



SURVEY ON BARRIERS TO THE SINGLE MARKET

EXECUTIVE SUMMARY

This report summarizes findings of a survey in September 2019 on cross-border trade barriers in the EU Single Market, done with over 300 respondents representing member companies of Confederation of Finnish Industries EK (“EK”). The results call for more integrated implementation and unification of EU regulations. Singled out key issues are both practical (difficulties in finding potential partners) and regulatory of nature (different standards, certification or technical requirements). Companies experience it difficult to operate without local partners due to issues with protectionism, lack of harmonization and varying implementation of rules.

1 KEY FINDINGS – TOP TRADE BARRIERS

Top five¹ barriers based on the **multiple-choice** questions:

1. Different standards, certification or technical requirements
2. Hard to find potential partners
3. Debt collection
4. Different regulatory requirements
5. Setting up legal entity with authorizations, bureaucracy

Based on the **free-text** answers,

- protectionism, especially in public tenders; and
- lack of harmonization and/or implementation of EU regulations

2 BACKGROUND – FINNISH TRADE IN THE SINGLE MARKET

Finland has 85 000 companies which employ other people than the owner/entrepreneur. EK currently estimates that 27% percent of these (or 23 000) are in trading also outside Finland. This is, by a rough estimate, an increase by 6 000 companies within a decade. Finnish export companies trade mostly in goods (58%), followed by the service sector (32%) and companies who trade equally in both (10%). The Single Market is the biggest export market, and 78% of export companies expect their EU-trade to grow in the next five years.²

¹ Based on combination of percentages and absolute number of respondents, see survey results next page

² Survey on international trade, September 2019, Confederation of Finnish Industries. Link to the summary https://ek.fi/wp-content/uploads/Yrityskyselyn_tulokset_Kansainvalistyminen_09_2019.pdf (in Finnish only).

3 BARRIERS TO SINGLE MARKET – SUMMARY OF SURVEY FINDINGS

Fig.1

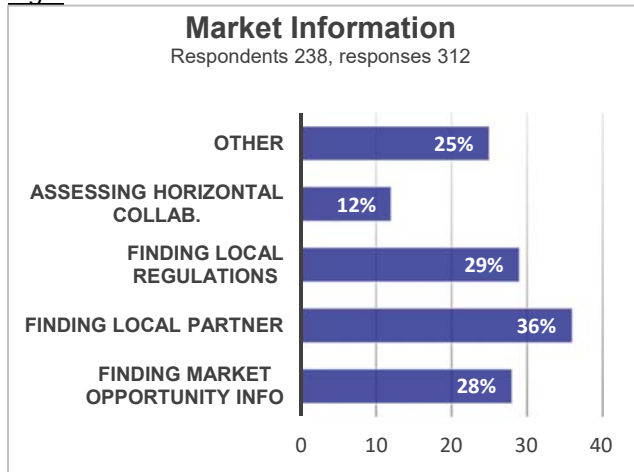


Fig. 2

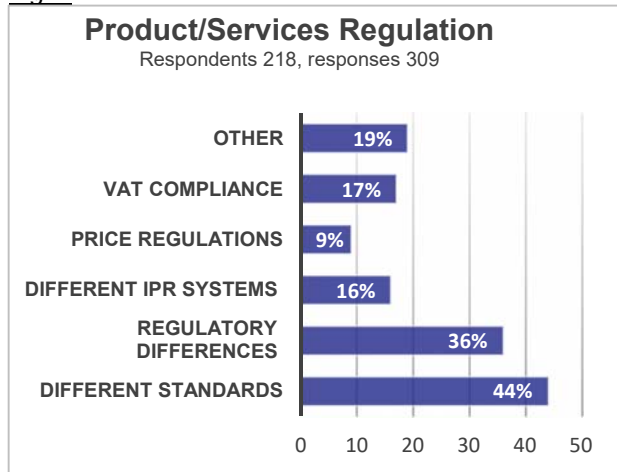


Fig. 3

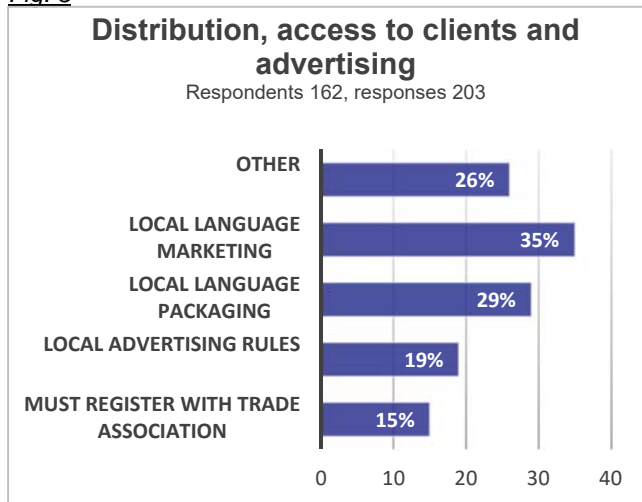


Fig. 4

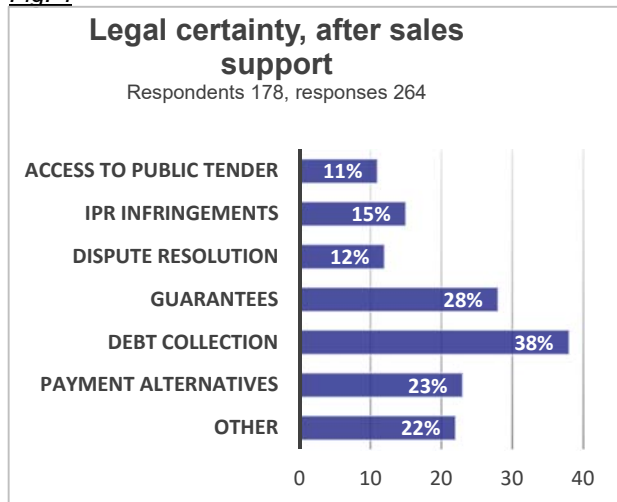
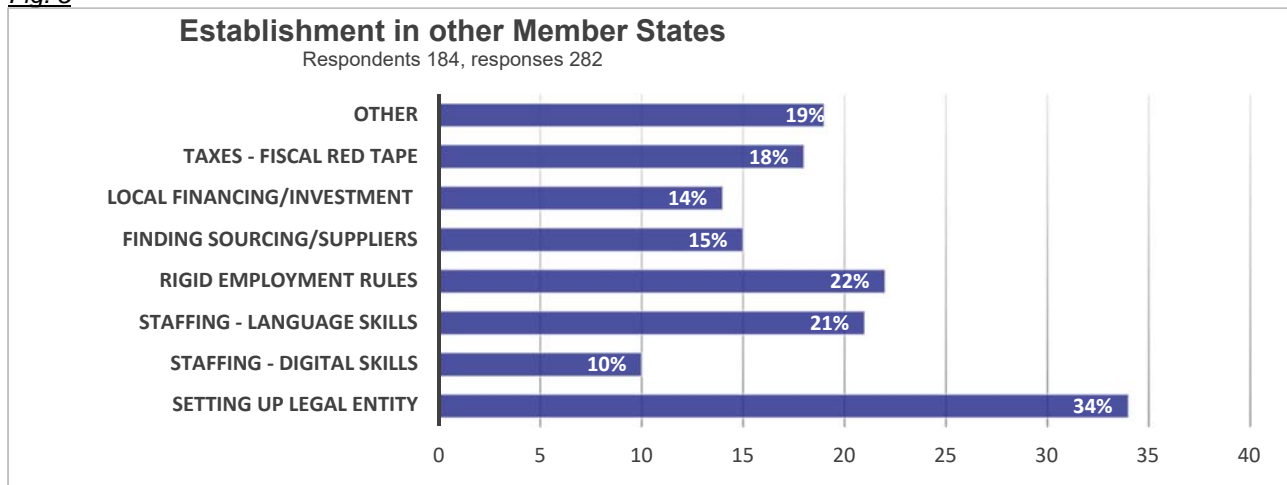


Fig. 5



For survey design details, please refer to Section 4 below and for questions, see [Appendix 1](#).



4 SURVEY DESIGN

The survey was done online with randomly selected companies from EK's member registry:

- Sent to 3,800+ companies, respondent base 300+ in total. All with minimum 10+ employees. The respondent companies employ together roughly 69 000 people.
- Target companies represent 4 sectors:
 - finance/insurance (15 respondents),
 - commerce (76 respondents),
 - technology (165 respondents) and
 - services (52 respondents)
- 48 respondents represented companies with over 250 employees, and 260 represent SMEs.
- The survey (*Appendix 1*) is divided into 5 main sections, reflecting different aspects of a cross-border business journey. It contains multiple-choice, multiple answer questions (i.e. choose as many as applicable), plus free text questions.

While the answers in the questionnaire reflect volume, the survey does not yield much information of their relative importance as an issue. Very few respondents quantified their answers. For some issues, there is clearly overlap (language)³, and the respondents may have used certain terms interchangeably (standards, regulations, rules). It is important to understand that these are indicative results and further research would be needed to understand both relative importance and the root cause the identified trade barriers.

To note, the survey statements referred to below reflect perceptions and opinions of individual respondents and should not be construed as the official position of EK.

5 SUMMARY AND ANALYSIS OF FREE TEXT RESPONSES

In connection of the survey, the respondents were asked to elaborate their answers. Below we go through the key feedback and trends identified in these free-text responses. The order is based on a very rough estimate on "weighed" importance of issues, based on a rough estimate of the number of comments in the free text. To note, Germany probably stands out in the answers as it is the biggest single export country.

5.1 General issues and access to information

Many respondents commented that there is a lot of red-tape and unnecessary administration, at times affecting universally all companies local and non-local alike and sometimes there are protectionist undertones.

Many commented that it is hard to find both industry specific and consolidated information, and general information on rules applying to all enterprises. This is causing delays, even to a point of being a total barrier to market entry. Digitalization and "one-stop-information-shop" solutions were suggested, and even identified as a business opportunity:

³ To note, language requirements and preferences in advertising and packaging were mentioned by many, but as that was split up in several questions, no single question rose to the top 5.

- *“Suggestion: Create a mobile app that easily brings all Commission services to the individuals and companies. Almost like a dashboard of the services that you provide then by one click you get all the relevant info to view and further processing”.*⁴
- *“We are making a service whereby services in the construction sector can be sold in all EU countries without bureaucracy. Data is entered once only and after that all info is gathered from source registers. Only barrier is authority data still safely tucked away in silos.”*

The responses indicate that a service to promote easy access to information and services seem to be in high demand. Finland has been spearheading **the application of AI technologies to promote proactively public services, with intention of creating predictive service paths through its Aurora AI program.**⁵ Commission could play a role in identifying, sharing and reapplying similar best practices from public and private sectors across the Single Market.

5.2 Local Partners

“Companies in any member state should be able to run pan-EU-business without local establishment as easily as with local legal entity. Adding additional legal units just increase costs and complexity and is a true barrier for business for smaller companies.” The respondents identified issues across the value chain, from assessing and finding good dealers and partners even before entering the market and in the bidding phase, to after sale services (e.g. installation and construction of equipment).

Difficulties in finding a local partner ranked high in the survey as a trade barrier. This is not surprising, as experiences with protectionism, lack of harmonization and varying implementation makes it difficult to function without local partners (see further discussion below). **The results indicate that finding a local partner is a significant opportunity area**, and Commission is encouraged to explore its role in identifying and/or coordinating some type of B2B partnership platforms.

5.3 Protectionism and Public Tenders

Several responses referred to protectionism, especially in relation to public tenders. Either they were considered to favor local suppliers by “optimizing” for local specifications, or participation was very cumbersome and time consuming, with every Member State having their own processes. One respondent summarized their experiences as follows:

- *“In public tenders, you may come across:*
 - *requirement for prior references within very specified field, obviously tailored to favor the preferred supplier*
 - *unjustified support request in specific languages*
 - *unreasonable requirements for service attention (response time), effectively prohibiting remote bidders to comply*
 - *extensive (and not relevant yet reasonable) documentation requirements regarding the bidder's organization, business plans, ownership, other business, key employee background etc.”*

⁴ Note: Survey quotes are edited slightly to correct spelling mistakes, and shortened and emphasized for convenience.

⁵ <https://vm.fi/en/auroraai-en>

France and **Germany** were called out for having public bodies that do not participate in public biddings, unfortunately no specific examples were given. In **Italy**, anti-corruption regulation seemed to cause disproportionate administrative burden to non-local companies participating in public tenders. ESPD (European single procurement document) process was singled out as especially difficult in **Poland** by one respondent. While there were mentions of things running rather smoothly in the **Nordic** region, one respondent reported difficulties in tenders (e.g. requirements that architects must have **Finnish** as mother tongue). A certification body in **Germany** was allegedly causing issues (“*extreme approval process by Vds*”)⁶. On the other hand, the **French Commercial Code** and jurisprudence was alleged suffer of a homeward trend.⁷

5.4 Lack of Harmonized Legislation or Different Implementation

General issues mentioned were complexity of regulations and bureaucracy, caused by either not finding the right information, or different implementation of regulations. Sometimes there seems to be issues simply with too much red-tape. More specific comments are discussed below by sector and subject matter.

5.5 European Social Security and Employment Legislation

Information on social security in other Members states appears to some as contradictory and not corresponding to known practices.

- One responded experienced that just explaining the local legislation to foreign business partners was difficult, as other countries do not seem to have a similar system [on a contractor’s notification and other obligations related to foreign workforce].⁸
- Managing different regulations was deemed difficult even within a group of companies: “*We have to make big effort if part of the work is done in other EU country respect to Company taxation as well as our employee taxation. Free move of labor does not work when you are working for one Company.*”
- “*The regulation making sure that social dumping or economical fraud doesn't happen are not harmonized. This should be done, and a PPP-model created with all stakeholders. Social E-Card was classical failure and example how not to do things.*”

5.6 VAT management

VAT recovery was generally considered a significant burden, with input VAT not being recovered because of it. **Several comments reflected on a need for a unionwide common practices of VAT:**

- “*Temporary stock location closer to customers in the target country requires VAT reporting even if products are in supplying companies’ books, complicated compared to direct sales with no common sense reason*”

⁶ Seems to refer to a private, independent certifying body. <http://vds-global.com/en/>

⁷ Specific reference was made to the Tribunal de Commerce and application to Code de Commerce, article L.442-6

⁸ Act on the Contractor’s Obligations and Liabilities when Work is Contracted out (1233/2006), which transposes parts of the directive 2014/67/EU - this is the so-called Enforcement Directive on posting of workers. Based on previously received feedback, this is deemed admin-heavy, including reporting obligations to local authorities.



- *“... why can't all members just use intrastat as a tool to show that goods have left the country. In Poland f.ex. you have to provide a CMR for getting your invoice paid.”*
- *“As of 2021 removal of the VAT de-minimis is a problem for many companies delivering e-commerce shipments. It will cause excessive amount of additional work and costs for the customs clearance of very low value shipments.”*
- *“VAT rules limit organizing subcontractor warehouses & assembly on a different EU country. VAT rules in sales chain, when one party is non-EU, but delivery within EU limit some business opportunities. VAT on services can cause VAT registration needs cross countries.”*
- *“We cannot always recover VAT unless we set up offices in other EU countries. This is getting more frequent.”*

EK notes that **VAT recovery issues imply that the general cost level rises as input VAT that is supposed to be deductible for business is a final cost instead.**

5.7 Transportation and logistics

These regulations got several mentions, such as:

- *“Regulation of transporting dangerous goods is difficult and may result in problems due to different interpretations. Even different German state police forces have different views on what is considered a safe dangerous goods transport (e.g. labeling, securing).”*
- *“In some EU countries it is required for logistics companies to collect social security numbers of private individuals in order to conduct customs clearance. In technical terms this is done for the benefit of authorities for the identification of individuals, customs clearance + tax and customs collection per se can do without this. This is unnecessary process for private companies in the logistics sector dealing with B2C”.*
- *“Within EU there are many regulations in countries for truckdrivers. Road approvals differ - TUV, Finland, France etc.”*

5.8 Lack of harmonized standards and methods

Technical standards for constructions and building materials received several mentions of divergence, consequently making local adaptation of projects a necessity. This was indicated as an important aspect. The comments referred to both product standards, but also testing and type approvals. **Germany** was called out as having protectionist legislation in place and having an administration heavy system. Civil engineering market, machine directive and power grid systems were mentioned as examples of dysfunctional markets and/or misapplied standards. Separately, different accounting standards cause issues for IT-systems and governance.

5.9 Language and Packaging

One respondent summarized that *“using several languages can be costly. To sell in any country you have to use the local language. The importance of this barrier is 9 in the scale of 1 to 10.”* Different rules on many languages are hard to manage. Food marketing seemed to have local rules, which were also difficult to get information of. Some mentioned specific language requirements when selling to public/government customers. Language requirements and preferences in advertising and packaging were mentioned in different context. Many chose this alternative in the multiple-choice section

to indicate an issue but did not share details, so more specific conclusions remain unattainable.

5.10 Banking and Finance

Finance matters are a prominent theme in the survey, and the responses showed a wide range of issues, such as:

- **“E-invoices** between EU-countries is not possible, no common approach. Also many local banks have ineffective and old-fashioned banking systems.”
- **“It is ‘almost impossible’ to open a bank account for a new company. You need to provide numerous documents with endless notary visits.”**
- **Payment terms, cashflow:** Payment policies by larger companies (e.g. “90 days + end of month, in practice 105 days in average”) is an issue flagged by some SME respondents. Others commented differences between Northern and Southern European practices, where the latter region had significantly longer terms on paper and in reality, sometimes even longer.
- **Credit worthiness assessments** were flagged as an issue, connected to challenging debt collection. According to a respondent, “the current commercial credit assessment and insurance companies do not cover the full EU, especially in the Eastern Europe.” **Debt collection** from abroad through judicial system is flagged as extremely time consuming and costly, and “punishes the good companies and allows the dishonest, misbehaving companies to exist in the market.” This was raised by a respondent as **one of the biggest barriers for growing business.**
- **PSD2** is very differently interpreted in different countries.
- **Factoring services** have not been available for sales in Germany as due to local regulations the risk is deemed higher.

5.11 IPR and Dispute Resolution.

Patenting in EU was found too cumbersome and expensive for small companies, and seriously impeding trade. Legal cost for defending IPR was deemed too high and time consuming. One respondent called for [clarification of] rules and legal effect of arbitration awards within EU.

5.12 Construction

Despite of harmonization efforts, different legislation, standards and traditions exist, and these effectively stop and hinder export activities. For example, Germany (DiBT) and crane business mentioned

5.13 Marketing

One respondent commented that direct marketing rules in B2B relation are too strict in EU, especially as applied in Germany. It takes several years to be able grow with own customer contact data for direct marketing and this way local companies have advantage of historical contact network that cannot be bought or shared by new players from other countries. This advantage impedes new market entries.

APPENDICES

Appendix 1, Survey template



APPENDIX 1: SURVEY TEMPLATE

Survey on Trade Barriers

Please estimate what is the percentage of cross-border trade within EU of your turnover

- 0%
- 1 - 25 %
- 25 - 50 %
- 51 - 75 %
- 76 – 100 %

[If 0% chosen: If your company has no business outside Finland, is it because you have experienced barriers to exporting or trading in other EU countries?

- **yes** [if yes, continue to the survey]
- **no** [end the questionnaire – thank for participation]

Please choose an alternative you have experienced as a barrier to business in the single market. You can choose several options.

1. Market information

- hard to find information on market opportunities
- hard to find potential partners
- hard to find information on relevant regulation and procedures
- Difficulties regarding self-assessment of potential horizontal cooperation
- other: [free text]

2. Exporting – product or services regulation

- different standards, certification or technical requirements in member states
- different regulatory requirements
- different system/means locally to protect and manage intellectual property (patent, utility model, trademark, design, copyright, trade secret etc.)
- Price regulations
- VAT compliance and registration related difficulties of problems in recovering input VAT
- other: [free text]

3. Exporting – distribution or access to clients and advertising

- Requirement to register with trade association
- Local advertising restrictions or different rules for marketing
- Local language / translation requirements for packaging
- language / translation requirement for marketing
- other: [free text]

4. Legal certainty and after sale support:

- Payment technology / payment alternatives
- Debt collection
- Guarantees
- Dispute resolution
- IPR infringements
- Access to public procurement or discriminatory practices
- other: [free text]

5. Establishment in other Member States:

- Setting up legal entity with authorizations, bureaucracy
- Staffing: lack of digital skills
- Staffing: lack of language skills
- Staffing: restrictions on flexibility of rules of employment (e.g. temporary, part-time employment restrictions)
- Difficulty in finding sourcing / suppliers
- Difficulties in investing or financing locally



- Taxes: fiscal red tape, difficult tax compliance requirements
- other: [free text]

[Free text box after every question] Please provide more information if needed / as appropriate on barriers mentioned:

1. Barrier #1

Description of the barrier

Describe here the barrier. Indicative length: One paragraphs.

Assessment of the barrier

Provide here an assessment, quantitative if possible, of the importance of the barrier. Indicative length: One to 3 paragraphs.

....