very big investment for us, especially since the local brand awareness is still small and the uncertainty of being able to cover these costs is high."*
>
> *Alice Edun, founder and owner at AfroRicci*

Potential

The patchwork of national requirements that AfroRicci observes in the European market, especially related to labelling requirements, hinders EU-wide expansion.

A digital label would make it much easier and less costly to include and update product information in all required languages. Digital labelling would also save AfroRicci from having to tailor their packaging to individual markets. This would give them greater flexibility and allow them to increase their production scale.

#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, Italian 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.

SMALL COST DIFFERENCES CAN GIVE LOCAL FIRMS AN ADVANTAGE

Koala Babycare is an Italian retailer, specialising in baby care products and pregnancy products, including baby carriers, soothers, skincare and more. The company was founded in Italy in 2017, and today exports products throughout Europe (as well as globally) through its own webshop and through the Amazon marketplace.

Call for action

Through its attempt to expand across the EU, Koala Babycare has encountered a number of regulatory and administrative challenges – ranging from different labelling requirements to VAT procedures. Another challenge that the company has experienced relates to fees on cross-border transactions. Currently, the cross-border payment options available in Europe are dominated by a limited number of financial services corporations. They charge high fees to merchants, which push up costs for consumers and disadvantage SMEs. SMEs, such as Koala Babycare, bear a bigger burden, as fees can be disproportionately high (given expected revenues) and even small differences can impact customers' choice in other countries, making them opt for local products.

> *"We are managing cross-border payments with broker platforms and banking contracts, but it would clearly be an advantage if we could reduce these costs."*
>
> *Emil Ninni, Co-founder at Koala Babycare*

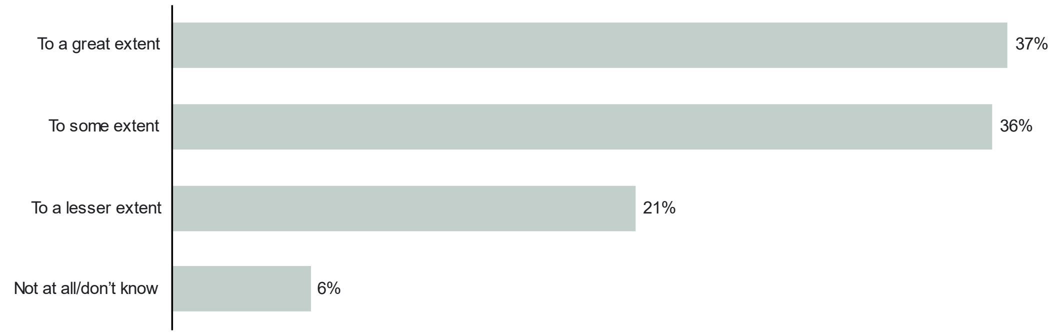
Potential

Cheap and easy cross-border payment methods are critical for the functioning of the Single Market. Creating conditions for the development of low-cost cross border payment systems will help ensure that consumers and merchants can do business with confidence across borders inside the Single Market at low cost. A more competitive ecosystem for payment systems would level the playing field for SMEs and enable them to increase their market potential on the Single Market.

Appendix 1 Description of the SME survey

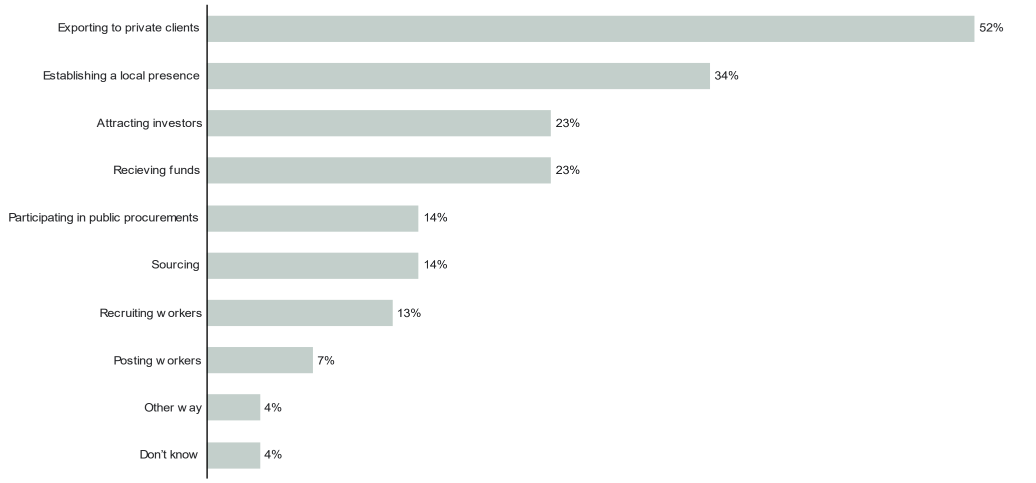
To identify key barriers and possible solutions to conducting business on the Single Market, we carried out a survey in close collaboration with CNA. The target group of the survey was SMEs that either export or would like to export through the Single Market. The survey contained a total of 18 questions. In total, 216 SMEs participated in the survey, of which 72% (156) are exporters and 28% (60) are SMEs that currently do not export but would like to export (potential exporters). Most of the respondents conduct business in and 'Manufacturing' (41%) and 'Other services' (11%). The survey responses include a good representation of different-sized SMEs. This appendix contains detailed responses.

Figure 10: Benefits from doing business in the Single Market, exporters



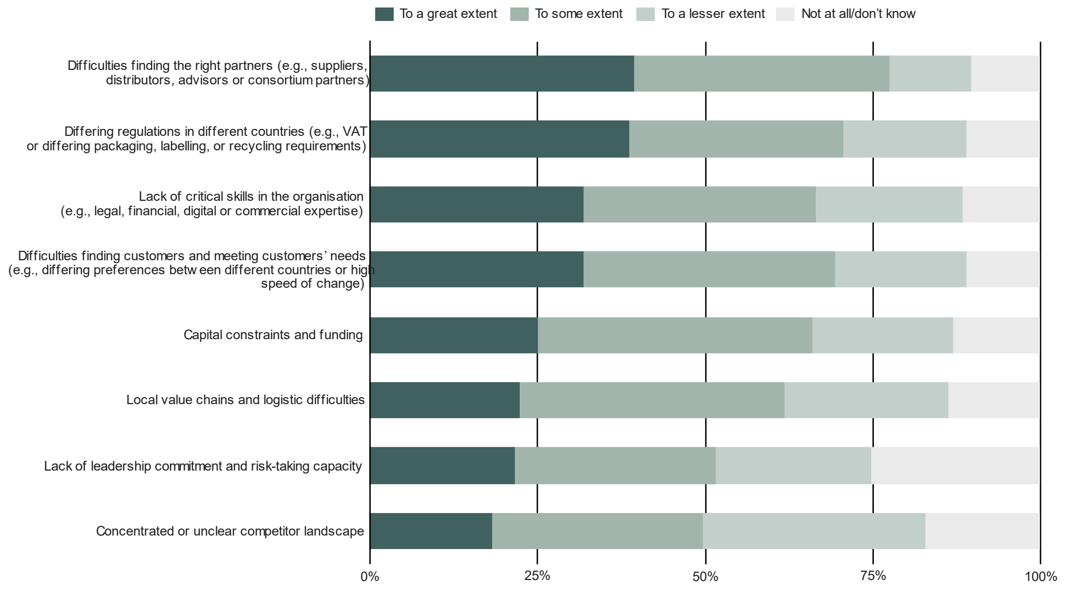
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'To what extent does your company benefit from the Single Market?', n=146.

Figure 11: Potentials for growing business in the Single Market, potential exporters



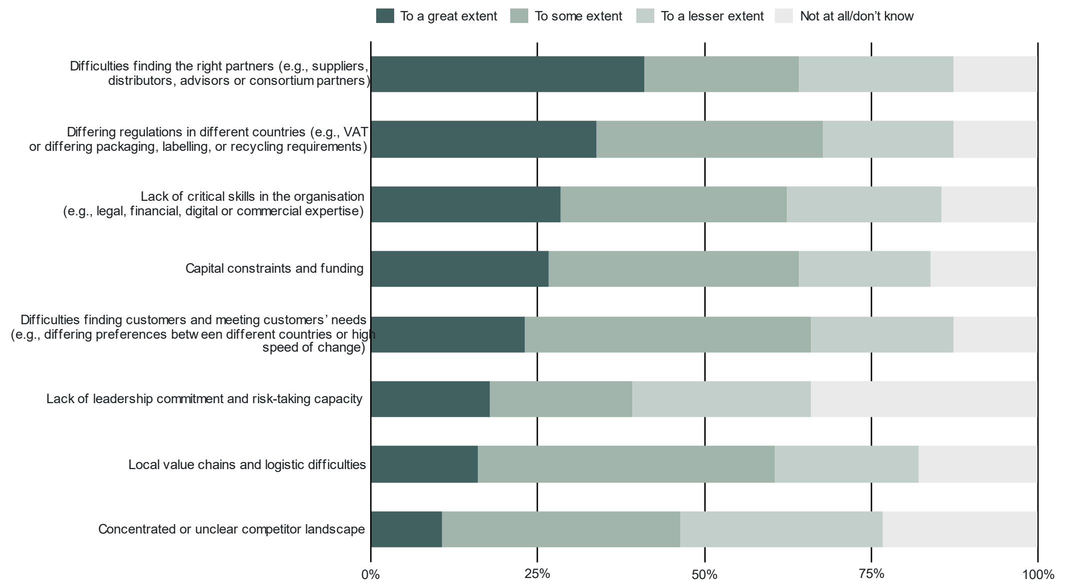
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'Where do you see the largest potentials within the Single Market for growing your business?', n=56.

Figure 12: Critical barriers to doing business in the Single Market, exporters



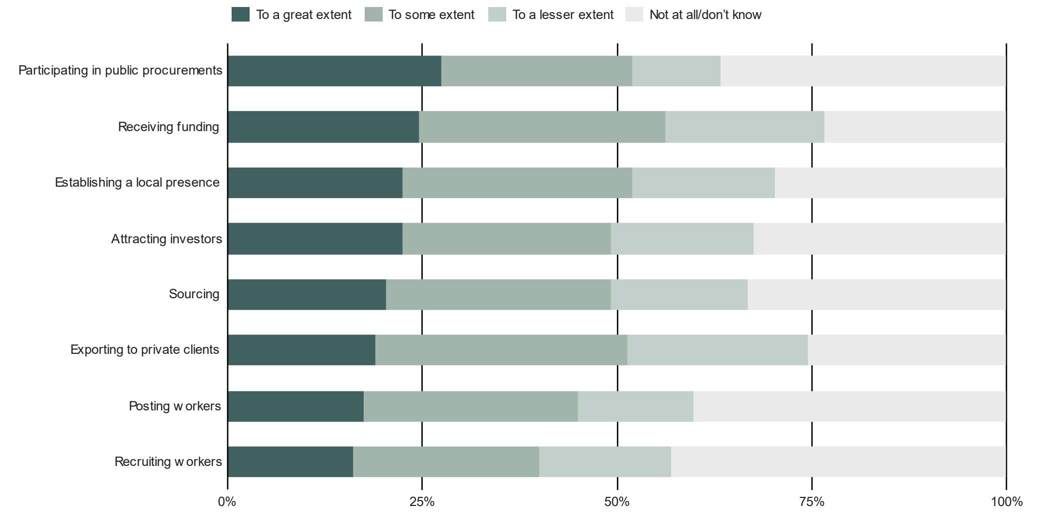
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'What do you perceive as the most critical barriers to doing business within the Single Market?', n=147.

Figure 13: Critical barriers to doing business in the Single Market, potential exporters



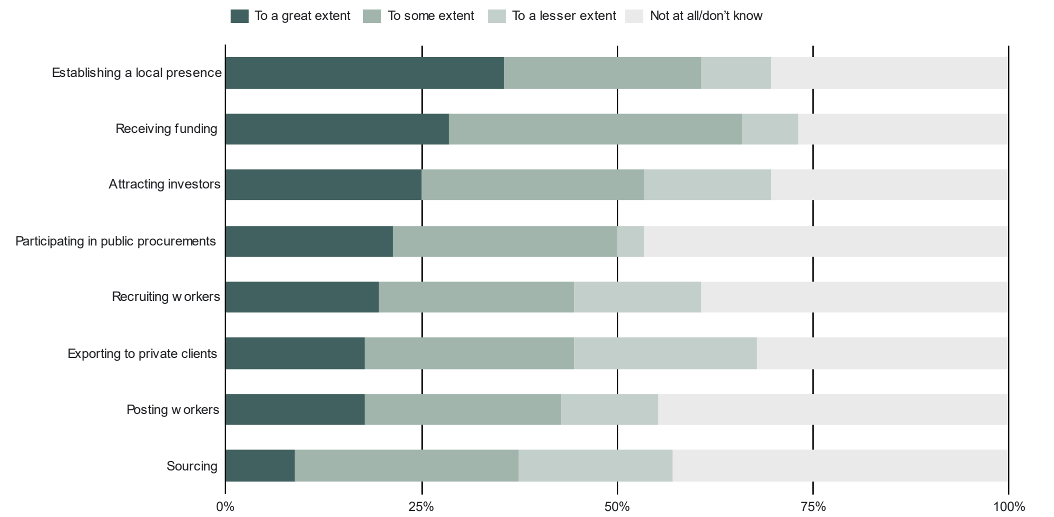
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'What do you perceive as the most critical barriers to doing business within the Single Market?', n=56.

Figure 14: How regulatory barriers hinder doing business in the Single Market, exporters



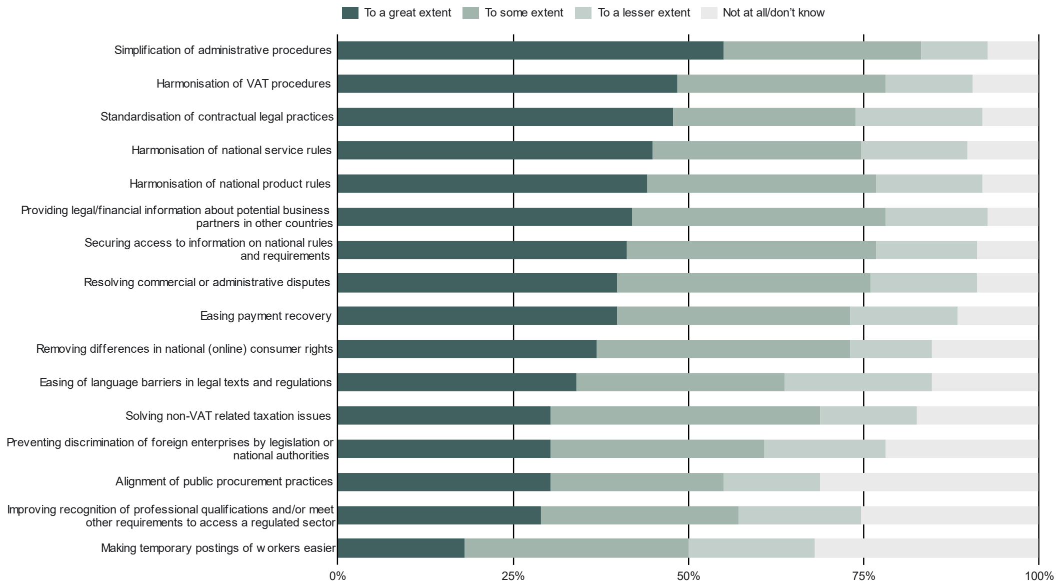
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'To what extent do regulatory barriers prevent your firm from doing more business in the Single Market?', n=142.

Figure 15: How regulatory barriers hinder doing business in the Single Market, potential exporters



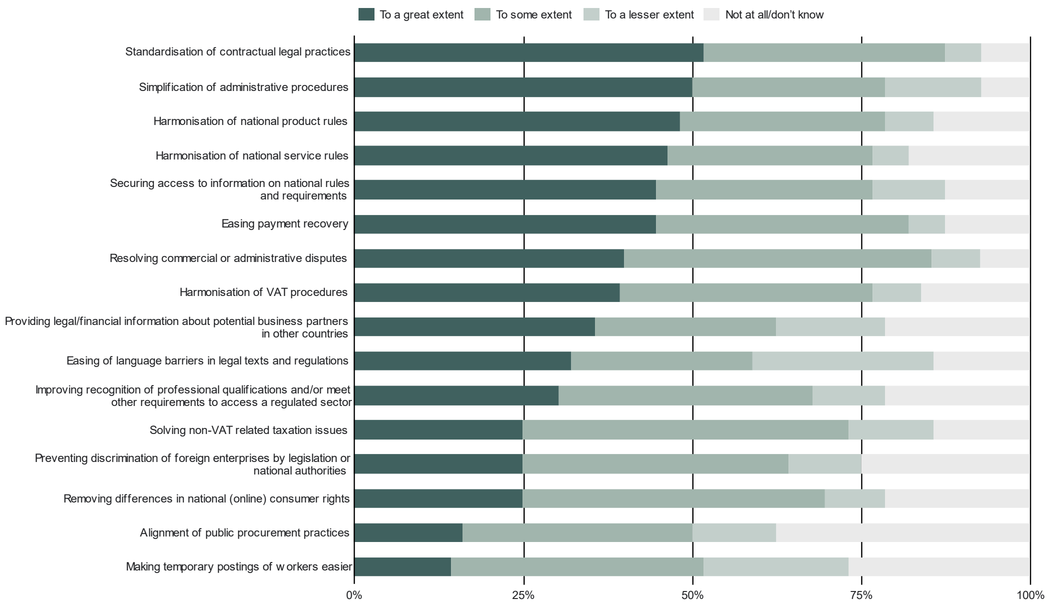
Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'To what extent do regulatory barriers prevent your firm from doing business in the Single Market?', n=56.

Figure 16: Policy initiatives that can help doing business in the Single Market, exporters



Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'To what extent will the following policy initiatives help SMEs with doing business in the Single Market?', n=138.

Figure 17: Policy initiatives that can help doing business in the Single Market, potential exporters



Source: Implement Economics based on a survey of 216 Italian SMEs.
Note: Question from survey: 'To what extent will the following policy initiatives help SMEs with doing business in the Single Market?', n=56.

Appendix 2 Overview of the 11 recommendations

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 regulation.
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.
6. Map and remove regulatory barriers to trade in climate goods and services within the Single Market.
7. Design the digital European product passport in a way that simplifies the circular work of businesses.
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.

List of endnotes

1 European Commission (2023). *EU competitiveness beyond 2030: looking ahead at the occasion of the 30th anniversary of the Single Market.*

2 European Council (2023). *Conclusions from meeting in Brussels*, 30 June 2023, EUCO 7/23, CO EUR 5, CONCL 3.

3 LE Europe (2017). *The EU Single Market: Impact on Member States.* The estimation results quantify the extent to which the levels of the outcome variables were higher in 2015 than they would have been in the absence of increased Single Market integration.

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

5 Ministry of Economic Development, Ministry of the Environment and Protection of Natural Resources and the Sea and Ministry of Infrastructure and Transport (2019). *Integrated National Energy and Climate Plan for Italy.*

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

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

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

9 In Italy, 11% of jobs depends on Intra-EU export (European Commission (2018). *EU export to the EU: Effects on employment and income*) and another 13% depends on extra-EU export (European Commission (2021): *EU exports to the world: effects on employment*), according to the newest publications.

10 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.

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

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

13 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.

14 The sources behind the infographic include the following: Overall benefits: LE Europe (2017). *The EU Single Market - Impact on Member States*, 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.

15 Eurostat (2023). *Annual enterprise statistics by size class for special aggregates of activities (NACE Rev.2) [SBS_SC_SCA_R2].*

16 Eurostat (2023). *Persons employed in the non-financial business economy by size class of employment [TIN00148].*

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

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

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

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

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

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

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

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

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

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

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

[32] European Commission (2021). *Strategic Dependencies and Capacities*.

[33] 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.*

[34] 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*.

[35] European Commission (2023). *EU Competitiveness beyond 20430: Looking ahead at the Occasion of the 30th Anniversary of the Single Market*.

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

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

[38] 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.

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

[40] European Commission (2020). *Shaping the digital transformation in Europe*.

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

[42] 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.

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

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

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

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

[47] 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].*

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

[49] Ministry of Economic Development, Ministry of the Environment and Protection of Natural Resources and the Sea and Ministry of Infrastructure and Transport (2019). *Integrated National Energy and Climate Plan for Italy.*

[50] 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.*

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

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

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

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

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

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

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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