

## EUROPEAN UNION

The income gap relative to the United States has narrowed slightly, reflecting improvements in EU labour utilisation and a reduction in the gap between productivity growth in the US and that in the EU. Nonetheless, productivity and labour utilisation levels in the European Union remain below those in the United States. The single market programme has already strengthened competitive pressures in product markets, but further reforms are required, especially in the following areas.

### Priorities supported by indicators

#### **Ease regulatory barriers to business operations**

Substantial barriers to internal trade remain, especially in services sectors, with continued impediments to cross-border establishment and the mutual recognition of professional qualifications and business licences. These limit the capacity of the internal market to increase productivity.

**Actions taken:** The Services Directive was passed in 2006 and is due to be fully transposed into national law during 2009. This will ease barriers to cross-border establishment. However, some service sectors are exempt from the legislation. The Better Regulation Agenda, adopted in 2005, is simplifying existing regulations. The Single European Payments Area (SEPA), launched in January 2008 and due for implementation by November 2009, will reduce cross-border financial transactions costs.

**Recommendations:** Continue to reduce obstacles to internal trade and ensure the full transposition of the Services Directive. Adopt EU-wide standards where mutual recognition is difficult. Identify additional measures to reduce administrative burdens on business. Strengthen competition in the EU public procurement regime. Further improve the quality of regulatory impact assessments undertaken by the Commission prior to introducing regulatory reforms.

#### **Raise competition in network industries**

Barriers to competition remain high in some network industries. Liberalisation at the EU level is not always matched by rigorous implementation at the national level.

**Actions taken:** Agreement has been reached on a legislative package to separate supply and production activities from network operations in energy markets, although this stops short of full ownership unbundling. A new regulatory agency is also being introduced to oversee co-operation between national energy regulators. Competition has been enhanced in air services by the first-stage EU-US Air Transport Agreement.

**Recommendations:** Focus competition policy on reaping the potential gains from liberalising network industries through further integration of markets. Further liberalise ports and push ahead with the creation of an EU-wide energy market. Continue to reduce limits on services by foreign carriers in EU air services.

#### **Reduce producer support to agriculture**

Agricultural support under the Common Agricultural Policy (CAP) creates distortions, keeping resources in low-productivity activities and maintaining prices received by farmers above world market levels. At the same time, the stipulation of a target of 10% by 2020 for the share of biofuels in total fuel consumption for transportation has contributed to boosting world market prices for agricultural products.

**Actions taken:** No major recent actions, but policy changes agreed under the 2003 and subsequent reforms have continued to reduce support prices. The proportion of support not linked to production doubled between 2005 and 2007.

**Recommendations:** Improve market access for non-EU countries. Continue to reduce production-linked support, including the energy crop premium for biofuel production.

### Other key priorities

- **Labour mobility:** Raise labour mobility within the EU by improving the portability of occupational pension and social welfare benefit rights and following through on proposals for “researcher passports”.
- **Financial market integration:** Deepen financial market integration by accelerating efforts to integrate retail financial markets, especially mortgage lending. Follow through on the EU Council roadmap to update existing financial stability arrangements.

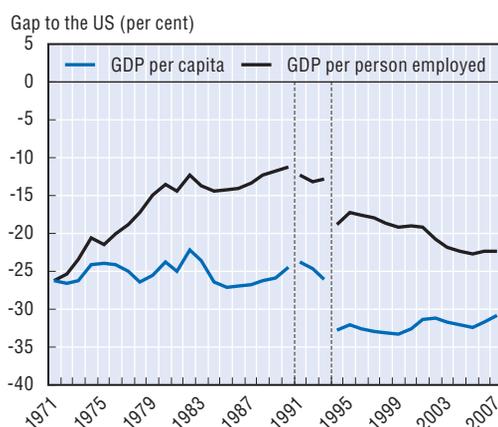
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## Structural indicators

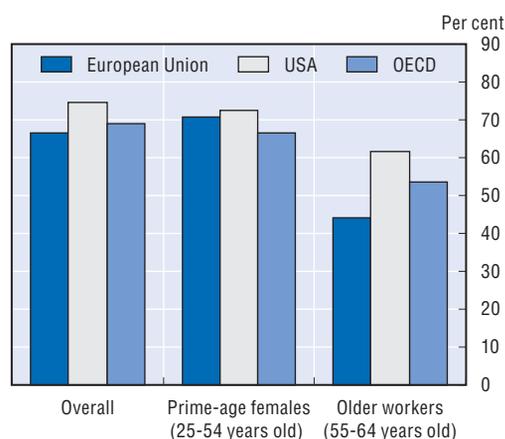
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.9	2.1	1.6
Labour utilisation	0.2	0.2	0.2
of which: Employment rate	0.5	0.6	0.5
Average hours	-0.4	-0.4	-0.3
Labour productivity	1.7	1.9	1.4
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

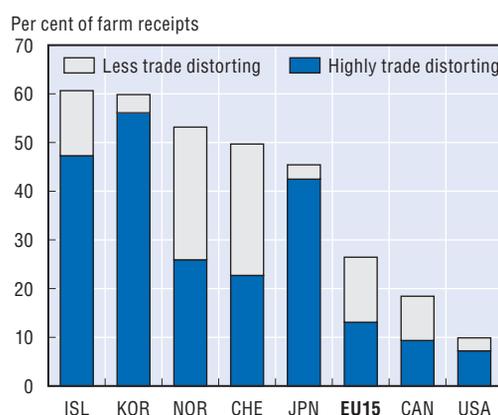
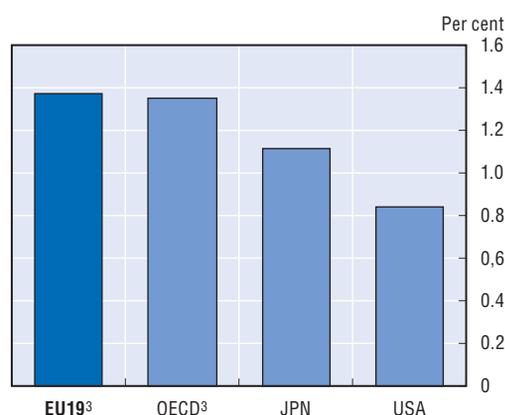
A. Gaps in GDP per capita and productivity are large<sup>1</sup>

## B. Employment rates are relatively low, 2007



## C. Agricultural support is high, 2007

Producer support estimate

D. Economy-wide product market regulation is tight, 2008<sup>2</sup>

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs). Break in the series in 1991 due to reunification of Germany and in 1994 when data start to refer to EU19. Before 1994 data refer to EU15.
2. Index scale of 0-6 from least to most restrictive.
3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Producer and Consumer Support Estimates Database; Chart D: OECD, Product Market Regulation Database.

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