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The Economics of the Services Directive

SOMMARIO: 1. Introduction. – 2. The Services Sector in the EU. – 3. The Economic Rationale for the Services Directive. – 4. The Services Directive. – 5. The Economic Impact of the Services Directive. – 6. Unresolved Economic Issues. – 7. Conclusions.

1. – Europe's services sector is far from reaching its full potential. The Single Market Programme has been effective in removing obstacles to the cross border movement of goods and capital and in liberalising those sectors that had a monopolistic structure such as energy and telecommunications. The services sector, despite being part of the Single Market agenda, has not received much attention. This has resulted in most services being regulated locally and services markets becoming more fragmented. There is no economic justification for taking a different policy approach to goods and services.

The Services Directive) ⁽¹⁾ does not bring anything new but is an attempt to systematise the principles already set by EU legislation and case law for the regulation of competitive markets. The directive calls for the simplification and objectivity of regulation, for the removal of obstacles to market entry and cross-border provision of services and for the harmonisation of basic regulation. Such principles are not new in EU legislation and case law but provide with (binding) guidelines to member states when drafting their regulations.

Measuring the economic impact of a policy measure that covers from lawyers to plumbers and that addresses from local regulations that prevent the establishment of supermarkets to nationwide regulations governing the access of accountants to the profession is not an easy task (if feasible at all). However, existing sectoral evidence suggests that in many cases the benefits obtained by the removal of competition restricting regulation are larger than other potential benefits of such regulation. Obviously this is not always the case for all kinds of regulations. What the directive

⁽¹⁾ Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market.

calls is for a rationalisation of regulation in a way that it achieves its legitimate goals without distorting market outcomes.

According to the evidence, the economic rationale for the Services Directive is the appropriate framework to guarantee more competitive services markets. However, given the broad coverage of the directive and the abstraction of its principles, the impact of the directive will not be immediate and will depend on the way member states adapt their regulations to the principles set by the directive. Although the existence of a directive will help clarify the current situation where most conflicts are decided by the courts, the need to analyse regulations on an individual basis in order to analyse their compatibility with the directive makes the process of implementation a very lengthy one which will delay the economic impact of the directive.

This article describes the underlying economic logic of the Services Directive and its potential economic impact. Section 2 provides an overview of the services sector in the EU. Section 3 describes why the Services Directive was needed. Section 4 describes briefly the directive. Section 5 presents an overview of different studies analysing the impact of several liberalising processes. Section 6 comments on the unresolved questions of the Services Directive and section 7 concludes.

2. – The service sector represents more than two-thirds of the economic activity and employment in the European Union and is the main driving force for growth within the European economies. Services have accounted on average for more than 75% of the growth rate of the last decade. However, European economies have grown more slowly than the United States in the last decade. Services, in particular, have grown faster – as much as 30% faster – and their contribution to growth has been proportionally larger (above 85% of the growth rate) in the United States than in Europe.

Productivity growth in services has also been stagnant in the EU ⁽²⁾. The differences in productivity growth between the United States and the EU have been particularly important in the distributive trade sectors (i.e. wholesale and retail trade and hotel and restaurant services) and financial services sectors. These industries not only account for an important share of GDP (19.3% in the EU and 26.9% in the US) but also play an important role as «market lubricants» for other industries. Such industries not only

(2) O'MAHONY, VAN ARK (eds.), *EU Productivity and Competitiveness: An Industry Perspective. Can Europe Resume the Catching-up Process?*, Published by the European Commission, Enterprise Publications, December 2003.

contribute directly to increase welfare but also help reduce trade costs of other goods and services and increase tradability of services.

Several explanations have been offered for the underperformance of the service sector in the EU, including the lower level of innovation, the lower rate of adoption of new technologies and the excessive regulation that limits access to the market ⁽³⁾. The Services Directive aims at the removal of regulatory obstacles to market entry and trade. This may help solve other structural problems since the existence of regulation limiting entry and restricting trade certainly hinders diffusion of existing technologies and innovation by new firms.

3. – According to the OECD index of regulation ⁽⁴⁾, the overall level of regulation in the services sector is higher in the EU than in the US. CONWAY *et al.* ⁽⁵⁾ indicate that «notwithstanding recent progress in product market reform, across virtually all countries a ‘hard core’ of regulations that impede competition still persists in some areas, such as barriers to entry in non-manufacturing industries.» Despite the overall reduction in the level of regulation and the fact that regulation has become more homogenous, barriers to competition in most service sectors (e.g. telecoms, road freight, retailing, liberal professions, etc) remain generally higher in Europe than in the US.

Restrictive regulatory policies prevent access to markets and constrain the behaviour of firms in the market. In addition, the heterogeneity of such regulation across Member States is an obstacle to trade. Trade in services accounts for a smaller percentage of total trade in the EU than in the US (in 2004, services constituted 21 per cent of EU total exports and 29.6 of US exports).

The excess of regulation of services not only constrains the performance of the services sector itself but also that of other sectors of the economy. For example, FRANCOIS-WOOTON ⁽⁶⁾ find a strong correla-

⁽³⁾ See O'MAHONY, VAN ARK, *op. cit.*; NICOLETTI, SCARPETTA, *Regulation, Productivity and Growth: OECD Evidence*, World Bank Policy Research Working Paper no. 2944, 2003, and AGHION, HOWITT, *Appropriate Growth Policy: A Unifying Framework*, mimeo, 2005.

⁽⁴⁾ The OECD index of regulation quantifies the regulatory impediments to competition in 22 economic sectors (of which 18 are services). See CONWAY, JANOD, NICOLETTI, *Product Market Regulation in OECD Countries: 1998 to 2003*, Economics Department Working Papers no. 419, 2005.

⁽⁵⁾ See CONWAY, JANOD, NICOLETTI, *op. cit.*

⁽⁶⁾ FRANCOIS, WOOTON, *Market Structure in Services and Market Access in Goods*, CEPR Discussion Paper no. 5135, 2004.

tion between international trade in goods and the structure of the services industries that facilitate such trade such as domestic trade and distribution sector. The lack of competition in the domestic services sector can serve as an effective barrier to trade of goods and other services.

Several studies have shown empirical evidence on the link between competition and economic performance ⁽⁷⁾ and have highlighted the importance of the reform of the services sector in improving the performance of the EU economies ⁽⁸⁾.

Under the auspices of the Single Market Programme the EU initiated in the late 1990s an ambitious programme of reform of several services industries such as energy, telecommunications, transport or financial services. Through the Services Directive, the EU aimed to extend the scope of liberalisation to a broader range of services by establishing the general principles that regulation applying to all services sectors should follow.

The Services Directive is a horizontal instrument covering a broad range of sectors. It establishes a basic regulatory framework for services in order to guarantee the coherence and consistency of the liberalisation process. The transposition of the Directive into national legislation is not immediate and will require the adaptation of a large number of sector specific legislation.

4. – The Services Directive was finally adopted on 12 December 2006. Its scope is determined by exclusion: it applies to all services sectors except those which are subject to sectoral regulation such as (financial services, electronic communications and energy), social services, gambling activities and a number of sectors that were excluded by the European Parliament such as non-economic services of general interest and health-care services.

The Directive aims at removing obstacles to cross-border trade of services and cross border movement of service providers through temporary or permanent establishment. In principle, this is already included in article 14(2) of the treaty –which guarantees free movement of services– and article 43 of the Treaty –which ensures freedom of establishment. The di-

⁽⁷⁾ See e.g. NICOLETTI, SCARPETTA, *op. cit.*

⁽⁸⁾ As pointed by O'MAHONY, VAN ARK, *op. cit.*, there are other causes behind the poorer performance of the EU economies such as the lower level of innovation and the lower rate of adoption of new technologies. However, as shown by NICOLETTI, SCARPETTA, *op. cit.*, regulation that limits access to the market hinders innovation by new firms and the adoption of existing technologies.

rective also provides for the removal of obstacles to domestic competition and for the simplification of domestic regulation. This could result in a decrease in the heterogeneity of regulation across Member States and therefore facilitate trade since the cost of complying simultaneously with regulation in several countries will be lower.

The directive facilitates the cross border movement of services by means of two mechanisms: first, by removing direct obstacles to trade and cross border establishment of firms and second, by simplifying domestic regulation in a way that disparities between regulatory regimes across member states are reduced and therefore cross border provision of services is eased.

The directive is structured around three points:

a – Removal of regulation that restricts market entry. Chapter III deals with the removal of obstacles to the freedom of establishment of service providers across Europe. To this aim the directive establishes the principles that authorization procedures for service providers should respect. In particular, it establishes that entry regulations have to be relevant and proportional to the policy aim pursued and cannot discriminate between domestic and foreign companies. This chapter implies not only the application of the principle of non-discrimination between domestic and foreign firms but also the impossibility of imposing restrictions to competition at national level (such as restrictions on the number of competitors or territorial restrictions).

b – Removal of barriers to trade. Member States cannot impose obstacles to the provision of services by firms based on another member state as far as such firms comply with the regulation of the country where the service is being delivered. In the initial version of the directive the “country – of – origin” principle applied to services providers, that is, a firm complying with regulations in one member state could operate in all EU member states. The principle emerged as one of most controversial aspects of the directive. Many people feared that the application of such a principle would leave many services outside government control. The principle was also criticised for the fact that it would imply 25 different regulatory regimes within the same territory.

The principle was finally dropped by the European Parliament and replaced by a non-comprehensive list of vague rules (such as non-discrimination, necessity, and proportionality) that must be observed by any requirement imposed on service providers. The new wording is narrower than the «country of origin» principle and its effects on trade therefore more limited.

c - A minimum level of harmonisation. The directive provides for a minimum level of harmonization for issues such as consumer protection and safety standards and for mutual cooperation between national authorities.

5. – The potential impact of the Services Directive is difficult to evaluate given the broad nature of its scope and the vague nature of the principles it contains. The Services Directive covers a broad range of sectors with different characteristics, regulations and obstacles to competition. The implementation of the directive implies a number of measures of diverse nature (for example, the removal of administrative authorisations, unnecessary requirements to access a profession or minimum investment requirements) which quantification is not trivial. Thus, the impact of the directive depends very much on how it is implemented and on the specific measures adopted at sectoral level. The quantification of the total economic impact is therefore a difficult exercise and has to make use of strong assumptions on the way regulation affects industry performance and on the extent to which «bad» regulation will be reduced by the implementation of the Services Directive.

The appropriate analysis should combine both sectoral level analysis (or even firm-level analysis) and macroeconomic or general equilibrium analysis. Different service industries have different types of regulation, modes of delivery, market structures and obstacles to competition. Sector-by-sector (or firm-level) analysis should identify the relevant measures adopted in each sector and their impact on the industry structure and performance while macroeconomic analysis should put together the sectoral effects and capture inter-industry spillovers. However, in most cases, the lack of data on both policies and firm behaviour is an obstacle for carrying out comprehensive analyses. We have therefore to rely on the combination of partial sectoral analysis and general equilibrium analysis in order to assess the expected impact of the Services Directive.

The removal of rules that restrict competition would imply a more efficient reallocation of resources that should result in a better use of resources, e.g., higher labour productivity. In the case of output and prices, further competition implies an output expansion and a decrease in prices unless the regulated service was subsidised before liberalisation (as it was commonly the case of utilities, telecoms, transport, etc).

On the spillovers, increasing competition in an industry implies cheaper inputs for other sectors that use inputs produced by such industry and might imply, via reallocation of resources, a better overall perfor-

mance of the economy and an increase of economic activity that could result in job creation.

The study commissioned by the European Commission to assess the impact of the Services Directive ⁽⁹⁾ makes use of firm-level data to evaluate the aggregate impact of the Services Directive. The study reveals that the benefits from integration would come primarily from cost reduction rather than from the destruction of rents. The study predicts enhanced productivity, higher employment, higher wages and lower prices. In particular, EU gross value added is expected to increase by 0.8% and net employment is expected to increase by 0.3% (up to 600.000 jobs).

The study constructs an index of regulation and determines by using a large scale database how regulation affects costs and prices. One can therefore obtain a monetary value of regulation (which could be considered equivalent to a tariff). By using a general equilibrium model the study calculates the impact of reducing such a «tariff» on the economy.

The study focuses on domestic regulation and interprets the Services Directive as an instrument that reduces the level of domestic regulation (which might affect differently to domestic and foreign firms). A crucial assumption is to determine how the Services Directive will affect to the level of regulation. Copenhagen Economics ⁽¹⁰⁾ considers several scenarios. In practice, the Services Directive will impact differently to different sectors depending on the existing level of regulation and product characteristics (and mode of provision).

In their companion papers KOX *et al.* ⁽¹¹⁾ and DE BRUIJN *et al.* ⁽¹²⁾ take a different approach to evaluate the global impact of the Services Directive. They show that trade in services could increase between 30 and 60 percent and GDP could be raised by 0.3 to 0.7 percent in the European Union as a whole.

KOX *et al.* ⁽¹³⁾ and DE BRUIJN *et al.* ⁽¹⁴⁾ analyse the impact of the Ser-

⁽⁹⁾ Copenhagen Economics, *Economic Assessment of the Barriers for the Internal Market for Services*, 2004. Available at www.europa.eu.int/comm/internal_market/services/docs/services-dir/studies/2005-01-cph-study_en.pdf.

⁽¹⁰⁾ See *supra* note 9.

⁽¹¹⁾ KOX, LEJOUR, MONTIZAN, *The Free Movement of Services within the EU*, CPB Document 69, 2004.

⁽¹²⁾ DE BRUIJN, KOX, LEJOUR, *The Trade-Induced Effects of the Services Directive and the Country of Origin Principle*, CPB Document 108, 2006.

⁽¹³⁾ See *supra* note 11.

⁽¹⁴⁾ See *supra* note 12.

vices Directive through its impact on trade. They interpret the Services Directive as an instrument that reduces the heterogeneity of regulation across member states and therefore makes trade increase. Kox *et al.* ⁽¹⁵⁾ construct an index of regulation and using data on bilateral trade in services they estimate the effects of reducing heterogeneity in regulation on intra-EU trade. They find that commercial services trade in the EU might increase by 30-60%. By using a general equilibrium model, DE BRUIJN *et al.* ⁽¹⁶⁾ estimate the effects of this trade increase on GDP which is between 0.3 and 0.7 percent.

Both studies show the difficulties of measuring the global impact of such a broad and abstract piece of legislation. The fact that they measure different aspects of the Services Directive (i.e., the Copenhagen Economics study analyses the impact of reducing domestic regulation on output while CPB's studies focus on the trade-induced effects) makes results not fully comparable. Both studies also focus on the one-off static effects of the directive but do not capture the dynamic effects due to changes in industry structure or diffusion of innovation.

At sectoral level, several studies have shown the impact of services liberalisation on prices, productivity and output. The fact that such studies are partial and mostly focus on very specific measures makes difficult to extrapolate the results. However, they provide useful insights on the way deregulation affects other economic variables such as prices, output and investment. FAINI *et al.* ⁽¹⁷⁾ analyse the effects of liberalisation on a number of service sectors in three European countries. They provide a general overview on the evolution of productivity, employment and prices. Their analysis focuses on energy, telecommunications, retailing and postal services amongst others. They identify that liberalisation in general implied an increase in productivity (partly linked to the decrease in employment) and a decrease in employment, in particular in infrastructure-based industries. However, the conclusions are not clear cut for prices. In the case of industries that were previously state-run monopolies, this could be explained by below-cost pricing before liberalisation. The paper highlights the political difficulties to implement reforms due to the decline in employment they can induce and the limited impact on prices.

⁽¹⁵⁾ See *supra* note 11.

⁽¹⁶⁾ See *supra* note 12.

⁽¹⁷⁾ FAINI, HASKEL, BARBA, NAVARETTI, SCARPA, WEY, *Contrasting Europe's Decline: Do Product Market Reforms Help?*, 2004. Available at www.frdb.org/images/customer/report_one.pdf

Other studies show however that deregulation can lead to higher employment, decreasing prices and more investment. BERTRAND-KRAMARZ⁽¹⁸⁾ show for example that strict market entry regulation has been negative for employment in retailing in France. Administrative barriers to entry in the retailing sector in France increased market concentration and constrained industry growth resulting in higher prices and lower employment. COMBES-LAFOURCADE⁽¹⁹⁾ show that the mid-1980s deregulation of the road transport industry was the main source of transport cost decline over the period 1978-1998, simultaneously with technological progress. SCHAUMANS-VERBOVEN⁽²⁰⁾ raise doubts on the public interest motives for imposing entry restrictions to pharmacies. According to them, the removal of the entry restrictions, combined with a large reduction in the regulated markups would lead to a large shift in rents to consumers, without reducing the geographic coverage of pharmacies throughout the country. Although transport and healthcare services are excluded from the Services Directive, the above papers provide insights on the role of market entry restrictions which could be applied to other industries. For example, public interest reasons have also been used to impose restrictions in the case of liberal professions⁽²¹⁾.

More generally, ALESINA, *et al.*⁽²²⁾ provide evidence that regulatory reform of product markets is associated with an increase in investment. ARNOLD *et al.*⁽²³⁾ analyse the impact of services liberalisation on produc-

(18) BERTRAND, KRAMARZ, *Does Entry Regulation Hinder Job Creation? Evidence from the French Retail Industry*, in *Quarterly Journal of Economics*, 2002, pp. 1369-1414.

(19) COMBES, LAFOURCADE, *Transport costs: measures, determinants, and regional policy implications for France*, in *Journal of Economic Geography*, Vol. 5, Issue 3 – 2005, pp. 319-349.

(20) SCHAUMANS, VERBOVEN, *Entry and Regulation – Evidence from Health Care Professions*. CEPR Discussion Paper no. 5482, 2006.

(21) See for example PATERSON, FINK, OGUS, *et al.*, *Economic Impact of Regulation in the Field of Liberal Professions in Different Member States*, Institute for Advanced Studies, Vienna, 2003, available at www.ec.europa.eu/comm/competition/publications/publications/, for a comparison of entry restrictions to the exercise of liberal profession across the EU. CAHUC, KRAMARZ, *De la Précarité à la Mobilité: Vers une Sécurité Sociale Professionnelle*, Rapports officiels. Ministère de l'Économie, des Finances et de l'Industrie, 2004, provide a comprehensive list of entry barriers in France to the exercise of professions and market entry in a number of sectors which do not seem to have other purpose than protecting the rents of the incumbents.

(22) ALESINA, ARDAGNA, NICOLETTI, SCHIANTARELLI, *Regulation and Investment*, CEPR Discussion Paper no. 3851, 2003.

(23) ARNOLD, JAVORCIK, MATOO, *Does Services Liberalization Benefit Manufacturing*

tivity of manufacturing industries. They find a positive correlation between services sector reform and performance of manufacturing industries (which use services as inputs). In particular, they find that foreign entry is the key channel through which services liberalisation contributes to improve the performance of manufacturing sectors.

There is no convincing comprehensive evidence showing the global impact of the Services Directive both in geographic and sectoral terms. Partial evidence however suggests that the removal of regulations that has no other purpose than restricting market entry and constraining the operation of firms increases total welfare. In practice, it is not always easy to balance the competition restricting effect of some regulations and their potential welfare enhancing effects. It is therefore essential that the removal of any regulation follows an impact analysis to guarantee that the final outcome is better than the initial one.

6. – The final version of the Services Directive watered down the initial proposal of the European Commission. In particular, the final version reduced the scope of the directive by excluding a number of services, removed the «country of origin» principle and excluded any reference to labour markets to avoid controversy. The current section analyses the potential impact of such changes.

a. – Non-economic services of general interest and other excluded services. The European Parliament reduced the scope of the directive by excluding the services of temporary work agencies, healthcare services, private security services and, most importantly, non-economic services of general interest. The White Paper on Services of General Interest ⁽²⁴⁾ defines non-economic services of general interest as «non-market services which the public authorities class as being of general interest and subject to specific public service obligations». Such vague definition provides Member States with certain freedom to decide which services can be excluded from the application of the directive. Since the consideration of service of economic interest might differ from state to state (or even from village to village), the use of this instrument could result in further market fragmentation rather than integration.

Firms? Evidence from the Czech Republic, World Bank Policy Research Working Paper no. 4109, 2007.

⁽²⁴⁾ See European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: White Paper on Services of General Interest*, COM (2004) 374, 2004.

The gradual opening of the services market through asymmetric or partial liberalisation reduces the flexibility of the restructured industries to accommodate possible changes since the mobility of capital and labour across industries would be constrained. If, for example, there were excess supply of labour in a restructured industry and limited entry were kept in other sectors that required similar skills, workers in the liberalised industry might be severely harmed if they were exposed to competition and had limited possibilities to find a job in other industries. Wages in the restructured industry might decrease not only because of their exposure to competition but also because of the excess of labour supply that cannot be relocated to other industries ⁽²⁵⁾.

b. – The country of origin principle. The «country of origin» principle stated that a service provider complying with the regulation of the country where it is established can provide a service in any other member state. Under this principle, states would not be able to restrict the provision of a service by a company established in any other Member State. The principle was part of the initial proposal of the Commission but was removed when the directive reached the Parliament. Such a principle would certainly have helped to boost trade between EU states since firms would not need to observe local regulations in order to provide a service in another country. Moreover, it would have created incentives for national governments to simplify their regulation in order to put every company in the market on equal footing to compete.

The quantification of the impact of the country of the origin principle differs according to the source. While Copenhagen Economics quantifies that only 10% of the impact of the Directive would come from the application of the country of origin principle and therefore its impact would have been very limited, DE BRUIJN *et al.* ⁽²⁶⁾ predict that the principle would have had a major impact contributing for about a third to the trade-effects of the directive ⁽²⁷⁾.

Despite being already operational in other fields, such as the electronic commerce directive, the practical implementation of the principle raised many questions since it could have implied the co-existence in the

⁽²⁵⁾ SAINT PAUL, *Making Sense of Bolkestein-Bashing: Trade Liberalization under Segmented Labor Markets*. IDEI Working Paper, no. 353, 2005.

⁽²⁶⁾ See *supra* note 12.

⁽²⁷⁾ These estimates however only take into account the static effects on a limited number of sectors and do not take into account the dynamic effects of the principle through regulatory competition regulation between Member States.

same country of services regulated under different regimes. Certainly, having been approved, further clarifications would have to be provided for the principle to be operational.

c. – The non-existing single market for labour. Unlike trade in goods, trade in services might require the movement of the service provider to the place of delivery (e.g. a doctor visiting a patient) ⁽²⁸⁾. The cross-border provision of services that require the presence of natural persons is not possible if, as it happens in Europe, service providers cannot freely move across borders to provide a specific service.

The fragmented labour markets and social policies within the EU therefore constitute an obstacle to trade in services. As pointed by BERTOLA ⁽²⁹⁾, increasing product market integration in the EU requires coordination of social and labour policies in a coherent EU framework. Ignoring this fact will result in inevitable conflicts between labour and social legislation and the process of product market integration. The process of product market integration cannot therefore be completed without addressing the issue of cross-border labour mobility.

The Services Directive does not address the issue of labour mobility and refers to the Posted Workers Directive (which establishes that workers temporarily posted to another country should comply with basic labour legislation of the receiving country regarding minimum wage, social and health protection and leave periods). However, the issue of self-employed workers and the possibility to circumvent local legislation through self-employment remains unsolved. WINTERS *et al.* ⁽³⁰⁾ evaluate the gains from increasing temporary workers mobility and conclude that developed (labour importing) regions will benefit in terms of welfare from lower prices and increased supplies but wages will decrease in importing countries and increase in exporting countries. In this sense, the effects of temporary posting of workers on wages are not different from those of migration.

The implementation of the Services Directive will probably coincide with the full opening of borders to labour mobility within the EU. Therefore, the potential effects of services liberalisation on wages would be diluted in the likely much larger impact of free labour mobility. However, the

⁽²⁸⁾ This is known as supply mode 4 under the GATS.

⁽²⁹⁾ BERTOLA, *Social and Labor Market Policies in a Growing EU*, Swedish Economic Policy Review 13:1-2006, pp. 189-232.

⁽³⁰⁾ WINTERS, WALMSLEY, WANG, GRYNBERG, *Liberalising Labor Mobility under GATS*, Economic Paper 53, Commonwealth Secretariat, London, 2002.

asymmetry of social and labour policies will still be an issue in the case of service providers moving from one country to another to provide a service.

7. – The Services Directive aims to remove those regulations that restrict market entry and to simplify regulation in order to make it more effective. The economic rationale underlying the Services Directive is similar to other processes of liberalisation: the removal of restrictions to market entry and trade increases competition, lowers prices and raises output. Further competition also implies a better reallocation of resources across sectors in the economy which results in an overall better performance of the economy. Also, open markets facilitate the diffusion of existing technologies and innovation by new firms.

The quantification of these benefits is however not an easy task given the broad number of industries involved, the various types of existing regulations and the lack of appropriate data on industries and policies. Evidence from different sectors shows the benefits of removing entry and operational restrictions. It is therefore not so important to quantify the global impact but to be able to identify the relevant obstacles that deter market entry and prevent trade. The identification of such obstacles requires rigorous economic analysis to balance legitimate policy objectives of regulation and potential anticompetitive effects.

The impact of the Services Directive will however depend on how member states implement it. The wording of the directive gives member states a broad scope of freedom for its implementation. The full implementation of the directive might not necessarily result in more homogeneous regulation across the EU. The way the directive is implemented will be crucial to maximise its effect. In order to reduce heterogeneity of regulation across the EU, it will be essential that member states coordinate their regulatory policies. The impact of the directive will be larger if competition restricting regulations are removed and regulations with «legitimate objectives» are as homogeneous as possible across the EU.

The Services Directive completes to certain extent the agenda of the Single Market Programme initiated in the mid eighties. After the implementation of the Services Directive, the basis for a single market for goods, services, capital and workers will have been set. Future policy initiatives to make further progress in the creation of the Single Market will need to be more targeted and specific and identify those sectors and measures which are crucial to the well-functioning of the Single Market. The era of large-scale policy projects is over. It is now about time to get into the details.