EUROPEAN UNION

The income gap vis-à-vis *the United States has widened since the mid-1990s due to subdued growth in productivity and labour utilisation, in particular in the larger continental countries.*

Priorities supported by indicators

Ease the regulatory burden on business operations

Substantial barriers to internal trade remain in service sectors, including impediments to cross-border establishment and insufficient mutual recognition for business licences and professional qualifications.

Actions taken: The Services Directive was passed in Spring 2006, albeit in a form that falls short of the original proposal. This eases registration requirements for businesses operating in another country, but the key proposal – the country-of-origin principle – was rejected. Many service industries were exempted from the legislation.

Recommendations: Continue to reduce obstacles to internal trade, based on the principles enshrined in the Treaty of Rome. Adopt EU-wide standards where mutual recognition is difficult. Improve the EU public procurement regime.

Raise competition in network industries

Competition is patchy in network industries, with incumbents retaining considerable market power in some industries. Liberalisation at the EU level is not always matched by rigorous implementation at the national level.

Actions taken: Regulatory frameworks are adapting, being toughened where the incumbent retains control and being liberalised where effective competition is emerging. The Commission has increased its capacity for economic analysis of competition cases.

Recommendations: Focus EU competition policy on reaping the potential gains from liberalising network industries. Ensure that attempts by member states to establish or maintain national champions do not compromise competition. Further liberalise the ports and the postal sector, and create an EU-wide energy market. Push for quicker implementation of directives in the telecommunications and energy industries.

Reduce producer support to agriculture

Agricultural support under the Common Agricultural Policy (CAP) is distorting, keeping resources in low-productivity activities while benefiting to a large extent large and efficient farms. Support amounts to almost a third of farm receipts, double the US level.

Actions taken: The 2003 CAP reform decreased the proportion of support that is tied to production, and cut the intervention price of skimmed milk and butter. A reduction in support to the sugar industry is being phased in. The 2005 EU Budget deal saw a small increase in funding for the CAP.

Recommendations: Improve market access for non-EU countries. Continue to reduce production-linked support.

Other key priorities

- Raise labour mobility within the EU by improving the portability of occupational pension and social welfare benefit rights.
- Fully implement the Financial Services Action Plan to improve financial market integration. Accelerate efforts to integrate retail financial markets, especially mortgage lending.

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