



Review of the European Single Market

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Executive Summary

Background

The European Union (EU) Commission has completed a review of the Single Market, with a view to establishing the reform priorities in the coming years. At the request of the Department of Enterprise, Trade and Employment (DETE) in Spring 2007, Forfás undertook this critical assessment of the Single Market from an Irish perspective. The study assesses what are the economic barriers to trade and what prevents consumers and businesses in Ireland from exploiting the EU Single Market to its full potential. This study adds to the debate as to why the potential of the Single Market has not yet been fully realised.

Creating a Single Market

To begin, steps taken to address the initial obstacles to trade in goods across the EU are assessed. We find that in terms of physical barriers, their removal in 1993 immediately made trading life in Europe far easier, cutting delivery times and reducing costs. Regarding technical barriers, it appears that Mutual Recognition and technical harmonisation policies are not working to their potential, meaning EU level reform is needed. The introduction of a single currency has provided some obvious benefits to both consumers and traders, but reduced exchange rate risk within the Eurozone must be seen in the context of global currency volatility. In terms of fiscal barriers, there has been no substantial change to the status quo since the inception of the Single Market, though Value Added Tax (VAT) reform and the controversial Common Consolidated Corporate Tax Base have been suggested. Regarding services provision and establishment, the Directive on Services in the Internal Market is expected to deliver real benefits. Finally, we find that market surveillance mechanisms could be enhanced, particularly in the areas of citizen information and redress facilities.

Trading in a Single Market

In addition to characterising the nature of recent trade patterns, we assess Ireland's trading intensity with other countries. In doing so, we see that Ireland has more positive trading relationships (exports and imports) since the removal of physical borders across Europe. We also analyse the factors likely to influence the potential level of trade between Ireland and the European continent. This analysis reveals that many of these factors are beyond immediate policy action. In particular, Ireland's trade with the European continent will always be affected by differences in language, distance, cultural ties, and lack of migration from some Member States.

Irish Business and the Single Market

In aggregate, the Single Market is working well for Irish business, yet a number of 'barriers' to trade continue to frustrate traders. The study recounts some Irish SMEs experience of trade in mainland Europe, and reports the outcomes of consultations regarding Irish trade with Poland, France and Denmark. This process reveals many of the obstacles to trade perceived among small enterprises, including:

- 'Costs and payback' issues;
- Lack of market knowledge;
- Cultural differences;

- Network effects;
- Consumer confidence;
- Credit risk issues;
- Different advertising codes and customs classifications;
- Excessive documentation;
- Business banking issues;
- Inconsistent interpretation of legislation;
- Confusion in the application of VAT; and
- Difficulty employing staff abroad.

Irish Consumers and the Single Market

Ultimately, the Single Market is in place to benefit citizens and Irish consumers have a generally positive attitude towards the Single Market. It has delivered real benefits for consumers in terms of the range and quality of the goods and services available, and has made it easier for Irish consumers to purchase goods from other Member States. However, it does appear that Irish consumers are continuing to pay higher prices than many of their European counterparts for some essential goods and services. In addition there is a lack of consumer confidence when it comes to cross-border transactions, while adequate redress and cross border administrative co-operation are not uniformly available. The study finds that e-commerce is not utilised to its potential, despite increased access to the internet and rapid development in internet shopping.

The recommendations proposed in this Review have the overriding objective of removing remaining barriers to the full potential of the Single Market. Forfás recommends that DETE should direct those policy actions that are wider than the remit of the Department to the appropriate actors for their review and possible action.

Recommendations Summary

Business Policy Recommendations

Finance Issues

- New EU VAT rules for cross-border business should be introduced to shift the place of VAT taxation to where services are consumed, to replace the existing rules based on the location of the supplier.
- An online VAT registration, declaration and refund facility should be established for cross-border traders. A co-ordinated information and awareness campaign must complement this facility.
- Credit terms and procedures should be streamlined across the EU.
- Best practice in terms of business banking should be rolled out across the EU, particularly for the securing of loans.
- Measures to encourage cross-border insurance provision should be introduced.

Information & Awareness

- An electronic market-alert system for business should be set-up to keep enterprise informed of important and relevant EU proposals, decisions and changes.
- Consideration should be given to selective promotional and awareness activities that would encourage the retail sector to undertake more cross-border sourcing.
- Public procurement notification across the Community should be online and comprehensive.
- Market prices for a selection of key production inputs from different countries should be published to encourage firms to identify potential suppliers in other countries.
- Ireland should work to improve bilateral trade with Member States where bilateral trade is weak and where a positive return from market entry seems likely.
- SOLVIT Ireland should construct a three-year strategy to increase awareness of this resource among businesses.

Non-tariff Barriers

- The EU should take steps to guarantee uniform and predictable cross-community customs classifications to ensure they do not represent a barrier to trade.
- An EU level review of the retail and distribution sector should be undertaken to identify obstacles to realising the potential of the Single Market.
- The reasons behind traders 'refusal-to-trade' across borders should be investigated at EU level with a view to ensuring maximum choice for consumers.
- Labelling requirements should be reviewed to determine the extent to which they represent a barrier to trade, and appropriate action taken.
- A unified, agreed EU Advertising Code should be introduced to establish norms and certainty.

General Trade Facilitation

- There should be maximum co-operation at EU level between agencies involved in enterprise and business start-up support activity.
- Ireland should progress the implementation of a 'Single Window' trade facilitation system to reduce administrative burden on businesses.
- Progress must be made towards agreeing the "Community Patent" for the EU.
- Efforts at EU level to remove unnecessary national standards requirements, as well as clarification of application of the Mutual Recognition principle, should be intensified.

Consumer Policy Recommendations

Information & Awareness

- The EU should begin consumer information campaigns with a Single Market focus.
- The National Consumer Agency should lead consumer-redress awareness and facilitation.
- SOLVIT Ireland should construct a three-year strategy to increase awareness of this resource among consumers.

Prices

- Formal and ongoing investigation should be undertaken into price differences across the EU for a basket of typical consumer goods and services.
- Irish consumers should be given access to these regular cross-border price comparisons, as well as education and advice on how best to go about protecting their interests when shopping online or abroad.

Other EU Initiatives

- An action plan should be prepared of key initiatives to be taken by the Government and perhaps at an EU level to unlock the potential of e-commerce for consumers.
- All new relevant EU proposals should clearly demonstrate positive consumer welfare benefits.

Banking / Postal Sector

- There should be an up-to-date assessment of the implementation of the Competition Authority's outstanding recommendations on consumer choice and the cost of banking. In addition, there should be an assessment of what measures, if any, should be taken by Ireland in the light of EU inquiries into retail banking and insurance to protect consumers' interests.
- Ireland should pro-actively support EU proposals to achieve the full liberalisation of the postal market by 2009.

Chapter 1: Introduction and Overview

The European Commission has completed a review of the Single Market, with a view to establishing the reform priorities in the coming years. The Commission's Review was launched in November 2007, with conclusions to be discussed at the Spring European Council in 2008. Within this context, and at the request of Department of Enterprise, Trade and Employment (DETE), Forfás has undertaken a critical assessment of the Single Market from an Irish perspective. More specifically, the study seeks to assess where the real economic barriers are and what prevents consumers and businesses in Ireland from exploiting the EU Single Market to its full potential.

In 1985 the Commission published a detailed programme for the creation of a Single Market. The mandate, handed down by the European Council, focused on the need to create a Single Market which in turn would stimulate enterprise, competition and trade. The initial White Paper touched on a variety of issues, such as service trade, labour movements and capital movement. That said, the primary focus of early attempts at creating a Single Market focussed on the trade in goods.

The main obstacles to trade as identified in the White Paper were as follows:

- Physical barriers: The early focus of the Single Market programme was the removal of border posts which was achieved in January 1993. This immediately made trading life in Europe far easier, cutting delivery times and reducing costs.¹
- Technical barriers: Technical barriers arise as a result of discrepancies among individual countries' laws. It was believed that the free movement of goods in the European market was undermined by different Member States' standards and laws, relating primarily to technical aspects of goods, health, public safety and environmental issues.² The removal of these barriers to trade was seen as fundamental to the creation of the Single Market³, and has been the subject of much of the legislative effort over the last two decades.
- Multi-currency environment: The existence of a large number of currencies was thought to impose a large cost on firms wishing to trade within the EU, as well as introducing uncertainty which undermined long-term business planning. In an effort to remove these barriers the Euro was introduced in 1999.
- Fiscal barriers: Fiscal barriers arise from discrepancies in rates of indirect taxes (whether in the form of VAT or excises) in force in the different Member States. There has been no substantial change in the status quo relating to fiscal barriers since the inception of the Single Market.⁴

Despite the progress that has been made, there are concerns that the Single Market is not working as efficiently as it could. Numerous studies show that a very strong 'home bias' exists in purchasing behaviour. Even when other factors such as distance are accounted for, trade *within* EU countries is

1 European Commission (2002), "The Internal Market- Ten years without Frontiers".

2 United Nations (2001), "The Facilitation of Trade in the European Union", FAL Bulletin, Issue No. 184, December.

3 Commission of the European Communities (1985), "Completing the Internal Market", June

4 United Nations, (2001), "The Facilitation of Trade in the European Union", FAL Bulletin, Issue No. 184, December.

ten⁵ to fourteen⁶ times larger than trade *between* countries. This phenomenon prevails in other free trade areas, with studies showing that trade within a country is about 10-20 times larger than between countries.⁷ Although the magnitude of border effects in the EU has declined somewhat since the 1980s⁸, what is worrying is that home bias in Europe remains so strong despite the Single Market programme. A further study⁹ showed that the degree of trade integration within NAFTA (North American Free Trade Agreement) has increased substantially since it came into effect on 1st January 1994, a pattern that is not nearly as evident within European economies.

An additional worry is that while many businesses are now taking better advantage of the common markets, many consumers remain unable to do so. Indeed, the Commission acknowledges that the Single Market is not a full reality for consumers. Markets are still too fragmented in areas such as services, retail financial services, public procurement, transport, energy and telecoms. Also, further action is needed to enable consumers to purchase across borders as easily as within their home Member State.¹⁰ At present significant disparities still exist between the prices paid for many consumer goods and services in Ireland and those in other Member States. These disparities cannot be explained by reference to the difference in VAT rates alone.

1.1 Outline of Study

This study will open with an overview of the mechanisms used for the purpose of freeing up the movement of goods. We will then review the evidence regarding what factors are thought to drive bilateral trade volumes. Specifically, we take an in-depth look into the destination of Irish trade. Broader dynamics within the EU Single Market will be examined here, such as cultural and other links that improve the connectedness of Europeans. With the aid of intensity indices and a gravity model we aim to quantify the impact of the Single Market on trade.

Following early efforts in the removal of physical trade barriers, the focus of the EU Commission has now shifted towards how the Single Market can function better for citizens. For the consumer the Single Market means the right to avail of a wider choice of products and services, at competitive prices. This study will in turn examine the benefits the Single Market has brought to the consumer. The study then provides some company specific examples of where the EU Single Market has fallen short of its goal, before finally offering some conclusions and recommendations for consideration by DETE.

5 Nitsch, V. (2000) "National Borders and International Trade: Evidence from the European Union" Canadian Journal of Economics, Vol. 33, No.4

6 Vancauteran, M. and Weiserbs, D. (2003), "The impact of the Removal of Technical Barriers to Trade on Border Effects and Intra-Trade in the European Union", Université Catholique de Louvain, October.

7 See McCallum, J. (1995). "National Borders Matter: Regional Trade Patterns in North America." American Economic Review 85(3): 615-23, Helliwell, J. (1998), "How Much Do National Borders Matter?" Washington DC, Brookings Institution.

8 Vancauteran, M. and Weiserbs, D., (2005), "Intra-European Trade of Manufacturing Goods: An Extension of the Gravity model", Discussion paper.

9 Mayer, T., (2007), "The Single Market: An Assessment of Using the Impact of Borders on Trade Flows", University de Paris, CEPPII, and CEPR

10 European Commission: Public Consultation on the Future of the Internal Market.

Chapter 2: Steps towards a Single Market

2.1 Introduction

Initial efforts at creating a Single Market focussed on goods trade. The main obstacles to this identified were:

- Physical barriers;
- Technical barriers;
- Multi currency environment;
- Fiscal barriers;
- Services Provision and Establishment; and
- Market Surveillance

In this chapter we outline the progress that has been made under each of these headings.

2.2 Physical Barriers

A prime focus of the Single Market programme was the removal of border posts. Before this, the administrative formalities associated with cross-border trade were formidable. Businesses were required to fill in ten different sets of forms for exporting to ten different Member States. While this had eased somewhat in 1988 with the introduction of the 'Single Administrative Document', 80 to 100 million customs documents still had to be filled in every year.¹¹

On 1 January 1993, the physical barriers for goods at borders were removed. Further, millions of customs documents were no longer required. This immediately made trading life in Europe far easier, cutting delivery times and reducing costs.¹²

2.3 Technical Barriers

Prior to 1992, regulatory conformity in goods trade was minimal. For industry, negotiating their way through the maze of national technical regulations was cumbersome and time consuming. SMEs (small and medium enterprises) were identified as being the most affected by the heterogeneous nature of national standards in fields such as commercial law, intellectual property, technical regulations and quality standards.¹³ National technical rules that resulted in barriers to trade were widespread. In 2000 it was estimated that they reduced trade in goods within the Internal Market by up to ten percent - or €150 billion.¹⁴

11 Commission of the European Communities, (1985), "Completing the Internal Market", June.

12 European Commission, (2002), "The Internal Market- Ten years without Frontiers".

13 United Nations (2001), "The Facilitation of Trade in the European Union", FAL Bulletin, Issue No. 184, December.

14 Commission of the European Communities, (2007), "Laying Down procedures relating to the Application of certain national Technical Rules to Products Lawfully Marketed in Another Member State and Repealing Decisions", February.

To overcome these problems, two basic solutions were devised: enforcement of the Mutual Recognition principle and, if this failed, technical harmonisation of standards across Member States.¹⁵

2.3.1 Mutual Recognition

The European Union's policy of Mutual Recognition is an important tool for facilitating the free movement of trade among the Member States. Mutual Recognition ensures that reasonable national regulatory standards will be respected by other Member States as their own laws. Such guidelines enable all goods and services to compete equally throughout the European Union countries and their markets.¹⁶ This was the precedent set by the European Court of Justice, in particular through the 'Cassis de Dijon' case. From this and subsequent case law, the key principle evolved - that in the absence of Community measures, Member States are free to legislate on their territory. Barriers to trade that result from differences between national legislations may only be accepted if national measures are necessary to satisfy mandatory requirements, serve a legitimate purpose and are proportionate with the aims.¹⁷

Mutual Recognition generally applies to products that are new and specialised, with the approach highlighted as being relatively effective for equipment goods and consumer durables. In 2000 it was estimated that 28 percent of intra-EU manufacturing trade is covered by Mutual Recognition.¹⁸ The application of the Mutual Recognition process, however, requires a degree of trust between countries and regulatory authorities in the equivalent levels of protection that each can provide.¹⁹

2.3.2 Harmonisation of Technical Standards

Where uniformity on certain products cannot be agreed between Member States the EU has sought to remove technical barriers to trade through the Old and New Approaches, whereby a common set of legally binding requirements are agreed among Member States. These regulatory techniques were designed to free up barriers to trade that could not be addressed through the Mutual Recognition process.

The initial approach (now termed the Old Approach) detailed specific product-by-product and even component-by-component technical regulation. Minimal progress was achieved with this approach to technical harmonisation as detailed directives were difficult to agree upon and they required long consultations.²⁰ The Old Approach applied mostly to products with a high level of perceived risk (chemicals, motor vehicles, pharmaceuticals and foodstuffs).²¹ The ineffectiveness of this

15 Vancauteren, M and Weiserbs, D. (2005), "Intra-European Trade of Manufacturing Goods: An Extension of the Gravity Model".

16 Littlefield, K., (2004), 'Crème de Cassis', TED Case Studies, Number 720

17 European Commission, (2000) "Guide to the Implementation of Directives Based on the New Approach and the Global Approach".

18 Commission Communication on Economic Reform (2000), "Statistical and Technical Appendix to the 'Report on the Functioning of Community Product and Capital Markets'".

19 Vancauteren, M and Weiserbs, D (2003), "The impact of the Removal of Technical Barriers to Trade on Border Effects and Intra-Trade in the European Union", October.

20 Vancauteren, M. (2002), "The impact of Technical barriers to Trade on Home Bias: An Application to EU data", August.

21 Vancauteren, M and Weiserbs, D. (2005), "Intra-European Trade of Manufacturing Goods: An Extension of the Gravity Model".

approach was highlighted in a 1987 study which showed that new national regulations were evolving at a much faster rate than the production of EU harmonised directives.²²

2.3.3 New Approach

This led to the establishment of the New Approach in 1985 (also known as the “CE marking” directives).²³ This approach aimed to overcome the drawbacks associated with the Old Approach to technical harmonisation. Within this approach, harmonisation is limited to essential requirements that products placed on the Community market must meet, if they are to benefit from free movement within the Community. New Approach Directives do not contain technical detail but rather broad safety and other basic requirements that have to be translated by the manufacturer into technical solutions.²⁴ Products manufactured in compliance with harmonised standards benefit from a presumption of conformity with the corresponding essential requirements.²⁵

Within the New Approach directive, Member States can adopt additional provisions regarding the use of particular products, if these measures add to the protection of workers or other users, or the environment. Such national provisions may require additional modifications to the product.²⁶ By 2007, the New Approach covered a large proportion of products marketed in more than 20 industrial sectors, including electro-technical products, machinery, radio/telecoms equipment, toys, medical devices, construction products and high speed rail systems. It is also estimated that the trade in products covered by the major New Approach sectors is in excess of €1,500 billion per year.²⁷

The New Approach has facilitated the updating of standards at a much faster rate than legislation. It has been seen as a useful tool for avoiding overly scrupulous regulation with some considering whether a procedure similar to the New Approach could be expanded to include sectors other than product harmonisation, such as the free movement of services.²⁸ However, shortcomings have also been noted, particularly in the fields of market surveillance (enforcement of legislation at a national level) and to ensure coherence of the rules for the operation of Notified Bodies for conformity assessment. In June 2006, this led the Commission to launch a public consultation²⁹ seeking the views of all interested parties on improving the New Approach, primarily in the areas of conformity assessment, CE marking and market surveillance.³⁰ The contributions received confirmed that the EU should build on existing measures as opposed to creating a new system. Practically all

22 Pelkmans, J. (1987), “The New Approach to Technical Regulation”, *Journal of Common Market Studies*.

23 European Commission, (2007), “The Internal Market for Goods, Harmonisation of Technical Regulations and the New Approach Concept”, January.

24 ECFIN, (2007), “Steps towards a Deeper Economic Integration: the Internal Market in the 21st Century. A Contribution to the Single Market Review”. January No. 271.

25 European Commission, (2000), “Guide to the Implementation of Directives Based on the New Approach and the Global Approach”.

26 European Commission, “Scope of the New Approach Directive”.

27 European Commission, (2007), “The Internal Market for Goods, Harmonisation of Technical Regulations and the New Approach Concept”, January.

28 Non-Paper – Finland (2007), “Single Market Review”, 11th July.

29 For more information, see: http://ec.europa.eu/enterprise/newapproach/review_en.htm

30 European Commission, (2007), “The Internal Market for Goods, Harmonisation of Technical Regulations and the New Approach Concept”, January.

contributions supported a Community market surveillance system with an information and cooperation system between national authorities.³¹

2.3.4 Mutual Recognition and Harmonisation in Practice

Between 1986 and 1992, the EU adopted nearly 280 separate items of legislation opening up previously closed national markets. In certain sectors twelve sets of national regulations (for each of the twelve Member States) were replaced by one common European rule. This reduced the complications and costs for any business trying to market a product throughout the European Union. By 1994, these measures were predicted to be significant. An ex-post evaluation in 2002 showed the impact to be particularly positive in the poorer regions of the EU which enjoyed the highest growth rates.³²

Previous surveys carried out for the EU Commission in 1999 indicate that the Mutual Recognition principle is working well for products that pose few safety problems, although optimisation is constrained by concerns about the application of Mutual Recognition in everyday practice.³³

One of the problems in examining Mutual Recognition concerns the availability of reliable information necessary for evaluation. While it is clear that the principle is important in a number of industry and services sectors, figures do not allow a precise estimation of the economic impact of Mutual Recognition. The only figures available for analysis concern the number of complaints lodged with the EU Commission. The number of cases where producers have complied with countries' requirements or withdrawn their products is unknown. The areas most affected by Mutual Recognition are; food, electrical engineering, vehicles, precious metals, construction and chemicals.³⁴

A recent study³⁵ found that harmonisation of technical regulations in the food industry has increased intra-EU trade. Results suggest the effect of the harmonisation regulations varies significantly but remains positive for most sub-sectors. This is supported by a 1998 study which quantitatively assessed the extent to which Mutual Recognition and harmonisation have succeeded or otherwise.³⁶ Using a five-point scale the study assessed the legislative impact of various approaches taken to alleviate technical barriers. The results showed that of the goods covered by EU legislation, 93 percent were classified as 'functioning well' or better. In the remainder of cases, either no solution had been adopted or a solution had been adopted but not effectively.

31 European Commission, (2007), "Setting out the Requirements for Accreditation and Market Surveillance Relating to the Marketing of Products", Com(2007) 37 Final.

32 European Commission, (2002), "It's a Better Life: How the EU's Single Market Benefits You".

33 Second Biennial Report on the Application of the principle of Mutual Recognition in the Single Market, COM (2002) 419 final.

34 European Commission, "The Mutual Recognition Principle in the Single Market"

35 De Frahan, H and Vancauteren, M., (2006), 'Harmonisation of Food Regulation and Trade in the Single Market: Evidence from Disaggregate Data.

36 CEC, 'Technical Barriers to Trade', Volume 1 of Subseries III Dismantling of Barriers of the Single Market Review, Office for Official Publication, Luxembourg.

Problems with Mutual Recognition have been on the Council of Minister's agenda since 1998 and this is continually highlighted in various Commission action plans and strategies. The latest Internal Market strategy has stated that the structure of Mutual Recognition needs improvement.

"Specific rules are needed to give Mutual Recognition more structure so as to enhance transparency and to encourage national authorities to act more 'European'. The Commission and Council believe this could best be achieved by means of a new Community Regulation establishing key principles".

There has been a significant amount of public consultation over the past couple of years in an effort to highlight the precise problems and the relating solutions. Requests from Member States and businesses to improve the functioning of Mutual Recognition in the non-harmonised product area led to the 3052/95/EC decision, which established a procedure for the exchange of information on national measures derogating from the principle of the free movement of goods. As a result of this decision, Member States are required to notify the Commission of all measures constituting obstacles to free trade of products legally produced and sold in another Member State. However, this decision did little to improve the functioning of Mutual Recognition. The remaining problems relating to Mutual Recognition are as follows:

- Lack of awareness of the principle. National administrations give the impression that their rules always prevail. Businesses and administrations take the national rules for granted and rarely rely on the Mutual Recognition principle to challenge any decision;
- Legal uncertainty about the scope of the principle and the burden of proof. Businesses generally are uncertain what products are subject to Mutual Recognition. Where uncertainty is present most businesses comply with national rules. There is also widespread uncertainty about where the burden of proof lies. National administrations and businesses are unsure whether responsibility lies with the exporter or with the national authority;
- Risk for economic operators in another Member State. Exporters can be left in the difficult situation of not knowing what requirements are expected of them prior to market entry. Will Mutual Recognition be applied and if so in what manner?; and
- The absence of a dialogue between national authorities. There is a real need for a common address book for authorities that wish to contact their colleagues in another Member State. This adds to the difficulties for competent authorities to assess a product that is lawfully marketed in other Member States.

In light of these problems the Commission has offered a number of solutions. They aim to produce an indicative list of products covered by Mutual Recognition, define the rights and obligations of all parties involved in the process, create structure and dialogue between competent authorities, establish product contact points and lastly to repeal decision 3052/95/EC.³⁷ Progress on these proposals must be monitored closely.

³⁷ Davitt, M, Standards Inter-Departmental Forum, National Standards Authority of Ireland, June 2007

2.4 Multi-currency Environment

The Euro was introduced to world financial markets in 1999 replacing previous national currencies, although the physical coins and banknotes were introduced in 2002. It now is the currency of 15 of the EU's 27 Member States. An important motivation for introducing the Euro was that the existence of multiple currencies in Europe was thought to impose a large cost on firms wishing to trade within the EU, as well as introducing uncertainty which undermined long-term business planning. This in turn, it was thought, would have a number of knock on effects:

- Greater specialisation and comparative advantage among EU members;
- Lower prices;
- Greater product diversity; and
- Greater share of world trade, due to more efficient producers of scale.

A review of the studies to date on the impact of the Euro suggests that its adoption probably boosted intra-Eurozone trade by five to ten percent on average, although the author cautioned that the estimated size of this effect is likely to change as additional years of data emerge.³⁸

One study³⁹ in 2006 investigated the impact of the Single Market (in particular Ireland's participation in currency unions) on Irish trade patterns. The study relied on a long time series of data, running over 1950-2004, for Ireland's twenty-one major trading partners. The findings showed that in contrast to most of the multi-country panel studies, the EMU appeared not to have any impact on Irish trade. These findings support a further hypothesis⁴⁰ that the EMU has had a bigger impact on the 'core' Member States than on the peripheral member countries that have weaker economic linkages with the rest of the currency union.

2.5 Fiscal Barriers

According to the initial Single Market White Paper⁴¹, fiscal barriers arise from discrepancies in rates of indirect taxes in force in the different Member States. By and large, Member States design their own tax systems according to their preference and there is no absolute harmonisation of national tax regimes. However, the EU Commission is working on proposals for Common Consolidated Corporate Tax Base (CCCTB), with varying tax bases throughout the EU having been judged to result in higher compliance costs in cross border trade. The Commission's proposals are expected to emerge by the end of 2008.

Ireland's opinion on the CCCTB is well known. Ireland supports the Commission's efforts to develop the Single Market and to transform the EU into the most competitive economic zone in the world

38 Baldwin, R., (2006), "The Euro's Trade Effect", European Central Bank.

39 Dwane, Lane and McIndoe, (2006), "Currency Unions and Irish External Trade", Institute for International Integration Studies, November Discussion Paper.

40 Baldwin, R. (2006), "The Euro's Trade Effect", European Central Bank.

41 Commission of the European Communities, (1985), "Completing the Internal Market", June.

but the CCCTB is not the way to do it. In relation to direct taxation, resources would be better targeted at real barriers and at clearly identifiable problems that will yield true benefits for Member States. The purpose of the Forfás study is to deliver an effective Single Market for citizens of the EU. Ireland cannot see how the CCCTB would in any way aid this goal.

Neither is there evidence that a CCCTB would reduce double taxation or compliance costs for cross-border activities. There is no evidence to suggest that a CCCTB would address issues such as competitiveness or transfer pricing. In Ireland's opinion, a CCCTB will not improve European competitiveness or advance the Lisbon agenda nor will it do anything to enhance the functioning of the Internal Market. A single base would do away with the flexibility to respond to changing circumstances and would mean that the EU would progress at the pace of the slowest Member State.

Until such time as a clear independent assessment on the effect of a CCCTB on the EU's competitiveness in a globalised world is produced, it should not be presumed that a CCCTB is capable of achieving its stated aims.

Another fiscal issue to cross border trade concerns VAT. A substantial amount of companies have cited cross border repayment of VAT as a major difficulty, with a number of large companies not requesting VAT refunds because of the complexity or the length of the procedure.⁴² The issue of changes to VAT is discussed in section 6.2.1. In general there has been no substantial change in the status quo relating to fiscal barriers since the inception of the Single Market.

2.6 Services Provision and Establishment

On 13 January 2004, the European Commission adopted its original proposal for a Directive on Services in the Internal Market. Its objective was to provide a legal framework that would eliminate the obstacles to the freedom of establishment for service providers and the free movement of services between the Member States, giving both the providers and recipients of services the legal certainty they need in order to exercise these two fundamental freedoms enshrined in the Treaty.

The Directive, which was adopted in December 2006 after much controversy and following amendments to the original proposal, will facilitate cross-border provision of commercial services through provisions making it easier for service providers to established in another Member State (essentially to have a physical presence there) or to provide services to another Member State without being established there (so-called temporary movement). It contains important provisions on administrative co-operation between Member States, provisions that are intended to generate trust and confidence between them as well as giving consumers and service providers the confidence to engage in cross-border transactions.

⁴² European Commission (2007), "European Economy: Steps towards a Deeper Economic Integration: The Internal Market in the 21st Century" January.

It also contains provisions on consumer protection. The Directive applies to all commercial services, except financial, electronic communications, transport, services of general (non-economic) interest [public services], temporary work agencies, healthcare services, audiovisual services, gambling, services involving the exercise by the state of official authority [Article 45 of the EC Treaty], certain social services, private security services, the activities of notaries and taxation. In addition, under Article 1, the Directive does not affect certain areas, including labour law. Services of general economic interest (services entrusted with public service missions, e.g. public utilities) are partially included.

The Department of Enterprise, Trade and Employment is currently involved in preparing a Regulatory Impact Analysis (RIA) as the first step in transposing the Directive. The Department has engaged in a wide-ranging consultation exercise with interested parties and organisations since the original draft Directive was published. That consultation is continuing and is likely to take the form of a Discussion Document on the proposed method of transposition, which is expected to be published in 2008. Interested parties are strongly urged to submit their comments to the Department as soon as possible.

2.7 Market Surveillance

2.7.1 Enforcement in the Internal Market

Enforcing the basic principles of EU legislation is of the utmost importance and contributes to a heightened confidence for both businesses and consumers. Successful functioning and enforcement of market principles is largely dependent on Member States' skill and diligence in interpreting and transposing legislation in the correct manner and ensuring that all relevant actors are properly educated in the process. A recent study by Business Europe⁴³ calls for increased action with enforcement, particularly by:

- Ensuring timely and correct transposition and administrative implementation of Internal Market rules using more guidance and assistance to Member States;
- Stepping up Member States' efforts and resources to fulfil their enforcement responsibilities (i.e. compliance control and sanctions);
- Ensuring coherence of national and regional regulatory agencies' rulings;
- Ensuring administrative simplifications and facilitation;
- Better monitoring and reporting on national compliance and enforcement of Internal Market legislation providing information, facts and figures;
- Ensuring effective and homogeneous market surveillance and efficient external border control;
- Improving the functioning of Mutual Recognition principle in non-harmonised areas;
- Creating a greater partnership and cooperation between the Commission and Member States;
- Improving cooperation and mutual assistance among Member States;

⁴³ Business Europe, (2007), "Enforcement in the Internal Market", 22 May.

- Ensuring easier access to both EU and national means for asserting Internal Market rights including promotion and reinforcement of SOLVIT and speedier and more efficient infringement process; and
- Better positioning of the Internal Market in the global context through greater promotion of EU standards.

Advancing this agenda depends on the willingness of Member States to cooperate with each other. The temptation for Member States to adopt a protectionist type strategy has in the past led to barriers to intra-community trade and a large number of infringement cases being brought to the Commission. Inadequate enforcement and widely divergent application of principles are perceived as the core problems. It follows that in order to improve market functioning and to increase product safety and reliability, the requirements regarding market surveillance and the accreditation of conformity assessment bodies require an intensified review.⁴⁴

The Commission have already stated that the objective of their Community legislation is to create a sufficient level of trust between national authorities and between operators throughout the Union. The aim is to extend existing tools (such as RAPEX⁴⁵) as opposed to creating new tools. Community intervention will therefore be reduced to coordination, cooperation and information in most cases.⁴⁶

2.7.2 SOLVIT

To combat Internal Market failings SOLVIT was established in 2002. SOLVIT is a free on-line problem solving network in which EU Member States work together to solve, without legal proceedings, problems caused by the misapplication of Internal Market law by public authorities. SOLVIT centres can deal with handling complaints from both citizens and businesses. To date SOLVIT has dealt with more than 1,500 cases across the Community relating to a variety of areas such as residence permits, recognition of professional qualifications, employment and social security rights, market access for products, provision of services, VAT reimbursements or border controls for businesses. SOLVIT aims to deliver responses to complainants within a ten week period. There is a SOLVIT centre in every European Union Member State (as well as in Norway, Iceland and Liechtenstein). Consumer awareness of services such as SOLVIT is discussed in chapter four.

2.7.3 How SOLVIT Works

When a citizen or business submits a case to its local SOLVIT centre (known as the 'home' centre) the application will be checked to make sure that the specific problem falls under the SOLVIT remit, i.e. that there is a possible misapplication of Internal Market rules. The case is then entered into an on-line database system and the problem is forwarded to the SOLVIT centre in the other Member State where the problem has occurred (known as the 'lead' centre).

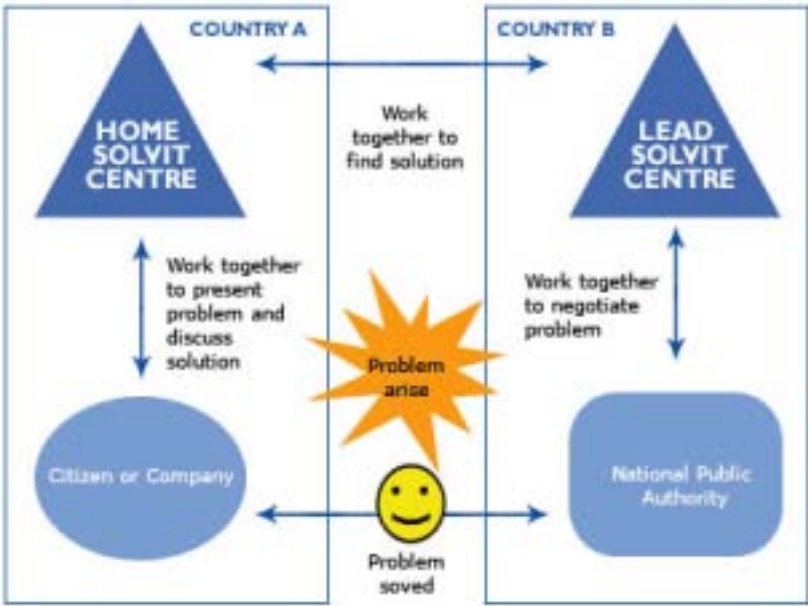
44 Non-Paper - Finland, (2007), "Single Market Review", 11th July.

45 RAPEX serves as a single rapid alert system for dangerous consumer products in Europe.

46 European Commission, (2007), "Setting out the Requirements for Accreditation and Market Surveillance Relating to the Marketing of Products", Com(2007) 37 Final.

The lead centre should confirm within a week whether or not it will take the case. The decision largely depends on whether the lead centre believes the problem is well-founded and whether there is a good chance it can be resolved pragmatically. If the solution to the problem requires a particular rule, regulation or other piece of legislation to be changed, this will not always be possible within 10 weeks. Where it is not possible, the appropriate response from the lead centre to the home centre is to the effect that an issue has been identified that may require an amendment to legislation.

Figure 1: How SOLVIT Works⁴⁷



If a market problem is accepted by the lead centre both SOLVIT centres work together to try to solve the problem. If the problem is unresolved, or the complainant considers the proposed solution as unacceptable, then he/she has the right to pursue legal action through the courts and/or lodge a formal complaint with the EU Commission.

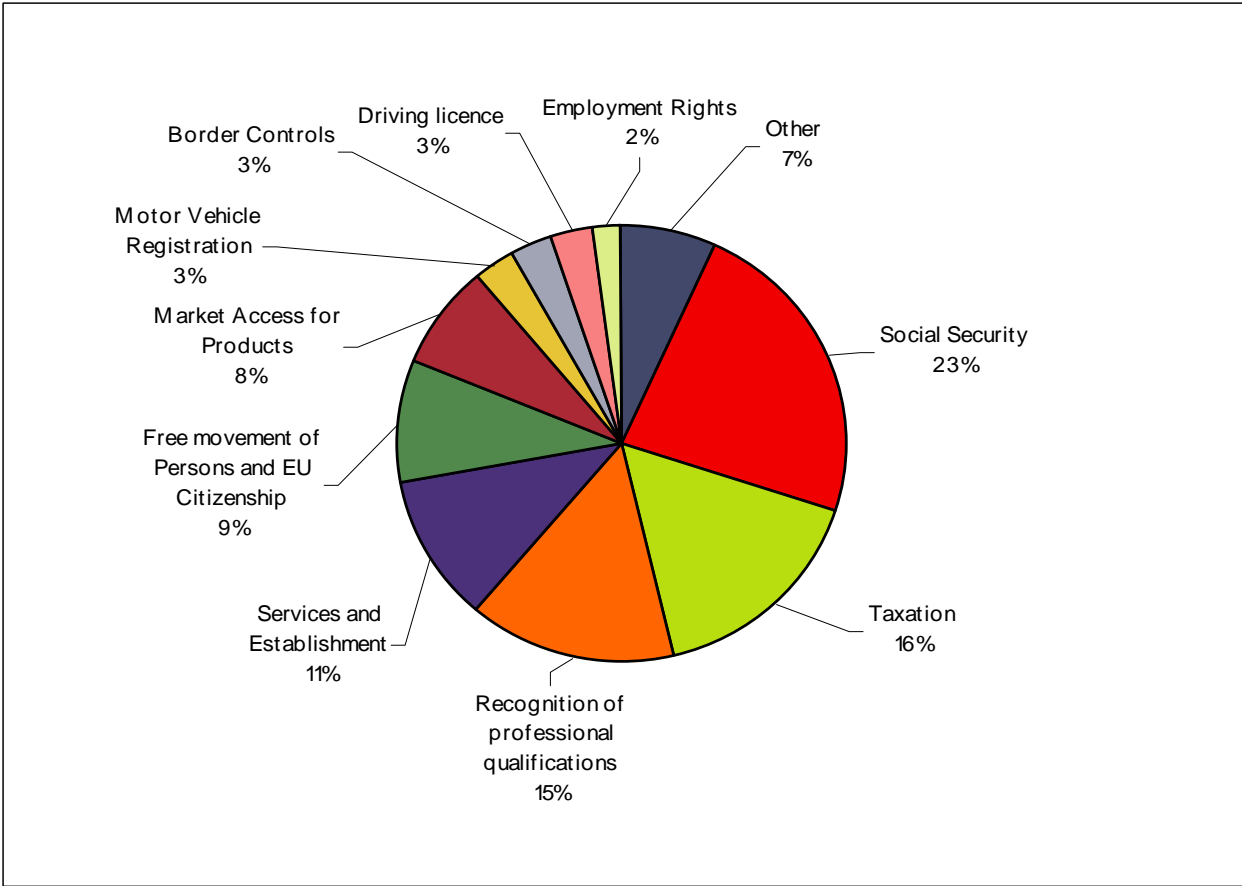
2.7.4 Facts and figures

The European Commission’s 2006 SOLVIT report concluded that the programme is an invaluable tool that provides citizens and businesses with effective solutions to their problems. The annual number of cases handled by SOLVIT remained stable with the total number of cases reaching 467 in 2006. The report suggests that stabilisation of the overall number of SOLVIT cases is due to a shortage of staff and promotional activities at a national level in some Member States. Although there was a plateau in case numbers, the resolution rates (82 percent) in Member States remained positive and the average speed in handling a case improved significantly (73 percent of cases were resolved within the ten week deadline). The majority of cases were submitted by EU citizens (69 percent of

⁴⁷ <http://ec.europa.eu/solvit/>

SOLVIT cases). The reoccurring problems areas are in the areas of social security (23 percent), taxation (16 percent) and recognition of professional qualifications (15 percent).

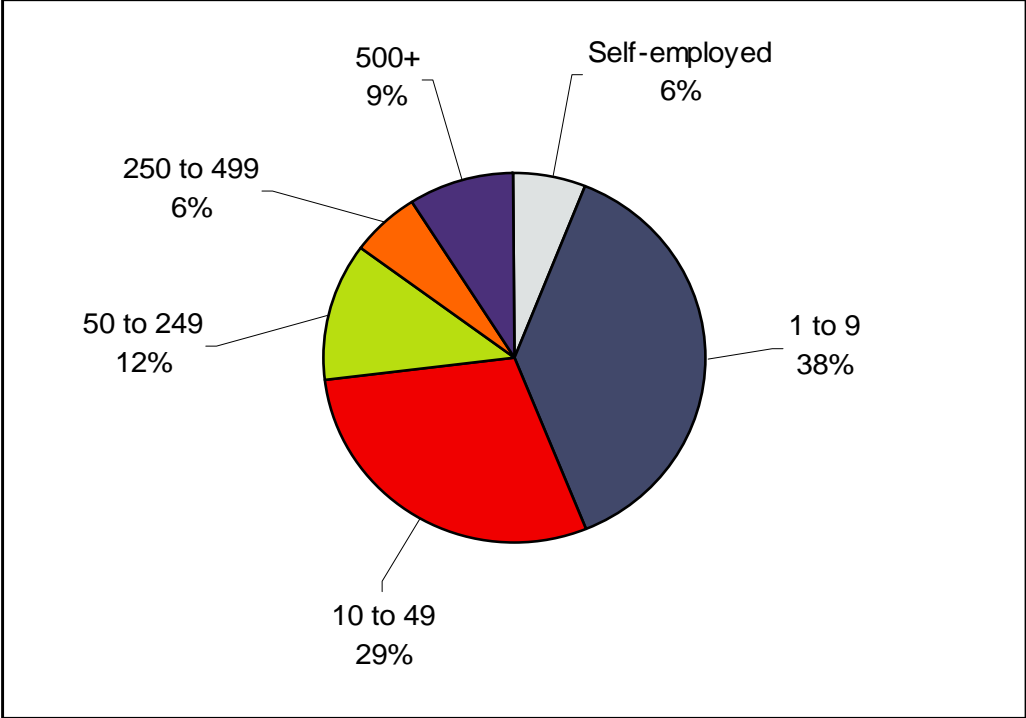
Figure 2: Cases handled in 2006 according to problem areas



The main problem areas for business relate to market access for products (eight percent) and the provision of services and establishment (11 percent). Further profiling shows that the majority of companies taking cases to SOLVIT fall into the SME category. Of the companies that approached SOLVIT with Internal Market problems in 2006, nine percent had more than 500 employees (13 companies).⁴⁸

48 European Commission, (2007), Commission Staff Working Document, SOLVIT Working Document.

Figure 3: Number of employees in companies submitting cases to SOLVIT in 2006



By and large many problems with the application of EU law can be solved by the SOLVIT programme. The EU Commission report and the corresponding statistics highlight the areas where SOLVIT excels (predominately with citizen issues relating to labour movements and employment rights). SOLVIT has yet to establish a strong presence with businesses trading in the Single Market.

One way to build awareness in the business community would be through Enterprise Ireland’s (EI) development advisors⁴⁹. Development advisors meet with indigenous organisations on a regular basis and could undertake a SOLVIT training course. The potential benefits of the SOLVIT programme could then be relayed to client companies. EI recognises the potential value of SOLVIT as a means of resolving problems arising for enterprises as a result of the misapplication of internal market law by public authorities. However they have expressed some concerns. Specifically, in 2006 SOLVIT dealt with only 145 business cases (132 of whom were SMEs) in the entire European Union. Consequently, EI believe it may be premature to suggest that their development advisors undertake a SOLVIT training course. SOLVIT share EI’s concerns on lack of case numbers and are eager to promote

⁴⁹ An Irish state development agency focused on transforming Irish industry. Their core mission is to accelerate the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity. They also provide assistance for international companies who are searching for world-class Irish suppliers and they can help international companies who want to set up food and drink manufacturing operations in Ireland.

awareness of SOLVIT among the business community. SOLVIT view EI as an organisation ideally placed to deliver a message of awareness to business.

Anecdotal evidence suggests that SOLVIT is falling short of its goal when addressing business needs. Indeed, many of the organisations surveyed in this study had no prior knowledge of the SOLVIT programme, despite DETE having brought it to the attention of business organisations in 2004. Those businesses that were aware of SOLVIT were in many cases reluctant to go through formal channels for fear of being earmarked as a 'company that complains'. The perception among businesses was that in complaining to SOLVIT you would leave your company susceptible to further market problems in the Member State in question. With this in mind SOLVIT Ireland should construct a three year plan to increase awareness and to stimulate confidence in the programme.

2.7.5 A Targeted Business Strategy

Of the 467 SOLVIT cases across the Community in 2006, only 145 cases were initiated by businesses. As noted, it is predominately SMEs that use SOLVIT. This adoption may be due to the fact that SMEs have limited staff and resources to solve Internal Market problems themselves. Likewise larger organisations may avoid SOLVIT and resolve Single Market problems internally as they have adequate resources at hand or are happy to pass on the additional costs to their customers.

Perhaps a promotional campaign in the business arena (as the EU Commission suggest) is required to stimulate case generation. Trade bodies and organisations representing business equally have a responsibility to promote the SOLVIT programme. With this in mind, a targeted campaign in select media may increase SOLVIT business case numbers. Select industry magazines and newspapers may act as the best medium.

2.7.6 A Targeted Citizen Strategy

In an Irish context, SOLVIT cases are predominately instigated by foreign nationals wishing to live and work in Ireland. Irish citizens generally interact less with the Single Market and therefore have little reason to approach SOLVIT. A two tiered promotional approach should be employed. Firstly Irish citizens should be made aware of the benefits of SOLVIT through a cost effective advertisement campaign, perhaps employing broadcast media. Secondly, a promotional campaign should target organisations that represent foreign nationals.

Undoubtedly the best promotional tool that SOLVIT could employ would be personal recommendations from businesses and citizens that have had problems resolved through SOLVIT. With this in mind it is important that DETE commit the resources to handle the increased demand that arises through various promotional efforts.

2.8 Conclusion

This chapter introduced the extant measures in place to deliver a Single Market. It commenced by briefly introducing the long legacy of change that the EU Single Market has undergone. This chapter sets the scene for the introduction of the case data (chapter five) and speaks directly to the Single Market issues that remain. Before the case data is introduced, it is first necessary to discuss the pattern of Irish trade, and in particular the history of Irish trade to European markets.

Chapter 3: Ireland's Export Performance in the EU

3.1 Introduction

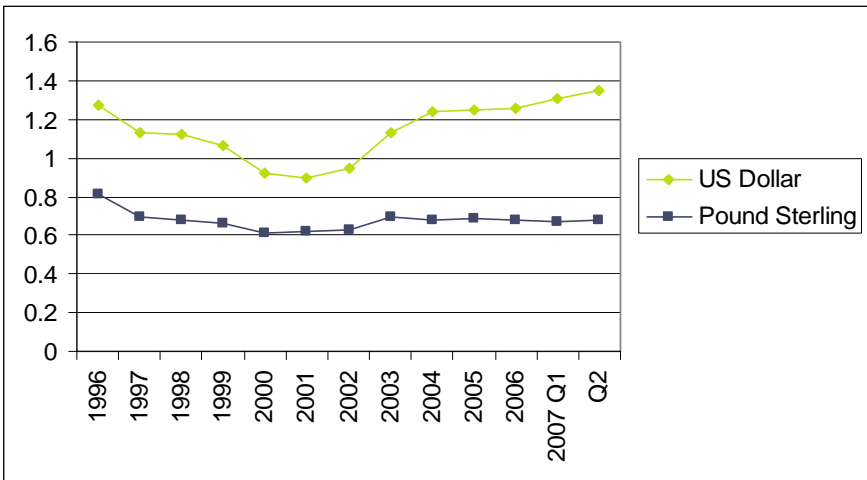
In this chapter we review the changes in the importance of the EU as a destination of Irish exports, and as a source of Irish imports over the last two decades. Section 3.3 assesses the gains and intensity of trade in the Single Market from 1992 - 2006. In section 3.4 we outline the reasons given in the economic literature for two countries to trade with each other. This section is supplemented with the use of a Gravity Model to take out factors such as a common language, distance, economy size etc., thereby allowing an estimate of Ireland's success in each of its major markets when these factors are removed.

3.2 Overview of Ireland's Trade Performance with the EU

In this section we review the change in patterns of Irish trade in both goods and services with Europe. For historical, cultural and geographic reasons, Ireland and UK have very close economic ties, and the UK has been Ireland's number one export market since the foundation of the State. One of the objectives of Irish economic policy for the last number of decades has been to diversify exports beyond the United Kingdom. This strategy has been aided by, *inter alia*, joining the EEC in 1973, the establishment of the Single Market in 1992, and Ireland's decision to adopt the Euro from its inception.

Ireland joined in Economic and Monetary Union (EMU) along with nine other Member States in 1999. On 1st January of that year, the exchange rates between currencies of those Member States became fixed, and control of monetary policy was simultaneously transferred to the European Central Bank. Consequently, exchange rate risk in trade between EMU states has been eliminated, price transparency has improved across the "Eurozone" (see figure 4), and cross-border trade has been facilitated. That said, the exposure to currency fluctuation remains a matter of concern for the majority of Irish export firms, since a considerable share of Irish external trade is conducted with the UK and the US.

Figure 4: Euro Exchange Rate against US Dollar and UK Sterling



Source: European Central Bank, Monthly Economic Bulletin, 2007

This volatility in exchange rates is an additional competitiveness concern for Irish exporters in their major export markets, and has implications for the account receivables from customers in all non-EMU markets. It therefore makes sense that Irish enterprises, particularly those engaged in export activity, should (where practical) focus their attention on export markets that are not subject to exchange fluctuations.

3.2.1 Where is Ireland exporting to?

The EU, the US and Canada accounted for over half of Irish imports in 2005. Ireland is heavily dependent on these markets for exports, with the UK alone accounting for 18 percent, the US and Canada 19 percent and the rest of the EU-15 the destination for 45 percent of our exports. Other large non-European markets, including Japan, Korea, China, India, Brazil, Mexico and Russia, accounted for just 6 percent of exports in 2005.

In recent years, the European Union, the United States and Canada have become the largest destinations for Irish exports. This trend can be explained by the emergence of the globalised economy, an internationally dominant US economy, increased EU integration and the completion of Economic and Monetary Union. A 2007 study⁵⁰, which focused on Irish-owned exporting firms, highlighted how 584 exporters (out of an export sample of 623) sell at least some of their exports to the UK, this represents 94 percent of the sample size. The second largest market (the USA) has less than half of the number of firms exporting to it than the UK. With the exception of the USA, the top ten markets for Irish firms are all located in Western Europe.

Firms that enter exporting activity for the first time tend to do so in a gradual fashion and usually enter one market. The 2007 study hypothesises that market transition is a relatively slow and gradual in process. The most common pattern is for the number of markets to remain unchanged. When firms exporting to a small number of markets do change their coverage, they tend to do so by adding or subtracting only one market. Those firms that are present in a number of markets tend to be larger and more productive, they are at little risk of exiting exporting altogether and can often enter multiple markets simultaneously.

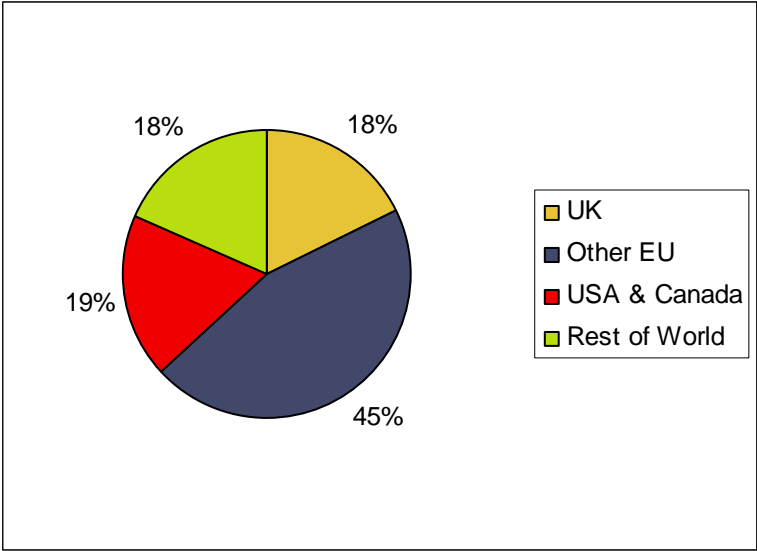
Naturally the size of the firms governs the amount of resources they can devote to individual markets. Interestingly the 2007 study and a previous study⁵¹ point to the possibility that a “hierarchy” in export markets exists whereby countries can be ranked according to the factors that act as barriers to trade. One test of the existence of market hierarchy is to look at the entry and exit by firm popularity. To do this, markets are ranked from 1 to 53, with 1 being the most popular market (UK) and 53 being the least popular market (Tunisia). If this theoretical prediction holds true, we would expect a firm entering an additional market to enter a less popular market than those it already serves. Similarly, a firm exiting a market will move out of their least popular

50 Lawless, M. (2007), “Research Technical Paper: Firm Export Dynamics and the Geography of Trade”, Economic and Research Department, Central Bank and Financial Services Authority of Ireland.

51 Eaton, J, Kortum, S and Kramerz, F., (2005). “An Anatomy of International Trade: Evidence from French Firms”, mimeo, New York University.

market first. Appendix 1 highlights the popularity of export markets by utilising market entry and exit data. This theory therefore points to the possibility that Irish firms are able to pinpoint the next most attractive market to enter.

Figure 5: Main Trading Partners 2005



Source: CSO External Trade 2006

Interestingly, figure 5 highlights that 63 percent of Irish trade is conducted within the EU. Due to continued integration, standardisation and legislation (e.g. Directive 2000/35/EC regarding Late Payments in Commercial Transactions), the commercial risks of conducting transactions in other EU markets should, in theory, be similar to risks faced when operating in your home market. Though, as we will see in chapter 5, the implications of credit risk remain significant.

In 1960, 75 percent of merchandise exports went to the UK - now that figure is around 18 percent. The key to the success in diversifying export markets is due to the successful policy of attracting multi-national corporations (MNCs) to Ireland, in particular those within the four sub-sectors - organic chemicals, medical and pharmaceutical products, office machines and electric machinery. These MNCs have provided additional productivity arising from specialisation in the production of a small number of product lines. Together they account for 65 percent of our aggregate export trade. Underlying the aggregate export figures, however, is a sharp divergence between the export performance on indigenous Irish firms and MNCs. Ireland's trade with the UK is dominated by those exports, which are largely accounted for by indigenous Irish firms, while the sectors with a large MNC presence tend unsurprisingly to have a much more global spread of exports.

3.2.2 What might Ireland's export profile look like in 2012?

In this section we look at Ireland's actual export profile in 2000 and in 2006, and a projection for Ireland's export profile for 2012, based on trends between 2003 and 2006.⁵² In 2000, Ireland's export profile was dominated by three broad sectors:

- Machinery (including office and data machinery),
- Chemicals, and
- Miscellaneous merchandise (which include professional and scientific apparatus)

The computer services sector was the largest services sector and the fourth largest broad sector overall. These four largest sectors comprised over three quarters of Ireland's exports. Tourism and travel and food and drink exports together accounted for another ten percent.

By 2006, Ireland's dominant broad sectors had not changed, but their ranking had.

- The chemicals sector now constitutes Ireland's largest exporting sector, while the machinery sector has contracted.
- Computer services have overtaken miscellaneous merchandise as the third largest sector.
- More generally, there has been a de-concentration in Ireland's export profile.
- In 2000, outside the five biggest sectors, only insurance and tourism/travel accounted for more than 2 percent. In 2006, six sectors - all service sectors - comprised between 3 percent and 6 percent of Ireland's exports. This compares with Ireland's third largest sector by exports, computer services, which contributed 12 percent.

By 2012, Ireland's export profile will have become even more de-concentrated based on recent trends.

- Ireland's three largest exporting sectors in 2006 - chemicals, computer services and machinery - would remain so and in that order, but account for slightly less of the total (just over half of Ireland's exports as opposed to 56 percent in 2006).
- Were recent increases in service sector exports to be matched in future years, services sectors such as trade-related business services, financial services, business services, operational leasing and insurance would contribute more than one-quarter of Ireland's export earnings in 2012 (compared to about 7 percent in 2000).⁵³
- The food and drinks industry, one of Ireland's five biggest exporting sectors in 2000, would remain in the top five in 2012, should recent trends continue.
- Other manufacturing sectors (excluding chemicals), which accounted for 45 percent of export earnings in 2000, would only account for 17 percent of export earnings in 2012.

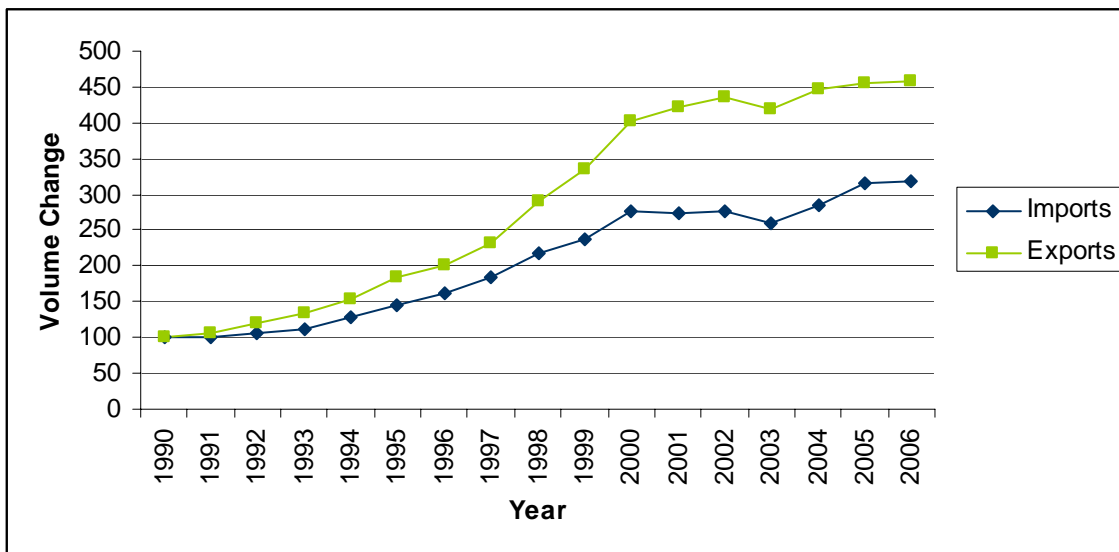
⁵² Projections for 2012 are based on 2003-2006 percentage growth rates, rather than 2000-2006 growth rates, to give a 'healthy world economy growth' scenario. Adjustments - based on Euro growth, rather than percentage growth - are made for smaller service sectors.

⁵³ These estimates are based on trade-related business services, financial services, business services, operational leasing and insurance services as a proportion of total exports, including merchandise exports.

3.2.3 Irish Trade and the Single Market

The value of merchandise exports from Ireland in 2005 was €109,923 million, a rise of 13 percent from 2004.⁵⁴ However, export activity has experienced massive growth since the mid 1990s (see Figure 6). The driving forces behind the success of the Irish export sector was strong external demand, comparative weakness of the Euro vis-à-vis other currencies, considerable foreign direct investment into Ireland, and the internationalisation of hitherto domestic enterprises.

Figure 6: Ireland - Volume Change of Manufactured Imports and Exports



Source: Central Statistics Office, External Trade, April 2007

Despite the poor economic conditions following late 2001, export volume remained stable, and increased slightly during 2003. Gradual increases in export volumes have continued in recent years, up 9.5 percent from 2003 to 2006. Export volume levelled off from 2000-2002 with a notable decline in the second quarter of 2002, coinciding with the strong appreciation of the Euro against the US Dollar and Sterling. The decrease in export volume (2002-2003) was the first decrease in export volumes since the early 1980's.

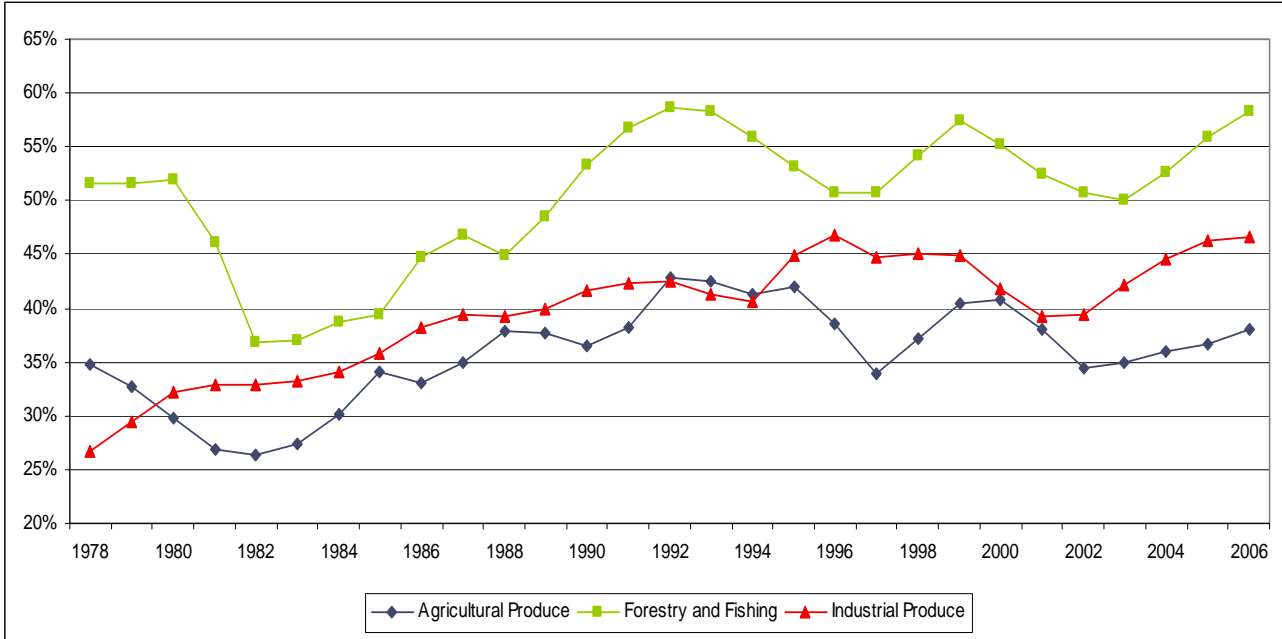
Figure 7 below shows the evolving share of EU markets in Ireland's total goods exports. In 1977 around 30 percent of Irish goods exports were destined for EU markets, a figure which had risen to 45 percent by 2006. A significant increase in goods exports was evident in each of the three categories of exports, namely agricultural produce, forestry and fishing and industrial produce. To what extent the Single Market can be credited with the increase *per se* is unclear. In particular, the rise in industrial products going to the EU was driven by the change in the structure of Irish

⁵⁴ World Trade Organisation, (2007), "International Trade Statistics", Available online: http://www.wto.org/english/res_e/statis_e/its2006_e/its06_toc_e.htm

industry, with foreign owned MNCs increasingly dominating Ireland’s industrial landscape. These MNCs often serve European markets from their Irish base, and as such, it could be argued that the increase in trade with Europe was a result of investment decisions rather than the Single Market *per se*. That said, many MNCs located in Ireland specifically because it was easier to sell to European markets from within the Single Market. As such, the Single Market may have had an important, albeit indirect, effect in increasing the share of the EU exports.

What is notable from the graph below, however, is that much of the increase in exports from Ireland to Europe was achieved in the 1980s, prior to the removal of physical borders on 1st January 1993. This is not to say that other efforts to increase European integration have not played an important role. For example, technical harmonisation has been an on-going process over the last two decades, and in any event the anticipation of the removal of physical barriers would have had a positive affect on trade before 1993.

Figure 7: Ireland’s Goods Exports to the EU as a Percent of Total Trade by Category

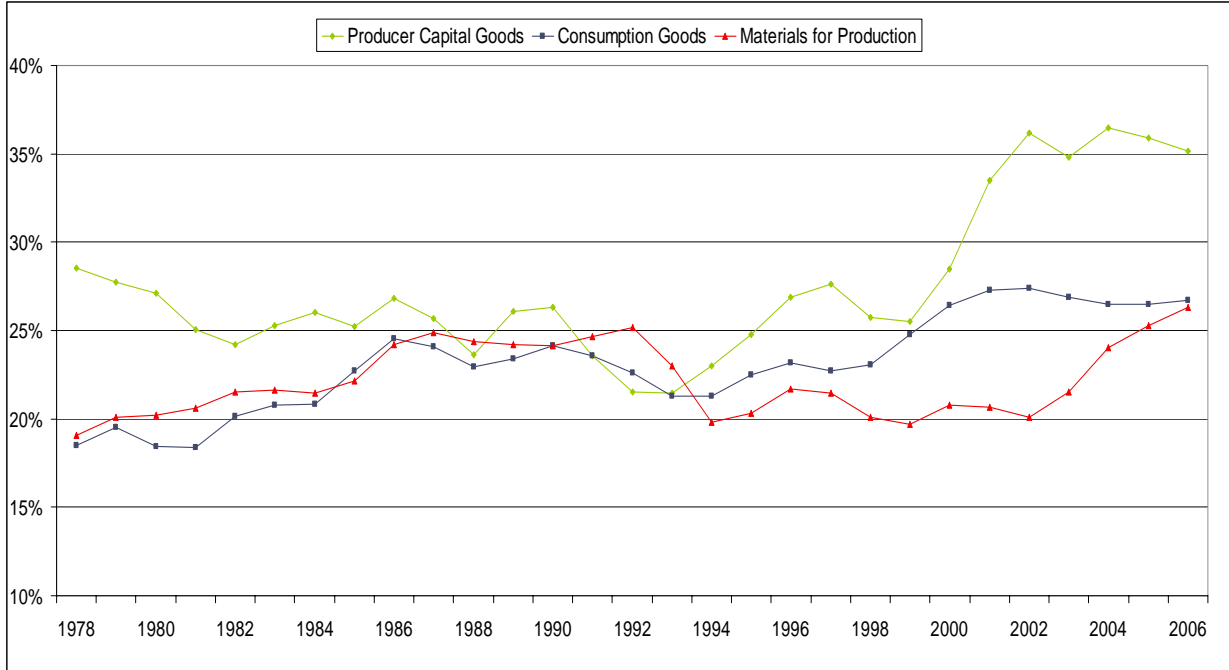


As with exports, imports to Ireland from EU countries have increased sharply as a percentage of total imports. While the increase in exports occurred mostly during the 1980s, the increase in imports was a more recent phenomenon, with a clear trend being evident beginning around 1998.

Figure 8 shows that each group of imports has experienced a different evolution in term of its share of total imports. There has been a rapid increase in producer capital goods being imported from the EU over the last decade. An increase in materials for further production has been evident in the last few years. Turning finally to consumption goods, the last three decades has seen a gradual but consistent increase in the sourcing of products from the EU. It should be noted that for both exports

and imports, more recent rises in the importance of EU countries may at least, in part be due to the recent strength of the Euro vis-à-vis the dollar.

Figure 8: Ireland’s Goods Imports from the EU as a Percent of Total Trade by Main Use

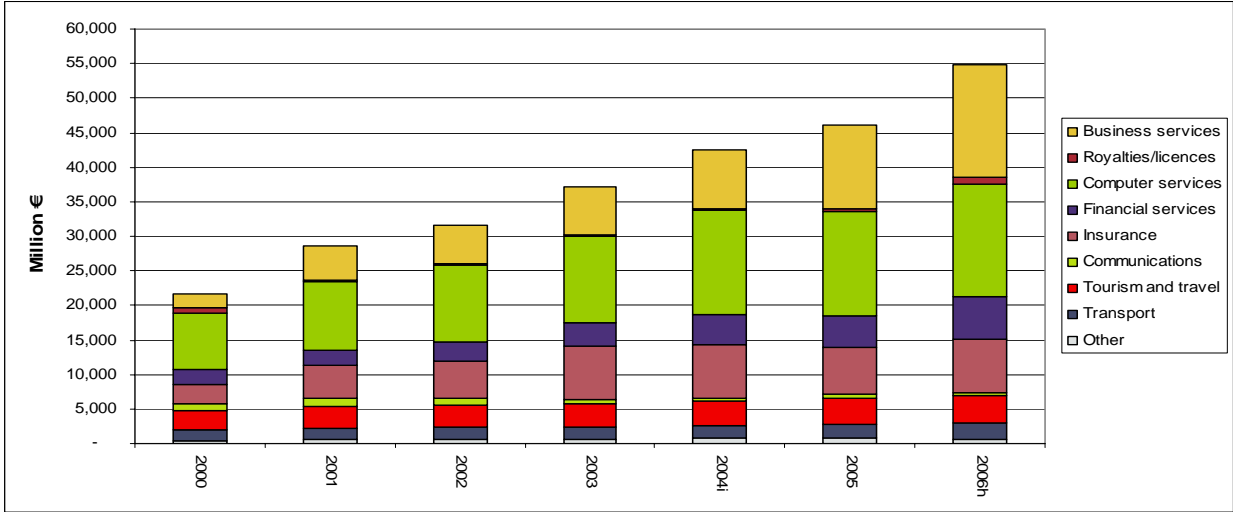


Unfortunately the lack of appropriate historical time series prevents a similar analysis for services, and as such it is not possible to compare the pre-Single Market and post-Single Market performance in services activities. In any case, very little by way of real integration has taken place in services markets compared to goods markets. Further, most services require a physical presence in the destination country, and as such, much services provision is not captured in the trade statistics which only cover cross border provision.

Figure 9 shows the significant increase in services exports from 2000 to 2006. In particular business services and computer services have dominated Irish services exports in recent years. The globalisation of services generally concerns services that are international tradable and easy to purchase from abroad. This includes the work by clerks and computer operators, data handlers and claim processors as well as programmers and certain types of scientists and engineers, i.e. both high and low skilled white-collar jobs. This trend has been triggered by technology advances, such as the development of broadband services, and supported regulatory reform and trade liberalisation. The OECD estimates that this trend is likely to continue in coming years.⁵⁵

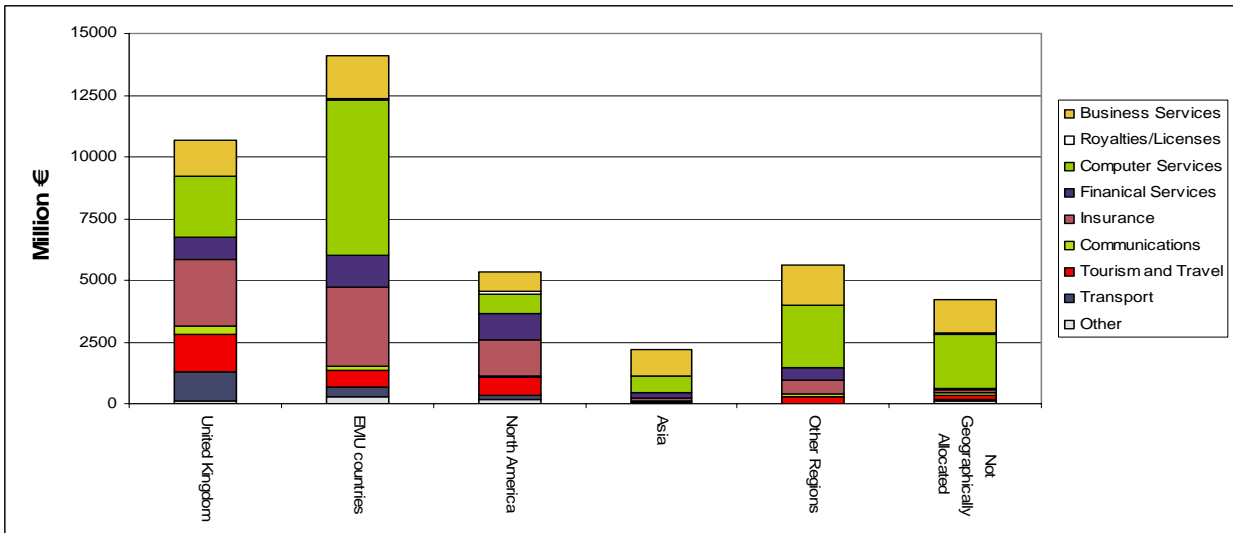
55 OECD Growth in Services, (2005), "Fostering Employment, Productivity and Innovation", as cited in Forfás (2006), "The Changing Nature of Manufacturing and Services".

Figure 9: Ireland's Services Exports, 2000 - 2006



In terms of services imports, a large percentage of imports relate mainly to royalty/license payments made to US multinationals in respect of their manufacturing operations in Ireland. In terms of the intra-European flows, while the UK is a slightly more important source of goods imports than the rest of the EU in cumulative terms, services imports from the rest of the EU outstrip services imports from the UK by a ratio of almost 2:1.

Figure 10: Composition and Geographic Distribution of Ireland's Services Imports, 2004



3.3 Import and Export Intensity Indices

Import and export intensity indices were constructed in an effort to further quantitatively assess Ireland's trading relationship with other European countries. These indices help identify how intensively the countries are trading with each other.

Trade intensity indices are defined as the share of one country's trade with another country, divided by the other country's share of world trade.

Export Intensity
$IEX_{ij} = (X_{ij} / X_i) / (M_j / (M_w - M_i))$
Import Intensity
$IIM_{ij} = (M_{ij} / M_i) / (X_j / (X_w - X_i))$
X: Export
X _i : Export in Economy I
X _{ij} : Export of economy I to economy j
M: Import
M _i : Import of economy i
M _{ij} : Import of economy I from economy J
X _w : Total exports in the world
M _w : Total imports in the world

When the figure is greater than 1, it indicates that the two nations have a comparatively strong export (import) relationship; when the figure is greater than 2, it indicates an extremely strong export (import) relationship. Eurostat data was used to assess the bilateral relationships of the "EU12". It should be noted that Eurostat trade data is compiled on a country of consignment or dispatch basis. For arrivals (intra-EU trade), the trading partner is the Member State of consignment of the goods. This is the Member State from which the goods were dispatched without some halt or legal formalities in another country apart from any transport reasons.

3.3.1 Export Intensity Indices

A complete table of country by country export intensity indices is available in Appendix 1. The average export intensity for the EU in 1992 was 1.22. When barriers to goods trade were removed on 1st January 1993 the export intensity increased. By 2006 the average export intensity was 1.64 (an increase of 0.42).

A total of 51 positive export relationships were noted in 1992 (i.e. countries with a value of 1.0 or over). By 2006, 65 positive export relationships were present (an improvement of 14 relationships). Was this increase dramatic in the greater scheme of things? While some Member States had increased significantly others did not. The biggest increase in export intensity indices was noted between Portugal to Spain (4.61 increase in points). Similarly the export flow from Spain to Portugal was also significant (an increase of 3.87 points).

Export indices from Belgium/Luxembourg⁵⁶ to Ireland were 5.03 in 2006 (a 3.72 increase in points from 1992 figures). The next significant increase was noted between Greece and Italy (3.34); Greece and Spain (1.75 increase in points); Spain and Ireland (1.23); Spain and France (1.22); Greece and Belgium/Luxembourg (1.22) and France and Belgium/Luxembourg (1.22).

The lowest export intensity level in 1992 was between Ireland and Greece (0.09). This level increased slightly to 0.11 in 2006. Belgium/Luxembourg recorded the lowest export intensity level with Greece in 2006 at 0.10 (a drop of 12 points from 1992 figures). For these countries no strong exporting relationship was present in 1992 and this trend continued into 2006.

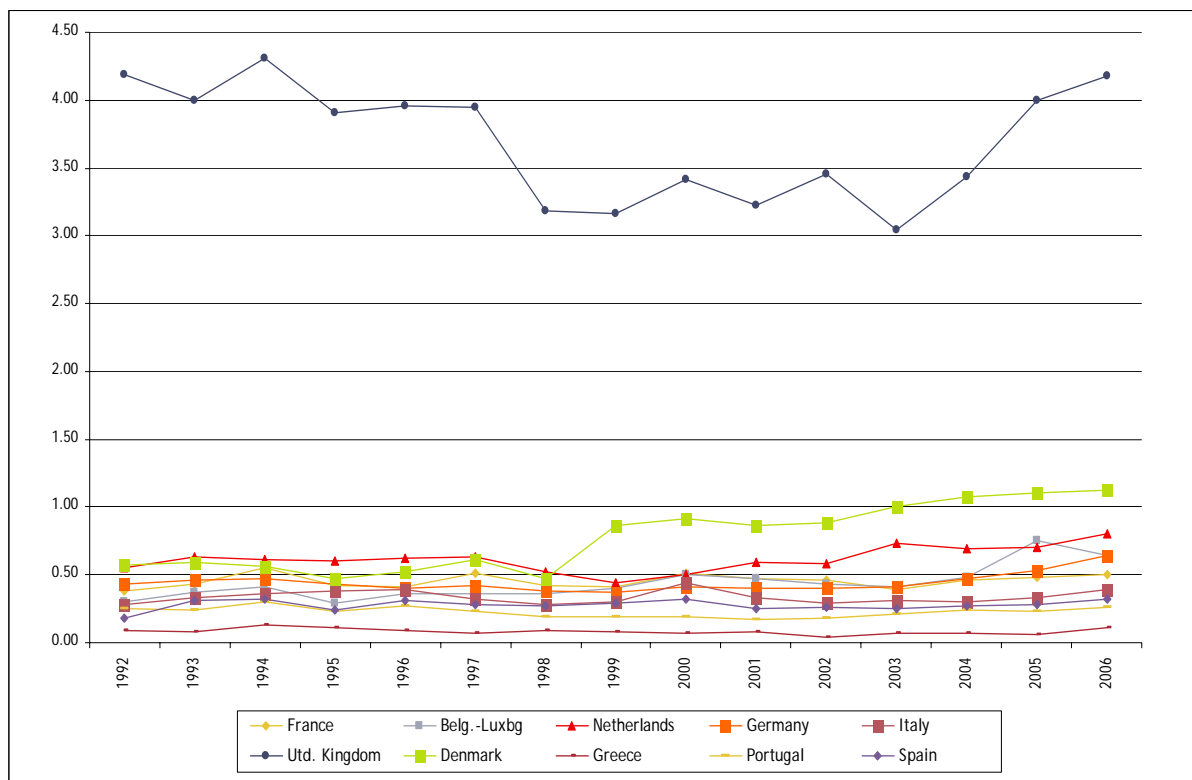
The smallest change in export intensity was observed in Belgium/Luxembourg's exports to Spain. In 2006 the export intensity index dropped by 0.01 to 0.43. Perhaps the most striking figures from the tables are the movement in figures from Italy and Greece. In 1992 Italy had a comparatively strong export intensity index at 1.06. By 2006 this figure dropped by 30 points to 0.76. This once strong export relationship had disappeared during a time when a borderless EU market existed.

Between 1992 and 2006, Irish export intensity figures did not change dramatically. The only significant increase in export intensity occurred in Ireland's exports to Denmark (an increase of 0.56). This increase promoted the Irish-Danish relationship from a weak export intensity index (0.57) to a comparatively strong export relationship (1.13). All other Irish export relationships remained relatively insignificant.

Figure 11 outlines Irish export intensity from 1992 - 2006. The only export intensity to decrease from 1992 - 2006 has been Irish exports to the United Kingdom (a decrease of 0.02). However, the graph indicates Irish - UK export intensity figures are beginning to recover following a slump from 1997 - 2003. When an export intensity figure is greater than 2 it indicates an extremely strong relationship. The Irish - UK figure is double this and lies at 4.18. The next positive relationship lies with Denmark at 1.13.

⁵⁶ Note: Trade figures for Belgium and Luxembourg are jointly calculated prior to 2000. This remains consistent throughout the document.

Figure 11: Irish Export intensity from 1992 - 2006



Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

3.3.2 Import Intensity Indices

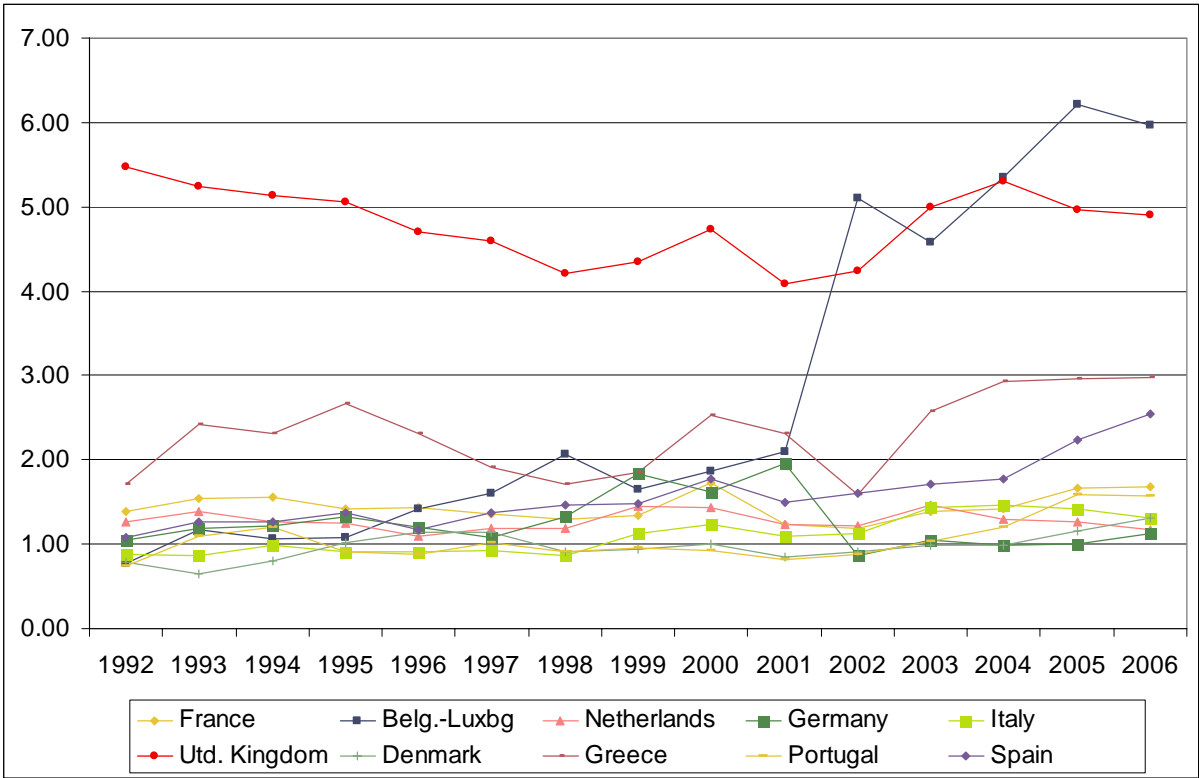
A complete table of country by country import intensity indices is also available in Appendix 1. The average import intensity in 1992 was 1.17. When barriers to goods trade were removed on 1st January 1993 the import intensity increased by 0.29 to a value of 1.46. A total of 49 positive import relationships were noted in 1992 (i.e. countries with a value of 1.0 or over). By 2006, 62 positive import relationships were present (an improvement of 13 relationships).

The highest import intensity level in 1992 was recorded between Spain and Portugal at 7.01. By 2006 this had increased to a staggering 11.63 (4.62 points). Similarly the imports from Portugal to Spain increased by 3.41 points.

The biggest increase in import intensity indices was noted between Ireland and Belgium/Luxembourg (a 5.20 increase in points). The next significant intensity increase occurred between Ireland and Spain (1.46); Spain and Greece (1.42); Ireland and Greece (1.27) and lastly Belgium/Luxembourg and Greece (1.08). All other changes in import intensity were relatively insignificant. The lowest import intensity level in 1992 was between Greece and Ireland (0.06). This figure remained unchanged in 2006.

In general Ireland displayed the strongest import intensity index across the board. Every country partnered with Ireland in 2006 had a value over 1.0 (representing a 'comparatively strong import relationship'). No other country had managed to recreate this scenario. A significant increase in import intensity occurred in Ireland's imports from Belgium/ Luxembourg (an increase of 5.20). This increase promoted the relationship from a weak import intensity index (0.76) to an extremely strong export relationship (5.20) and most likely reflects the preference of MNCs (based in Ireland) to route their imports through Belgium ports.

Figure 12: Irish Import Intensity from 1992 - 2006



Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

By using the CSO data it is possible to obtain a clearer picture of bilateral trade flows from Ireland and its relationship with other Member States. This method of calculation shows Irish exports to the country of destination. For example, if an Irish SME exports goods by ship into the UK and then on to Belgium by ferry then the Eurostat calculation method reflects this activity as an export from the UK to Belgium. By using the CSO trade data (which uses a country of origin method) this activity is displayed as an Irish export to Belgium.

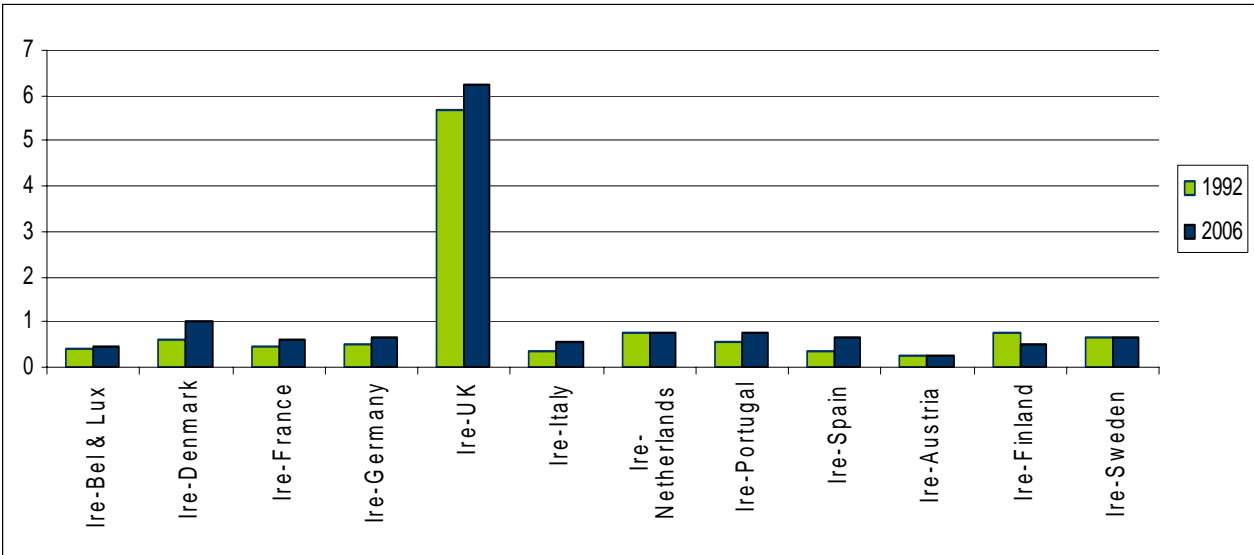
The Central Statistics Office (CSO) disseminates trade data by country of origin (as opposed to Eurostat who calculate data by country of consignment or dispatch). With country of origin data, goods obtained or produced in one country originated in that country. A product, in the production

of which two or more countries were concerned, is considered as originating in the country in which the last substantial manufacturing process was done. Packing, repacking, sorting and blending are not regarded as manufacturing processes. CSO data also classifies exports by country of final destination. The last country to which the goods are specifically directed on their outward movement from the State is regarded as their final destination. This is not necessarily the country in which the goods will be unshipped or that in which they will be finally consumed.

Figure 13 shows that Ireland’s import intensity index is largely weighted in favour of UK imports. While a value of 2 indicates an ‘extremely strong’ import relationship, we can see that the values range from 5.70 in 1992 to 6.21 in 2006. The data indicates that a strong trading relationship between Ireland and the UK exists when the country’s share of world trade is taken into account. Interestingly the data shows that a strong import relationship is evident between Ireland and Denmark in 2006.

The majority of countries show an increase in import intensity index from 1992 (when barriers to goods trade were abolished) to 2006. The Netherlands (-0.02), Austria (no change), Finland (-0.25) and Sweden (-0.03) did not show an increase over the time period.

Figure 13: Import Intensity Indices 1992-2006 (using CSO measurement techniques).

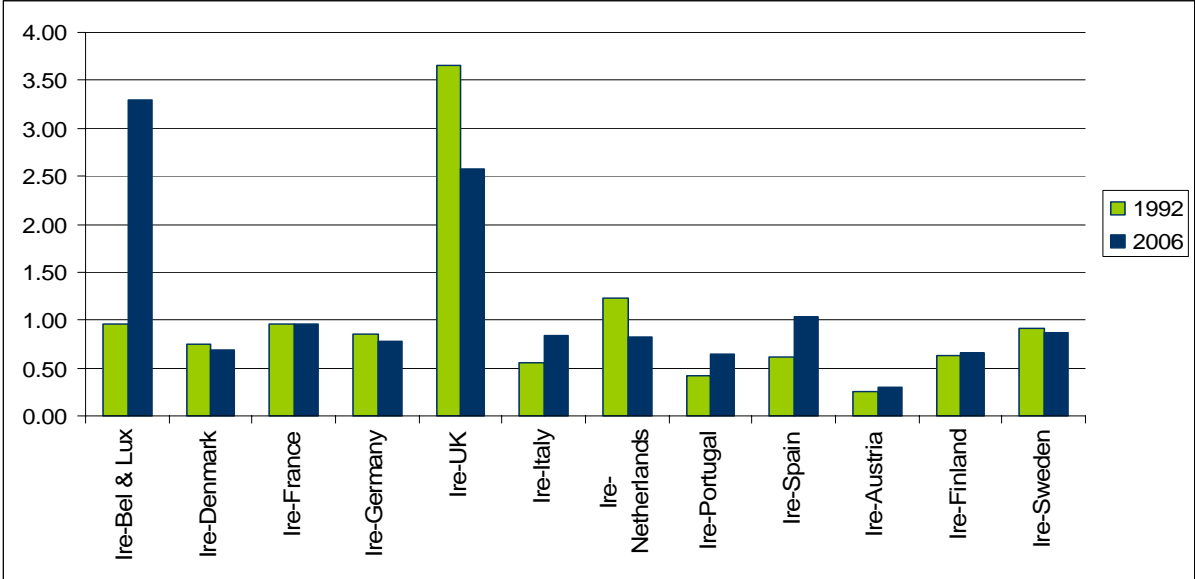


Source: CSO for Import and Export data; Eurostat for world trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

The graph below indicates that Ireland’s export intensities to the UK have been extremely strong over the years. Ireland’s export intensity with the UK ranges from 3.66 in 1992 to 2.57 in 2006. Export intensity to Belgium and Luxembourg is extremely strong at 3.30 in 2006.

However, this can be explained by the large amount of Foreign Direct Investment (FDI) output routed through Belgium. Over the 1992-2006 time period Denmark (-0.05), France (no change), Germany (-0.07), UK (-1.09), The Netherlands (-0.4) and Sweden (-0.04) showed no increase.

Figure 14: Export Intensity Indices 1992-2006(using CSO measurement techniques).



Source: CSO for Import and Export data; Eurostat for world trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

The intensity model findings can signal to potential exporters what markets are amenable to Irish exports. Positive intensity indices may indicate culturally similar/low regulatory environments etc. that Irish firms have to contend with. This data, along with market hierarchy data⁵⁷ (Appendix 1) can help exporters to earmark the next most attractive market to enter.

3.4 Factors that Influence Trade Patterns

There are a number of factors that are thought to affect the amount of trade between two economic regions. Some of these are amenable to direct policy action in the medium term (for example, lowering tariffs should increase bilateral trade flows), while others are not (e.g. languages). By understanding what drives bilateral trade flows, we can better understand what barriers remain to Irish companies gaining market share in Europe, and what barriers are always likely to exist. In this section we discuss the primary drivers of trade flows between countries that have been identified in the literature.

⁵⁷ More detail on market hierarchy data can be found in section 3.2.1

3.4.1 Size and Distance

Two of the most important predictors of the level of trade between two countries are the size of the two economies (as measured by national income), and the geographic distance between those two countries. The importance of these two variables is so strong that the class of economic models used to model the bilateral trading relationship between two countries are called 'Gravity Models' - like gravity, trade volume grows the bigger the two economies are, and decreases as countries get further apart.

In an effort to understand how Ireland's trade patterns look when the distorting effect of economy size, distance and language are taken into account, a gravity model was run based on a global data set. The model looks at bilateral merchandise trade flows between 140 countries. The detailed results of this analysis can be found in Appendix 1. In summary, the analysis reveals, first, that Ireland's level of exports exceeds that which is expected when accounting for the relevant variables (i.e. land border; language; GDP and distance), indicating that Ireland is experiencing more export trade than would be expected given the size of the Irish economy. Second, the analysis reveals that in the case of Austria; Czech Republic; France; Germany; Italy; Poland and Spain, Ireland is not fulfilling its import potential. While in some cases, import underperformance is fairly modest, imports from Poland, France and Germany are significantly below the level predicted in the model. Ireland is not performing as strongly in these markets as we would expect. We term this import "underperformance" as an influx of imports can often increase domestic competition, enhance consumer choice and slow down inflation.

The importance of an economy's size in determining trade flows is intuitive - the larger an economy, whether because it has a larger population or because that population is richer, the higher the purchasing power of that country to purchase imports, and the more they produce for export. Turning to distance, the empirical evidence⁵⁸ identifies the distance effect on bilateral trade as one of the "clearest and most robust empirical findings in economics". Why does distance matter so much? Economists have offered six major explanations⁵⁹:

- 1 Transport costs: Shipping costs (freight charges and marine insurance) can go a long way towards explaining why distance matters;
- 2 Time elapsed during shipment: For perishable goods the probability of surviving intact is a decreasing function of time in transit;
- 3 Synchronisation costs: When factories combine multiple inputs in the production process, they need those inputs to arrive in time or bottlenecks emerge. One possibility is to use warehouses to keep inventories of each input but this approach suffers from various drawbacks (land costs, technological obsolescence, fashion changes, and low pressures for quality control). Sourcing inputs from nearby will lower synchronisation costs;

58 Leamer, E. and Levinsohn, J. (1994), "International Trade Theory: the evidence". In G. Grossman et K. Rogoff (s.d.) Handbook of International Economics. Amsterdam, North Holland, 1339-1394.

59 Head, (2003), 'Gravity for Beginners'. Available online: <http://strategy.sauder.ubc.ca/head//gravity.pdf>

- 4 Communication costs: Distance factors negate the possibilities of personal contact between managers, customers, and so on. Much business depends on the ability to exchange more information, of a less formal kind, than can be sent over a wire;
- 5 Transaction costs: Distance may also be correlated with the costs of searching for trading opportunities and the establishment of trust between potential trading partners. Transactions costs are also greater if companies have to meet additional administrative requirements in trading abroad, or to meet very different technical specifications for their products;
- 6 Cultural distance: It may also be that greater geographic distances are correlated with larger cultural differences. Cultural differences can impede trade in many ways such as inhibiting communication, generating misunderstandings, clashes in negotiation styles, etc.

From the perspective of Ireland's interaction with the EU Internal Market, the reasons behind the importance of distance are crucial. Of the six explanations given above for the importance of distance, the first four reflect natural cost advantages for sourcing locally for which there is no market failure in need of correction.

The fifth and sixth explanations relate more to 'business culture' distance. The measures under these headings are more amenable to policy action, whether at the EU or national level, though no set of policy tools is ever likely to overcome all of the difficulties faced by Irish firms establishing themselves in new markets. For example, cultural distance can be reduced by agencies such as Enterprise Ireland providing market knowledge for Irish companies aiming to sell into new markets.

Further, the harmonisation of product standards at EU level can greatly reduce transaction costs, as it will allow firms to produce at a greater scale. Given the fact that it is possible to narrow cultural distance through policy instruments, much economic research has been focused on how best to accomplish this.

3.4.2 Regulatory Costs

A case study-based review⁶⁰ of the Internal Market indicated that most small firms with a turnover of €15 million or less only export into Member States with low regulatory costs. Besides the information gathering costs, compliance costs and conformity assessment costs, an analysis of the behaviour of SMEs disclosed that the cost of gaining access to the market of another Member State was too great. An estimate of these costs varied widely, depending on the type of product, its technical specifications, the size of the market, the size of the enterprise and many other elements.⁶¹ (Issues around market access are addressed in section 5.2). One indication of the difficulty of market entry comes from an EI review of High Performance Start-Up (HPSU) companies in 2005. This review revealed that on average it took HPSUs 4.7 years to record sales over one million Euro. To break the ten million Euro mark took over eight years on average.⁶²

60 Enterprise Europe, (2007), "European Commission's Directorate-General for Enterprise and Industry", Issue 25, June.

61 Commission of the European Communities, (2007), "Laying Down Procedures Relating to the Application of Certain National Technical Rules to Products Lawfully Marketed in Another Member State and Repealing Decisions", February.

62 Enterprise Ireland, (2005), "Review of Enterprise Ireland Supported High Potential Start-Ups 1989-2004".

3.4.3 Network Effects

It is believed that the existence of social and business networks can influence the volume of trade between two countries. Positive network effects relate to the ability of producers in one country to understand and access customers in another country. Networks are particularly important for trade in differentiated goods whose quality is not easily measured and for repetitive long term relationships.⁶³ Trade in homogenous goods, by this theory, need less inter-personal trust and understanding, and can be easily facilitated through formal contracts.

Networks, by their nature, are virtually impossible to measure, though there are a number of related factors which are amenable to economic investigation (e.g. migration, language). These factors will have been affected in recent years because of the fall in the cost of travel and transport globally. In terms of air travel, changes in the airline industry have resulted in a significant increase in the range and frequency of flight connections between Ireland and the UK, and Ireland and mainland Europe.

For businesses the cost of freight transport is even brighter. Ireland has a significant amount of imports coming into the country and a lot of empty ships leaving the country. The cost of exporting out of Ireland is weighed in favour of Irish exporters due to the imbalance between the high volume of imports and the low volume of exports. According to the National Competitiveness Council (NCC) Irish freight costs, particularly in Dublin and Cork, appear competitive compared to many other cities. The overall picture reflects the difference between outbound costs, in which Ireland is particularly competitive, and inbound freight costs, which are relatively more expensive.⁶⁴

3.4.4 Migration and Trade

There is evidence that the existence of a migrant pool can increase the volume of trade between two countries. Immigrants establish links between their host and home countries through language, product demand, knowledge of home-country markets and financial institutions, business contacts, and culture.

A 2002 study⁶⁵ found that the existence of migrants had a small though statistically significant impact on the volume of trade between two countries. The study estimates that a ten percent increase in the number of foreign-born immigrants will increase bilateral trade from the immigrant's home country to the destination country by 1.38 percent within a decade.

Dunleavy (2004) finds similar results when examining migration within US states. Further the study finds that the immigrants' ties are more important when the export destination economy and legal system are less transparent. In recent years Ireland has experienced significant inward migration

63 Chepeta, A., (2007), "Trade and Cultural Affinity" February, Available online: https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=res2007&paper_id=643

64 National Competitiveness Council, (2006), "Statement on the Costs of Doing Business in Ireland".

65 Lewer, J., (2002), "Trade Effects in ASEAN Countries," Proceedings of the Academy for Studies in International Business. Vol. 2(1), pages 45-47, April.

from new accession Member States. These migration flows should have a knock on effect in Irish trade flows in the coming years.

3.4.5 Culture and Trade

Another way of examining the extent of cultural links between countries is to examine the trade in 'cultural' goods (such as books, newspapers and communications expenditure).⁶⁶ The hypothesis behind this approach is that a large volume of trade in cultural goods is likely to be associated with much stronger intensity of social networks. What is clear from an examination of Irish imports of these goods and services is that the dominant source of cultural goods imported into Ireland is the United Kingdom. While only 29 percent of total Irish imports are sourced in the UK, it accounted for 72 percent of all cultural imports. On a related point, the existence of a colonial relationship was also found to have a significant and positive relationship on subsequent trading volumes, even when characteristics such as language are accounted for separately.

3.4.6 Language and Trade

One barrier to trading in Europe cited by a number of companies is the difficulty in dealing in a different language. The simplest rationale for this is based on transactions costs - having to transact in a different language is more costly, thereby increasing the economic distance between two potential trading partners.

Looking at the profile of Irish exports by the language of destination, 61.3 percent of total Irish exports went to foreign-language markets in 2003.⁶⁷ However, a large proportion of Irish exports are accounted for by foreign-owned multinationals based in Ireland in high technology sectors trading with other international companies where English is more likely to be the language medium. Furthermore, the sales and marketing for these products is not carried out in Ireland; these activities are usually performed by a corporate affiliate in a different jurisdiction. For example, Intel reported that its requirement for foreign language skills in its Irish operations is minimal.

EI's clients' exports to English-speaking markets totalled €5.9 billion (€4.8 billion to the UK and €1.1 billion to USA/Canada) in 2003, while exports to foreign language markets were €3.7 billion (€2.8 billion to continental EU markets and €0.9 billion to Asia). Thus, the proportion of EI's clients' exports going to foreign language markets, at 38 percent, is significantly lower than the 61.3 percent figure for overall exports.⁶⁸

⁶⁶ According to the World Customs Organisation, cultural goods comprise cinematographic films, newspapers and periodicals, books, leaflets and other printed matter, recorded tapes and media for sound or similar recording. Turning to services, 'communications' can be seen as a very direct and immediate measure of the degree of contact (whether for personal or business reasons) between two countries.

⁶⁷ For a further discussion of the interaction between language and trade, see EGFSN (2005).

⁶⁸ Expert Group on Future Skills Needs, (2005), "Language and Enterprise: The Demand and Supply of Foreign Language Skills in the Enterprise Sector". Available online: http://www.skillsireland.ie/press/reports/pdf/egfsn050608_languages_webopt.pdf.

The REFLECT study⁶⁹ found that nine percent of Irish SMEs, who were already exporting, were aware that they had lost business as a direct result of a language or cultural barrier. This does not take account of the number of SMEs that had missed business opportunities as a direct result of a language or cultural barrier but were not aware of it. Neither does it provide any sense of the scale of opportunity lost among those who have not attempted exporting at any level. What is generally true of this survey is that the issue of language and cultural barriers are compounded, so it is not totally clear whether solving an immediate language barrier in itself would change trading patterns substantially. However an EI survey⁷⁰ found that foreign managers considered lack of cultural awareness and language competency to be significant shortcomings in Irish management capability.

The foreign language requirements of the indigenous sector are quite distinct from those of the foreign-owned, multi-national sector. They stem principally from sales and marketing activities, particularly when directed at foreign-language markets, while the demand by the foreign owned sector for foreign languages relates more to final product (e.g. call centres). The key findings relating to this sector are that indigenous enterprises, generally, do not ascribe great value to foreign language skills currently. Where foreign languages are required, this does not generally need to be at native-speaker proficiency levels. When native level fluency is required, firms engage the services of local native speakers as translators.

While cautioning about an oversimplification of the situation, it is possible that a chicken-and-egg scenario arises: SMEs do not export sufficiently to foreign language markets because they do not have language skills, and conversely, they do not invest in language training because they are not exporting to those markets.

Despite the high value in undertaking promotional activities to encourage trade between weakly trading pairs of countries, Enterprise Ireland do emphasise that trade can and should only be encouraged where opportunities exist. EI's overseas offices are organised around sectoral opportunities and not necessarily geographic locations.

While EI hold that foreign language skills are important for increased penetration of the continental European marketplace, they acknowledge that their clients do not at present tend to share this view. For example, an EI programme to develop greater language capability and cultural awareness among their clients attracted only 12 firms even though 1,000 were canvassed.⁷¹

The economic evidence on the issue of trade and language is very clear - the existence of a common language has a significant impact on bilateral trade.⁷² However, the linguistic characteristics of a

69 CILT, (2007), "Effects on the European Union Economy of Shortages of Foreign Language Skills in Enterprise". Available online: <http://www.cilt.org.uk/research/projects/employment/review.htm#2>.

70 Can Irish Management Compete - A Survey of Senior Expatriate Managers in Ireland, Torc Consulting Group, Cranfield University School of Management, November 2003.

71 Expert Group on Future Skills Needs, (2005). "Language and Enterprise: The Demand and Supply of Foreign Language Skills in the Enterprise Sector". Available online: http://www.skillsireland.ie/press/reports/pdf/egfsn050608_languages_webopt.pdf

72 Frankel, J. (1997), "Regional Trading Blocs in the World Trading System". Institute for International Economics.

nation cannot be reduced to the assumption that every citizen of Ireland speaks English (and only English), while every citizen of France speaks French (and only French). A 2002 study finds that while a common language can boost trade, the presence of an established network of translators is also important. In other words, the presence of a subset of citizens of France who can speak English will have a positive impact on the degree of French trade with English speaking countries. The 2002 study also found that there was no special 'English' effect, and surprisingly, despite the dominant position of English as a world language, noted that English is no more effective in promoting trade than other major European languages.⁷³

In summary, a significant minority of companies have cited language difficulties as preventing the establishment of new market share. The econometric evidence shows that, while this is borne out more generally by evidence gleaned from global trade flows, the existence of a network of translators should be able to overcome a significant amount of the language gap.

3.5 Conclusion

The evidence presented in this section shows that there are a number of factors that are likely to influence the potential level of trade between Ireland and the European continent, and that many of these are beyond immediate policy action. In particular, Ireland's trade with the European continent will always be affected by differences in language, greater distance in comparison to the UK, weaker cultural ties, and lack of migration from some Member States. Ideally, analysis would be able to estimate the 'shortfall' in Irish trade with Europe, and by a process of elimination of the above effects we should be able to work out how much active policy intervention can help. The trade intensity indices in conjunction with market hierarchy information⁷⁴ (Appendix 1) could spur Ireland to develop guidelines for bilateral cooperation, particularly between those States whose trade with one another is particularly low and market hierarchical information is particularly positive. A programme of special promotional activities could then be undertaken to encourage trade between weakly trading pairs of countries. Such a programme could include trade and investment missions, direct links between business organisations in the two countries, advertising and targeted information campaigns.

The Commission's 1985 White Paper⁷⁵ addressed the 'costs of Non-Europe'. By promoting some 300 measures the White Paper aimed to promote the liberalisation of trade in goods and services, advance the cancellation of border formalities and non tariff barriers that survived the common market, liberalise public procurement practices, promote the Mutual Recognition of technical standards, and support financial integration and deregulation along with the free movement of citizens.

73 Melitz, J (2002) "Language and Foreign Trade", University of Strathclyde, CREST-INSEE, and CEPR

74 More information on market hierarchical data can be found in section 3.2.1

75 Commission of the European Communities, (1985), "Completing the Internal Market: White Paper from the Commission to the European Council, Milan, 28-29 June 1985, Com (85) 310 Final

The majority of ex ante evaluations focused on the benefits the Single Market could bring to trade. These ex ante studies (synthesised in the Cecchini report) suggested that the Single Market would result in lower prices through increased competition, induce market structure transformation, and foster a concentration of resources in more efficient uses. These effects would translate into sizable welfare gains, increases in GDP, and increased competitiveness vis-à-vis non-member countries. A 1997 study⁷⁶ highlighted how the programme to complete the Single Market introduced some major changes for the European economies. The anticipation by economic actors of the completion of the Single Market led strong industrial restructuring at a microeconomic level, notably through mergers and acquisitions. Overall dramatic changes were expected.

That said, the evolution of intra-EC trade patterns over 1980-1994 did not live up to expectations and the 1997 study concluded that the Single Market in itself has only had a limited direct impact on the evolution of intra-EC trade patterns. While increases in trade flows are evident today this does not mean that the Single Market per se has caused this event. Undoubtedly this could be associated with other determinants which may have played simultaneously.

76 Fontagne, L., Freudenberg, M., Peridy, N. (1997), "Trade Patterns Inside the Single Market"

Chapter 4: The Consumer and the Single Market

4.1 Introduction

The Single Market, by removing cross-border barriers to the free movement of goods, services, capital and people, was supposed to help strengthen competition in Europe, encourage innovation, boost productivity and ultimately deliver lower prices and more choice for consumers. This Chapter tests the validity of these assumptions from the perspective of Irish consumers.

4.2 The Single Market and Consumers

As a result of the progress made in achieving an enlarged Single Market of 27 Member States, GDP and employment levels have increased significantly. That said, the Commission acknowledge that the Single Market is not yet a full reality and that markets are still too fragmented in areas such as services generally, retail financial services, public procurement, transport, energy and telecoms. Further action is needed to enable consumers to purchase across borders as easily as within their home Member State.⁷⁷

Evidence confirms that the Single Market programme has done much to enhance competition in European product markets. This has led to some convergence of prices across the EU and increased the choice and quality of goods and services on offer.⁷⁸ However, there is growing evidence that the rate of progress has slowed down in recent years. Price levels were still converging across the EU in 2005, but at only half the pace achieved in the mid-1990s. Moreover, price convergence in the EU still falls well short of what has been achieved in the US. Surveys conducted by the European Central Bank and European Commission show that EU prices adjust relatively slowly when compared with the US, with the prices of services being particularly inflexible.⁷⁹ According to the European Commission only 20 percent of price changes in services in the Euro area are price falls, compared with 40 percent in other product markets.

Evidence also suggest that national markets continue to display persistent 'home bias', whereby consumers tend to buy domestically produced goods and services, whilst buying relatively few (potentially cheaper or better) goods and services produced abroad. Although home bias in EU goods markets decreased between the mid-1990s and 2000, it has since levelled off, suggesting that Europe is failing to reap the full benefits from trade among Member States.⁸⁰

Against this background, the Commission launched the review of the Single Market with a view to establishing priorities for reform in the coming years. An interim report, endorsed by Heads of State and Government at the Spring European Council (2007), outlined a number of priorities to guide the

⁷⁷ European Commission: Public Consultation on the Future of the Internal Market.

⁷⁸ European Commission: Internal Market Scoreboard No 14, July 2005.

⁷⁹ European Commission (2006): The EU Economy, 2006 Review, Adjustment Dynamics in the Euro Area.

⁸⁰ Bruegel Policy Brief, October 2006: Single Market Trails Home Bias.

Single Market, the first of which is to build a Single Market for citizens and consumers and to ensure that competition delivers lower prices, while maintaining high levels of quality in the products and services on offer.⁸¹ On December 20th 2007 the Commission published its review of the EU Single Market setting out a package of initiatives to modernise the Single Market to the benefits of Europeans.

4.3 Enhancing the Single Market

The Single Market is dynamic, constantly evolving and adapting to new realities. As such it will never be 'complete'. There is a consensus that while the initial focus of the Single Market exercise was on removing the main cross-border obstacles facing business, the priorities in the future include the delivery of tangible benefits for European consumers.⁸² Although final decisions will not be taken until the Spring European Council in 2008, on foot of the Commission Review of the Single Market, some policy trends and proposals are emerging, namely:

- The goal of the 21st century Single Market is to make markets work better for the benefit of European consumers and businesses;
- The opening of markets and increasing competition results in fair commercial practices, so as to maximise consumers' welfare and continue to contribute to economic growth and jobs;
- The 21st century Single Market should generate benefits for consumers by enlarging choice and lowering prices and protect them through food and product safety standards, substantial privacy rights and guarantees against unfair competition and trading;
- More should be done to make the benefits of the Single Market more tangible across a range of economic activities and to improve confidence in the quality of products and services; and
- The rise in e-commerce and cross-border shopping has made it important to empower consumers effectively, to reduce the fragmentation of consumer protection rules and also to tackle barriers to the growth in e-commerce and mail order business such as traders' refusal to sell cross-border and market segmentation.

The European Commission's principal policy objectives are essentially twofold. Firstly, to ensure a common high level of protection from risks and threats to consumers' safety and economic interests; and secondly, to increase consumers' capacity to promote their own interests. Ireland shares these broad policy objectives.

⁸¹ Charlie McCreevy: European Commissioner for Internal Market and Services: The future of the Single Market: Sofia University, Sofia, 14 May 2007.

⁸² A Single Market for Citizens, Interim Report to the 2007 Spring European Council, Communication from the Commission, COM (2007) 60 final, 21 February 2007.

4.4 A New EU Consumer Strategy

In parallel to the review of the Single Market, the Commission has published its proposals for a new EU Consumer Strategy (2007-2013).⁸³ Its assumption is that confident, informed and empowered consumers are the motor of economic change as their choices drive innovation and efficiency. Specifically, the Commission believes that the challenges lie in equipping the consumer with the skills and tools to fulfil their role in the modern economy.

The proposal that EU consumer policy should be at the heart of the next phase of the Single Market highlights a congruence of policy objectives.

The main themes of the proposed strategy centre on the following issues:

- The sophistication of retail markets and the growing phenomenon of cross-border shopping are increasing the role of consumers;
- A key driver is the rollout of broadband technology in order to give a boost to e-commerce;
- Services are set to grow, as electricity, gas, post and telecommunications liberalisation develops further; and
- Significant obstacles remain, notably in the area of consumer contracts and redress.

The five pillars of the proposed EU Consumer Strategy are as follows:

- Modern cross-border shopping rights: There will be an overhaul and streamlining of the current consumer legislative framework that is incomplete, outdated and increasingly ill-adapted to the digital economy revolution in products, service and retail channels. The priority is the review of eight core Consumer Directives. To this end, the Commission is currently engaged in a consultation exercise;⁸⁴
- Strong systems for redress and enforcement: The Commission is proposing to reinforce the monitoring of the Alternative Dispute Resolution (ADR) schemes; to assess the operation of the Injunctions Directive; and to implement a new Regulation to tackle cross-border scams and breaches of consumer protection rules;
- Safe markets: RAPEX (Rapid Alert System) will be reinforced. Improved data collection is another priority given that safe products are the number one consumer concern;
- Making consumer outcomes the focus of EU policies: A White Paper on Mortgage Credit is proposed. It is envisaged that a consumer dimension would be integrated into the Lisbon Strategy. Consumer related research will be undertaken, in particular regarding consumer behaviour; and
- Information: The current network of European Consumer Centres (ECCs) will be enhanced and national information campaigns will be undertaken to provide consumers with better information.

⁸³ EU Consumer Policy Strategy 2007-2013: Enhancing Consumers, Enhancing Their Welfare, Effectively Protecting Them, Communication from the Commission, COM (2007) 99 final, 13 March 2007.

⁸⁴ The Commission's initial findings are set out in its Green Paper on the Review of the Consumer *Acquis*, COM (2006) 744, 8 February 2007.

Based on a study on the impact of the current EU Consumer Strategy on national policies, the Commission concluded that national and EU policy objectives are broadly shared.⁸⁵ This view is supported by the Department of Enterprise Trade and Employment.

4.5 Examples of Progress to Date

A number of measures have been adopted (or are in the process of adoption) to advance the Single Market for consumers. Most notably, The European Consumers Association (BEUC)⁸⁶, have insisted that consumers must know what chemicals are present in products they use and that dangerous chemicals present in everyday consumer products must be replaced by safer alternatives. The REACH (Registration, Evaluation and Authorisation of Chemicals) Regulation⁸⁷, as adopted, will mean that many of the problematic substances will have to wait six years (instead of three years) to be assessed or, at worst, they will not be assessed at all.⁸⁸

The Directive on **Unfair Commercial Practices**⁸⁹ is designed to protect consumers against unfair practices such as pressure selling or implying that the consumer cannot leave a shop until a contract is signed. The exclusion of the country of origin principle and the creation of an EU-wide 'blacklist' defining a range of unfair practices to be prohibited EU-wide were welcomed by BEUC, as were the provisions on misleading marketing, such as promoting a product as 'free' when in fact there are hidden costs.⁹⁰ On the other hand, the Directive is ambiguous as regards whether commercial practices which are accepted in one Member State can be questioned in another.

New rules give **passengers rights**⁹¹ in the event of denied boarding, cancellation or flight delay. In addition, Member States have to publish, according to common criteria, a list of names of air carriers subject to bans or traffic rights restrictions. Proposals on the rights of rail and bus passengers have been welcomed in principle.⁹² Air transport liberalisation has meant that any airline can operate on any route in the EU. This has meant an increase in the number of carriers from 119 in 1992 to a peak of 140 in 2000. The number of routes linking Member States has risen by 46 percent since 1992 boosting choice for consumers.⁹³

The recently adopted Services Directive will bring more competition and more choice for consumers by the removal of unnecessary or unjustified obstacles to the free movement of services. However, it is too soon to assess its impact on Irish consumers as the Directive has not yet been implemented in Ireland. (See section 2.6).

85 Review of Consumer Policy Strategy 2002-2006, Commission Staff Working Paper, SEC (2007) 321, 13 March 2007. The study is published at http://ec.europa.eu/consumers/overview/cons_policy/index_en.htm

86 BEUC defend and promote the interests of European consumers - citizens as purchasers or users of goods and services - in the EU policy process.

87 REACH is a new European Community Regulation on chemicals and their safe use (EC 1907/2006).

88 BEUC Annual Report 2005.

89 Directive 2005/29/EC on Unfair Commercial Practices was signed by the European Parliament and the Council on 11 May 2005.

90 Op cit, page 20.

91 For example the ECC has published an "Air Passenger Rights: Consumer Complaints 2005" paper. Available online: http://www.eccdublin.ie/publications/reports/ecc_reports/ECC-Net_Airline_Complaints_05.pdf

92 Op cit, page 22.

93 www.dti.gov.UK/Europe/trade.Europe/benefits-eu-membership/single-market

Telephone roaming charges have been capped at EU level on foot of strong representations made by BEUC. In Ireland, a new interactive website has been developed by the Commission for Communications Regulation (ComReg)⁹⁴ to help consumers to compare the cost of Irish personal mobile price plans.

The EU Competitiveness Council has cleared the way for the consumers to take out loans of up to €100,000 from banks and lenders in other Member States.⁹⁵ Once adopted, the revised Consumer Credit Directive will make it easier for consumers to secure loans outside their country of origin. For example, contractual information will facilitate informed decisions, and consumers will be given 14 days to withdraw from a credit agreement. At present only one percent of consumers borrow outside their country in a market valued at €800 billion.

From 1 January 2008, a Single European Payments Area (SEPA) will come into effect among the EU's 8,000 financial institutions. Electronic cross-border payments in Euro - whether by credit card, debit card, electronic bank transfer or direct debit - should become as easy, cheap and secure as 'national' payments. One of the reasons for this initiative was that the Commission found that lack of competition and integration meant that consumers were paying €9 billion more for payment services than they should.⁹⁶ DG COMP believes that several of the competition barriers that its sector inquiry has highlighted may be remedied through the establishment of a pro-competitive SEPA. For instance, for payment card networks SEPA offers the potential to remove many restrictive rules.

4.6 Irish Consumers and the Single Market

In assessing the impact that the Single Market has had on Irish consumers, it is important to recognise that the lives of Irish consumers have changed significantly since 1992. In any case, over this period, Ireland has been transformed into one of the wealthiest economies, not only in the EU, but in the world; employment and average earnings⁹⁷ have increased substantially leading to a steady improvement in living standards and spending power.⁹⁸ Irish residents have embraced the benefits arising from the liberalisation of air transport and the growth in low cost airlines within Europe and are now travelling in far greater numbers. Between 2000 and 2006 for example, the number of trips taken by Irish residents to other EU 15 countries increased by over 85 percent, from 2,988,000 to 5,548,000.⁹⁹

94 ComReg is the statutory body responsible for the regulation of the electronic communications sector (telecommunications, radiocommunications and broadcasting transmission) and the postal sector.

95 Conclusions of EU Competitiveness Council held on 21-22 May 2007.

96 Speech by Charlie Mc Creavy, European Commissioner for the Internal Market and Financial Services, to the Irish Banking Federation, Dublin, 11 May 2007.

97 Figures from the CSO show that average hourly earnings increased by 74 percent between 1995 and 2006.

98 Figures from the CSO show that between 1995 and 2006 total personal consumption increased from €29.7 billion to €80.8 billion, in nominal terms, an increase of over 170 percent. The Southern and Eastern regions is Europe's 13th wealthiest in terms of GDP per capita compared to the EU-25 average.

99 CSO Household Travel Survey. Estimated expenditure (including international fares) by Irish residents travelling to other Member States rose from €2,262.4 million in 2001 to €3,697.6 million in 2006.

Increased affluence and greater mobility have significantly increased the choices available to Irish consumers in recent years. The range of products available to Irish consumers in the Irish market place has improved significantly, and in many service sectors too, Irish consumers have benefited from the entry of new providers. More recently, increased ownership of computers and access to the internet have added to the choices available to Irish shoppers.

Evidence from consultation with consumer organisations in Ireland and the results of a number of recent Eurobarometer surveys sheds light on Irish consumers' perceptions of the impact of the Single Market and on their attitudes and experiences of cross-border transactions, as well as certain consumer protection measures.

In general, consumer organisations believe that the Single Market has been positive for the Irish consumer. By removing trade barriers, it has significantly expanded the choice of goods available to consumers in Ireland; greater competition and liberalisation has helped to lower prices in many sectors, most notably air transport and telecommunications; and the Single Market has had a significant impact on the quality of the goods sold to Irish customers and enhanced the protection offered to them. These views are supported by the findings of the Eurobarometer surveys of Irish consumers and the work of the Consumer Strategy Group, which are summarised in Appendix 2.

While the Single Market has resulted in a greater range and choice of products available to Irish consumers at home, this has not necessarily translated into lower prices. Where the Eurobarometer data reveals a positive perception of the market, the CSG findings on value for money and price may better reflect the reality for consumers. It is interesting to note, however, that many of the sectors where Irish consumers believe they get least value for money are in traded services where there is an absence of competition due to the ability of certain services and professionals to stymie it. Sectors such as auctioneers, solicitors, motor vehicles and public houses were highlighted as the main areas where consumers felt lower prices did not prevail.

4.7 Purchasing from Europe: Ireland's Experience

A central objective of the Single Market programme is to facilitate greater cross-border shopping to enable consumers to get the best deal - on price or quality - from anywhere within the EU. This should mean that in practice the Single Market should make it as easy to buy goods in Dusseldorf or Dublin. However, evidence suggests that Irish consumers (in common with consumers in other Member States it should be added) are not exercising this option in significant numbers and certainly are not fully exploiting the potential benefits offered by cross-border internet shopping.

Cross-border shopping includes purchases made from retailers or providers located in another Member State, either in person or via distance shopping (by phone, post and internet). There is an almost unanimous interest in cross-border shopping, or at least the principle of the idea. A study¹⁰⁰

100 Qualitative Study on Cross Border Shopping in 28 European Countries, European Commission, May 2004.

of this phenomenon and the findings of a survey conducted by Eurobarometer of Irish consumers found that Irish citizens are travelling far more than in the past and indeed are amongst the highest purchasers of package holidays in the EU (at 30 percent). Irish travellers are also more inclined to purchase abroad than many others EU citizens.¹⁰¹

4.7.1 Shopping Abroad

Because of Ireland's geographical location, the costs associated with cross-border shopping can be significant - and while Irish consumers seem to be happy to shop whilst on holiday (including the recent phenomenon of Christmas shopping trips to the US) or visiting other EU countries, they are not, on the whole, inclined to travel specifically to avail of cheaper products in other Member States. The situation may be somewhat different for higher value items such as cars, where the potential savings outweigh the "transaction costs". In general, it would appear from the experience of European Consumer Centres (ECC) that even in countries with several land borders, cross-border shopping tends to be predominantly with close neighbours.

The Dublin ECC believes that EU consumer policy is as important as competition policy because adequately informed and protected consumers result in empowered consumers who would lead the drive to make the Single Market more efficient, effective and innovative.¹⁰² Having analysed the transposition of a number of Directives using the minimum harmonisation approach, it seems that legislative disparities between Member States are drastically reduced where Directives provide a higher level of consumer protection.

What is evident is that cross border administrative co-operation will become instrumental in advancing the benefits that the Single Market can bring to the consumer in the future. For example, a Regulation on Consumer Protection Cooperation was adopted in 2004 to stop dishonest practices of traders targeting consumers living in other EU countries. It lays down the framework and general conditions under which Member States are to cooperate. The Regulation sets up an EU-wide network of national enforcement authorities with similar investigation and enforcement powers. Under the new system, each of these authorities are able to call on other members of the network for assistance in investigating possible breaches of consumer laws and in taking action against rogue traders.¹⁰³

4.7.2 Shopping on the Internet

The internet offers the greatest prospect for increasing the degree of cross-border shopping by Irish consumers. Survey data on internet usage and online shopping is given in Appendix 3 and this reveals that computer ownership, access to internet/broadband and online shopping have all increased in recent years. Consumer confidence is recognised as one of the key elements in the efficient functioning of the Single Market, while e-commerce is an essential tool in promoting it,

¹⁰¹ See Appendix 2 for additional information on the Eurobarometer survey into cross border activity.

¹⁰² Extract from ECC Dublin Response to the Green Paper on the Review of the Consumer *Acquis*. (Submission to DG Health and Consumer Protection), May 2007.

¹⁰³ Regulation (EC) No 2006/2004

due to its unique potential for large-volume cross-border transactions in goods and services. However, quantitative results from the Eurobarometer surveys show that despite increased access to the internet and rapid development in internet shopping across the EU, only six percent of EU citizens have used the internet to shop cross-border. The corresponding figure for Ireland (12 percent) is well above this level according to the findings of the Eurobarometer survey.¹⁰⁴

According to the survey:

- 47 percent of Irish consumers made one internet purchase in previous year (including domestic);
- In line with the EU average some 42 percent of Irish consumers expressed a lack of confidence in make purchases in another country; and
- For Irish consumers the main barriers are: unwilling to disclose credit card details (50 percent); no internet access (45 percent); unsure what to do if delivery is not satisfactory or faulty (45 percent).

According to the CSO over 700,000 people bought goods or services online in 2006, a 22 percent increase on the previous year. Irish consumers' online shopping preferences mirror those of other countries, with travel and accommodation topping the list of purchases, followed by event tickets. Across all categories there appears to be growing consumer confidence in buying online. Choice, value and convenience are the main drivers. Online shopping experiences tend to be good, with some 92 percent of Irish consumers indicating that they had no problems with purchasing online in the previous 12 months.

The ECC has also seen a big increase in the number of complaints relating to online shopping; the number one complaint being the non-delivery of goods, followed by the condition of the product on arrival with issues regarding price and payment, contract terms and redress further down the list. The majority of complaints received from Irish e-shoppers were against web traders based in the UK, France and Germany - accounting for 44 percent, 14 percent and 13 percent respectively.¹⁰⁵

A recent report on consumer confidence in the digital environment prepared for the European Parliament, concluded that despite a rapid expansion in e-commerce at national level in the EU (more in some countries than others), the main barriers that limit consumers from purchasing goods and services from another Member State have stayed fairly constant, namely:¹⁰⁶

- Access to the internet;
- Consumer confidence regarding security (fraud and payments);
- Issues around redress and trading standards;

¹⁰⁴ It is important to state that the figure for Ireland is particularly high as a result of our peripheral location and also because of our relatively small market size that induces us to look to bigger markets for more choice.

¹⁰⁵ European Consumer Centre Dublin, Annual Report 2005.

¹⁰⁶ DG Internal Policies of the Union; Policy Department Economic and Scientific Policy; Consumer Confidence in the Digital Environment: Briefing Note (IP/A/IMCO/FWC/2005-058/lot4/C1/SC2: January 2007).

- Data protection and privacy;
- Language and culture; and
- Desire to 'touch and feel'.

The report also highlighted the fact that there are barriers that are becoming increasingly important as e-commerce continues to grow. They include issues around cross-border payment systems, searching for, and comparing, information with various search engines and price bots (automatic comparison sites) and, most importantly, traders' refusal to sell across borders, or trader market segmentation.¹⁰⁷ Indeed, the Eurobarometer survey found that Ireland is near the top of the list in terms of a perception that providers refuse to sell because they are not resident here (See Section 4.8.4).

According to the European Parliament, any new EU initiative dealing with the main challenges around building consumer trust in the digital environment would need to address a large spectrum of issues (internet access; trading standards and redress; administration cooperation; security and privacy; refusal to sell and market segmentation, to name a few) not just those around consumer protection.¹⁰⁸

4.8 Remaining Consumer Issues

In this section we detail a number of examples where the Single Market could be enhanced to the benefit of consumers.

4.8.1 Consumer Issue 1: Prices

While the Single Market has undoubtedly lead to greater choice for Irish consumers, the perception still exists that consumers are not benefiting as much as consumers in other countries from the Single Market. The report of the Consumer Strategy Group (CSG) found that as far back as 1999 there were concerns that consumer prices in Ireland were relatively high compared to other countries in Europe. This concern has persisted and has led to consumers asking the question 'are we being continually overcharged?'

Since the introduction of the Euro, price comparisons are easier than before and consumers are returning from travel abroad dissatisfied with the prices being charged in Ireland. Greater trade, including purchases by consumers, with Northern Ireland has also focused particular attention on price disparities with the UK. In addition, increasing numbers of consumers now use the internet for comparative pricing and can quickly identify disparities.

¹⁰⁷ Issues around refusal to supply also apply to mail order in general.

¹⁰⁸ DG Internal Policies of the Union; Policy Department Economic and Scientific Policy: Consumer Confidence in the Digital Environment: Briefing Note (IP/A/IMCO/FWC/2005-058/lot4/C1/SC2: January 2007), page 14.

As part of its study, the CSG compared the prices of 40 different products with those in other Eurozone countries. Of the 20 internationally branded products analysed, 65 percent were found to be more expensive in Ireland than in the Eurozone (and 50 percent of local branded products analysed were more expensive). The CSG concluded from their examination of product prices that a significant gap exists, especially in branded products, between the prices in Ireland and those in the Eurozone. The full basket of products in the sample cost €89.30 in Ireland and only €70.94 in the Eurozone, a gap of 25.9 percent. Even if the effects of different VAT rates are removed, there was still a gap of 22.3 percent.

Ireland's inflation rate has exceeded the Eurozone and wider EU-15 average for most of the past decade. However, the main driver of inflation in Ireland in recent years has been the non-traded services sector which suggests that inflation has primarily been generated at home and has not been directly sourced from abroad though rising costs of imported goods. Against this background, the CSG concluded that, in large measure, the increase in prices has been due to Ireland's exceptionally buoyant economy. Nevertheless, vigilance and the application of competition law must continue purposefully to protect and benefit consumers who have a right to purchase goods and services at a competitive price. The Competition Authority continue to point out that greater competition provides good value for consumers, stimulates business and enhances the economy as a whole. The Authority warns of continuing anti-competitive behaviour which results in consumers paying higher prices without any extra benefits and which undermines the competitiveness of the Irish economy.¹⁰⁹

In many instances common perceptions are backed up by cross-border price comparisons. In 1995, for example, Ireland was the eight most expensive country amongst the EU-15. By 2003, it was almost level with Finland as the most expensive country in the Eurozone for consumer goods and services and ranked as the most expensive country in the Eurozone for food, retail non-alcoholic beverages, tobacco and housing rentals, and the second most expensive for alcoholic beverages (off-license), restaurants and pubs.¹¹⁰

¹⁰⁹ Annual Report 2006, The Competition Authority

¹¹⁰ National Competitiveness Council (NCC), Statement on Prices and Costs, 2004.

Table 1: UBS Survey: Dublin's Ranking (compared to most expensive city)

Product	Ranking out of 70 cities
Restaurant	4 th most expensive
Apartment rent	5th most expensive
Price of services	9th most expensive
Cost of car	10th most expensive
City break	12th most expensive
Clothing	14th most expensive
Food	14th most expensive
Hotel	14th most expensive
Fuel	16th most expensive
Taxi	22nd most expensive
Bus/DART	23rd most expensive
Home/household goods	27th most expensive

Source: UBS Prices and Earnings Report 2006. The survey compared a standardised basket of 122 goods and services.

Although price comparisons such as those conducted by the NCC and CSG can be crude because the baskets used are arbitrary, they nevertheless point to a price gap in internationally branded products that is not easy to justify. While it is also acknowledged that the high costs faced by businesses in Ireland may also contribute, the CSG felt that this only explained some of the difference and pointed out that the perception of an unexplained gap is reinforced by the fact that Ireland does not rank highest for many business costs, while it does rank highest for many consumer prices. On the basis of their analysis of prices in Ireland, the CSG concluded that Irish consumers are not getting a fair deal.

A number of other more recent EU-wide surveys also suggest that Irish consumers are paying more than consumers in other Member States. For example, two recent surveys conducted by Eurostat found that in Ireland, consumers are paying 19 percent more for medicines¹¹¹ than the EU average and that Ireland is one of the three most expensive EU countries in which to buy furniture, with prices reported to be 15 percent above the EU average.¹¹² Moreover, another Eurostat survey¹¹³ which looked at comparative prices for selected consumer services in Europe in 2005 shows even larger disparities. Irish consumer price levels are over 20 percent higher than the Eurozone average. Assessing Ireland's price level in greater detail indicates that Irish services price levels were 23

111 Eurostat: Statistics in Focus 45/2007, "Pharmaceutical products - Comparative price levels in 33 European countries in 2005.

112 Eurostat: Statistics in Focus 44/2007, "Furniture - Comparative price levels in 33 European countries in 2005.

113 Eurostat: Statistics in Focus 12/2006. "Comparative price levels for selected consumer services in Europe for 2005.

percent above the EU-15 average and goods prices were 13 percent above the EU-15 average in 2005.

The index is broken down into various elements and shows for example:

- Energy: 17 percent above the EU 25 average;
- Transport services: 4 percent higher;
- Communication services: 16 percent;
- Recreational and cultural: 7 percent;
- Restaurants and hotels: 28 percent;
- All consumer services: 28 percent;
- All consumer goods: 16 percent; and
- All consumer goods and services: 23 percent.

An important way to encourage more cross-border trade is to provide more information for consumers. This is done in many countries at national level, with national consumer bodies, private organisations and media providing comparative data on costs of different goods and services from different retailers and service providers within the country. The publication of Harmonised Index of Consumer Price (HICP) data by Eurostat in product terms, including in particular the details of prices of branded goods, would alert consumers to potential savings that could be achieved through purchasing from other Member States, either through mail order, internet shopping, or direct shopping in neighbouring countries.

Given the wide disparities that exist in respect of most items covered by the Consumer Price Index (CPI), it may be appropriate to carry out a continual investigation into the cross-country price differences for a basket of typical consumer goods, with a specific focus on branded goods, and services. This investigation could, for example, examine the drivers of costs on the Irish market for retailers and wholesalers which are different to those prevailing in other Member States and the extent to which Ireland's high cost base for business is contributing to higher consumer prices. In the past this work has been carried out by the Competition Authority.

In order to address price divergence between Member States consideration could also be given to selective promotional and awareness activities that would encourage the retail sector to undertake more cross-border sourcing. Most Member States have promotional bodies to provide support to business, especially in start-ups, innovation and inward foreign direct investment. However, the retail sector is rarely if ever considered for such support, and may in fact be explicitly excluded. Consideration should, nevertheless, be given to selective promotional and awareness activities that would encourage the retail sector to undertake more cross-border sourcing. This would increase overall competition in the supply market as a whole, as well as putting downward pressure on consumer prices. With respect to FDI, encouragement of retailers to move across country borders within the EU, because of their supply chains, would also increase cross-border trade, as well as militate against over-concentration in national retail markets.

The retail and distribution sectors play a vital role in linking producers, especially of goods, and final consumers. These consumers may be households or they may also be other enterprises, who need inputs to their own production. Some European retailers are among the largest in the world, and have significant market power. They have in many cases established well-functioning supply chains and have networks of suppliers who are sometimes in a wholly dependent position. As large retailers continue to grow, it can be difficult for a new supplier to win business, because the bar in terms of scale, price and quality is continuously being raised. It is all the more difficult to do this on a cross-border basis. With regard to the distribution sector, the use of an intermediary may be the only option for smaller firms to enter a new cross-border market. The precise operations of this sector are complex and may involve elements of exclusive agreements, multiple agencies, etc. A better understanding of the sector will allow for the identification of any obstacles that it presents to the growth of the Single Market. Important initiatives at the European level have been taken in some specific distribution sectors, such as the motor vehicle industry, but a wider perspective could be taken.

4.8.2 Consumer Issue 2: Redress and Protection

The Commission is committed to providing European consumers with effective and efficient means of redress. It is currently engaged in a number of initiatives and has created the European Consumer Centres Network which provides a full service to consumers from information to dispute resolution. The Commission has also submitted a proposal to establish a European Small Claims Procedure, which is intended to simplify and speed up litigation concerning small claims and reduce costs.¹¹⁴

On mediation, a proposal for a directive on certain aspects of mediation and civil and commercial matters has been submitted and the European Code of Conduct for mediators has been launched. The first report on the application of the Injunctions Directive is scheduled for 2007 and the core provisions of the Consumer Protection Cooperation Regulation¹¹⁵ apply from the end of 2006. The Commission is also at a preliminary stage of exploring the area of collective redress actions.

The Irish SOLVIT Centre handles complaints and work towards findings solutions to problems of citizens and businesses within ten weeks and does so in an effective manner. There are however, many other options available for aggrieved consumers including Europe Direct, Eurojus, Citizens Signpost Service, Euro Info Centres, the ECC, and FIN NET. All operate on very limited resources and provide similar services so opportunities for consolidation might be investigated in the future.

From the Eurobarometer surveys it is clear that much more needs to be done to raise awareness levels among Irish consumers about their rights and redress mechanisms. Therefore, the National Consumer Agency (NCA) could assess the issues of concern as expressed by Irish consumers in these surveys and in cooperation with the consumer organisations in Ireland facilitate effective and cost efficient consumer redress in respect of both goods and services sold domestically and from other

¹¹⁴ Commission proposal of 15 March 2005 for a Regulation establishing a European Small Claims Procedure. (COM (2005) 87 Final).

¹¹⁵ Regulation 2006/2004 of the European Parliament and the Council of 27 October 2004 on cooperation between national authorities responsible for enforcement of consumer protection laws. OJ L 364/19.12.2004.

countries. Consumers should be informed as to how they can use arbitration to resolve disputes. Action at EU level would be needed to enforce decisions taken by Irish courts in respect of suppliers outside the State with whom Irish consumers are in dispute.

Consumer protection plays a critical role in giving consumers the confidence to shop across borders either in person or via the internet. It is vitally important also that consumers are educated and informed about their rights and the redress mechanisms that exist. Evidence from consultation with Irish consumer organisations suggests that more needs to be done to raise awareness amongst Irish consumers. This is borne out by the findings of the Eurobarometer survey which indicate that:

- Awareness among Irish consumers about EU-financed Single Market and consumer services (such as SOLVIT) was low ranging from 2 percent to 12 percent;
- Only 11 percent of Irish consumers made a formal complaint; with 49 percent declaring it is easy to settle disputes via arbitration mechanisms and 36 percent stating that in their opinion the courts provide the best solution (this does not mean that 36 percent of consumer complaints were prosecuted through the courts in Ireland);
- 11 percent of Irish consumers have asserted their rights under warranty;
- 75 percent of Irish consumers believe there is a greater risk of being a victim of a scam when purchasing from abroad;
- In line with the EU average, 61 percent of Irish consumers do not trust the safety of goods and services purchased outside of the country;
- 57 percent of Irish consumers agree that the Single Market has increased consumer protection; with 58 percent happy with domestic consumer protection measures;
- 65 percent of Irish consumers agree that sellers respect consumers' rights;
- 53 percent of Irish consumers believe that clear and transparent pricing is the best way to protect their interests; and
- In line with the EU average figure, 68 percent of Irish consumers trust the Irish consumer organisations; with 66 percent trusting Government to protect their interests.

4.8.3 Consumer Issue 3: Market Information

To strengthen the prevention side of things and to facilitate greater partnership between Member States themselves, the Commission is developing an Internal Market Information system or "IMI". This will enable national authorities to be in contact with each other in a quick and effective manner. The project will establish an information system that will link competent authorities in national administrations that are involved in managing/implementing free movement in the Internal Market. Such a system will be used to identify the relevant partner authority in another Member State, provide a structure for ensuring that time limits for compliance and mutual assistance are respected and significantly reduce the language/translation problem by structuring the information to be exchanged and operating on that basis in all EU languages. The need for such a system has been recognised and endorsed by all Member States.

IMI is about making the Internal Market work better. It supports mutual assistance obligations laid down in Internal Market legislation. It will be a useful general tool for information exchange between Member States for those Member States who wish to use it.

4.8.4 Consumer Issue 4: Reluctance to Trade

One important obstacle to an increase in cross-border trade is the reluctance or unwillingness of companies to supply customers in other EU countries. In some cases this is due to distribution agreements. For inter-company trade, it may be due to reluctance to extend the normal credit terms to customers in other countries because of the felt risk that debts would be more difficult to recover. In other cases, it may simply be for administrative convenience. It is a fundamental policy question as to whether companies should legally be entitled to refuse to deal with a customer in another Member State, simply because of this fact. For mail order and internet trading, there may be significant disparities in postal and shipping charges for international as opposed to domestic deliveries: consideration should be given to revisiting the universal service obligations and moving towards uniform tariffs for deliveries within the EU, analogous to what has been done for payments within the Euro zone.

One example¹¹⁶ of reluctance to trade emerged when a popular UK-based online travel company reportedly stopped taking bookings from Irish customers and 'Ireland' disappeared from the drop down menu of companies listed on its booking page. The company cited restrictive Irish regulations to the offering of travel products in and out of the Ireland as the reason for its refusal to supply Irish residents and the fact that all travel agents doing business in Ireland need to be licensed and post an insurance bond - to ensure that Irish consumers are protected. Incidentally, this is a good example of the type of case relevant to the SOLVIT programme referred previously.

While it may not be possible to "compel" e-commerce and mail order companies to supply consumers in all Members States, every effort should be made to encourage and facilitate traders to ensure that Irish consumers do not lose out.

4.8.5 Consumer Issue 5: Promoting Internet Shopping

E-commerce is likely to be the preferred medium for Irish consumers to purchase goods and services abroad. The barriers to e-commerce have been clearly identified in consumer surveys and by research conducted for the European Parliament. This suggests that a key priority should be the removal of all identified barriers by legislative and other measures.

Drawing on the evidence to hand, Ireland could prepare an Action Plan of key initiatives to be taken at EU and national levels which would unlock the potential of e-commerce for Irish (and EU) consumers thereby facilitating more cross-border shopping. This Action Plan could be the central element of the Government's response to the on-going consultation on the Single Market and

¹¹⁶ <http://www.ireland.com/blogs/pricewatch/2007/05/21/anywhere-but-here/>

Consumer Protection. Consultation with all relevant stakeholders, including e-traders, consumers, financial institutions (including credit card companies, banks etc.) that facilitate the payment process for e-commerce, regulators (IFSRA, NCA etc.) should take place.

The action plan could also detail specific measures to improve consumer confidence in e-commerce as a method of doing business. Specific measures or initiatives could also be made in terms of consumer redress mechanisms which are particularly important in non face to face transactions.

4.8.6 Consumer Issue 6: Financial Services

In Ireland, it would appear that the Single Market in financial services has had a broadly positive impact on consumers largely thanks to Single Market measures which make it easier for financial services companies to expand outside the country where they are established. For example, there is more competition in the provision of retail financial services;¹¹⁷ the Single Market has facilitated the introduction of the Euro and low interest rates; consumers now have fewer difficulties in switching accounts; and cross-country price comparisons for financial products are possible.

The following table illustrates the extent to which Irish consumers now have a wider choice of financial institutions in the market:

Table 2: Financial Institutions in the Market

	1996	2006
Credit Cards	8 providers	12 providers
Personal Loans	9 providers	14 providers
Mortgages	9 providers	14 providers
Current accounts	8 providers	8 providers

Source: Irish Bankers Federation, May 2007

It should be noted, however, that despite these changes, the Competition Authority in its report on the (non-investment) banking sector in Ireland concluded that competition is not working well for Irish consumers and drew attention to the high barriers facing banks who want to offer new services to customers. According to the Competition Authority, the sources of these problems are both the behaviour and structural arrangements of the banks themselves, and the unintended consequences of government regulations.¹¹⁸ Despite the fact that consumer benefits have been identified, DG COMP has concluded that there continue to exist widespread competition barriers which unnecessarily raise the cost of retail banking services for consumers. High switching costs and lack of transparency about prices were identified as being problematical for customers. This inquiry, like that of the Competition Authority, raises important issues for consumers. The Commission has

¹¹⁷ Retail services include financial products such as bank accounts, loans, mortgages, investments and insurance.

¹¹⁸ This report was published on 22 September 2005 and was based on evidence submitted by LECG Consultants. Some 25 detailed recommendations were made.

indicated that it intends to use its competition and State aid powers to tackle the market for payment cards in particular.¹¹⁹

4.8.7 Consumer Issue 7: Banking Costs

While Irish consumers have greater choice, the impact on banking costs is more uncertain. A survey by Cap Gemini of the cost to the customer of core day-to-day services concluded that Ireland is among the cheapest in the world with an average cost per annum of €59 compared to a global average of €108. Irish costs are ten percent cheaper than in the United Kingdom.¹²⁰ In contrast to the situation in many other Member States, Irish consumers are not charged annual fees by their credit card company (although the Government applies an annual stamp duty).

Furthermore, some 88 percent of total personal credit to Irish households is at rates below the Eurozone average.¹²¹ In addition, the average cost of mortgage credit in Ireland is significantly below the Eurozone average for loans for house purchases.¹²² Many of these findings have been hotly disputed, however. For example, Bank of Scotland Ireland has drawn attention to several studies which suggest that Irish bank charges are among the highest in Europe. The most recent report produced by the Department of Finance/Central Bank of Ireland Joint Working Group cited data to indicate that Irish gross profit margins for unsecured personal loans were the second highest in the Eurozone and almost double that in France. The Bank also claimed that the gross profit margin of Irish banks on overdrafts was also amongst the highest in Europe.¹²³ In short, it would appear that while competition in the retail banking sector is starting to drive down some costs to the benefit of Irish consumers, there is still scope for further improvement to address the general perception among Irish consumers that banks are not delivering value for money.¹²⁴ Also, EU measures may help the choice available to Irish consumers of financial services, there continues to be a 'culture' whereby the consumer prefers to know who they are dealing with. Such perceptions cannot be legislated for.

4.8.8 Consumer Issue 8: Insurance Costs

Both DG COMP and the Competition Authority have published reports on non-life insurance markets.¹²⁵ Some 47 policy recommendations have been addressed to industry participants, regulators and Government with the aim of making the markets work well for Irish consumers. As it found that there were (unspecified) 'problematic' issues, the Commission is continuing its investigations. In addition, it is interesting to note that in a survey conducted for the Consumer Strategy Group¹²⁶, some 72 percent of consumers surveyed felt that they are not getting reasonable

119 Communication from the Commission, Sector Inquiry under Article 17 of Regulation 1/2003 on Retail Banking (Final Report), COM (2007) 33 final, and press statement by Competition Commissioner Neelie Kroes, 31 January 2007.

120 World Retail Banking Report, August 2005, Cap Gemini.

121 Central Bank and Financial Services of Ireland Quarterly Bulletin, No 1, 2007.

122 Some 3.68 percent compared to 4.27 percent, MFI Interest rate Statistics, ECB, December 2006.

123 Statement by Mark Duffy, Bank of Scotland Ireland.

124 Consumer Strategy Group found that 65 percent of consumers surveyed perceived that they are not getting reasonable value for money from banks. CSG Report, page 15.

125 The Competition Authority's report was published in March 2005 and the DG COMP interim findings in relation to business insurance in January 2007.

126 In March 2004 the Consumer Strategy Group (CSG) was established to advise on the development of a national consumer policy.

value for money from insurance companies.¹²⁷ The Irish Insurance Federation (IIF) has claimed that motor insurance costs have fallen some 54 percent since May 2003.¹²⁸ The IIF do not have cross-country comparisons of motor insurance costs.

4.8.9 Consumer Issue 9: Mortgage Credit

Outstanding mortgage balances account for almost 50 percent of EU GDP. Hence the Commission believes it is vital to put in place a legislative framework that benefits consumers. Specifically, the Commission states that the evidence shows that the single market for residential mortgages is far from integrated and thus it wants to improve product diversity and facilitate cross-border activity. Consequently, the Commission published a White Paper on the Integration of EU Mortgage Markets in December 2007. The White Paper summarises the conclusions of a comprehensive review of European residential mortgage markets and presents a package of measures to improve the efficiency and the competitiveness of these markets, to the benefit of consumers, mortgage lenders and investors alike. This is to be achieved in particular through improvement in the areas of cross-border supply, product diversity, consumer empowerment and customer mobility. The Commission believes that facilitating the cross-border supply and funding of mortgage credit as well as increasing the diversity of products available can improve the competitiveness and efficiency of mortgage markets.¹²⁹

There is a genuine push at EU level to secure more benefits for EU consumers through forcing increased competition across all areas of retail banking. The next phase of Single Market legislation will focus more on consumers' interests than those of the financial institutions providing such services. Whether these developments are of any practical interest to Irish consumers is a moot point as the above-mentioned Eurobarometer surveys found that 54 percent of Irish respondents have no wish to access financial services outside Ireland; some 30 percent cite language barriers, and 20 percent cite the lack of information. BEUC's perspective, which is shared by Irish consumer interests, is that consumers need impartial, high quality advices, and transparent, comprehensive and comparable information about financial products and local access to redress.¹³⁰ The Consumer Director in the Office of the Financial Regulator will have an important role to play in informing consumers about cross-border financial services and in improving financial literacy generally.

Recent reviews by both the Irish and EU Competition Authorities have concluded that competition is not functioning properly in certain areas of retail banking to the detriment of consumers. With this in mind, the Irish Financial Regulator could prepare an up-to-date assessment about the extent to which the implementation of the Competition Authority's 25 recommendations have improved consumer choice and reduced the cost of banking. In addition, the Financial Regulator could also assess what measures, if any, should be taken by Ireland in the light of the DG COMP Inquiries into retail banking and insurance in order to protect consumers' interests.

127 CSG Report, page 15

128 Press Release from the IIF, 18 July 2007.

129 White Paper on the Integration of EU Mortgage credit Markets, December 2007, COM(2007) 807 Final, available at http://ec.europa.eu/internal_market/finservices-retail/docs/home-loans/com_2007_807_en.pdf

130 BEUC Annual Report 2005.

Ireland, in the context of the Single Market review, could also press for early decisions on EU measures to facilitate switching arrangements for retail bank accounts; for the purchase on motor insurance from companies not located in Ireland over the internet; and for the introduction of EU-wide mortgage credit.

4.8.10 Consumer Issue 10: The Motor Industry

Another sector which has been the focus of much attention is motor vehicle distribution and repair, areas that are of high interest for Irish and European consumers. In the past, this sector has been associated with specific competition problems - particularly as regards consumers' Single Market rights to buy a car wherever it suits them in the European Union.

In 2002 a new Regulation (1400/2002) was introduced to sort out these problems, while recognising the special features of the motor vehicle sector.¹³¹ The Regulation is now halfway through its life (it ends in 2010) and the Commission is already beginning to examine how it has worked. In fact, it would appear the Commission believes that it is helping to achieve the aim of making the cross-border purchase of vehicles significantly easier. Since 2002, the number of complaints the Commission has received alleging restrictions on parallel trade has fallen sharply. In addition, price differentials between Member States have gradually converged.¹³²

The sector is already one of the most intensely scrutinised in Europe. The Commission has published a six-monthly car price report since 1992. This initiative was launched following numerous complaints from consumers about differences in car prices between Member States and obstacles placed in the way of those consumers that wished to buy in another EU country. The latest report indicates for example that the degree of price dispersion across the Eurozone remains at a historically low level and that the gap between "new" and "old" Member States is closing.¹³³ The report also shows that the average price of a new car in Ireland increased by 1.9 percent to the end of 2006, which is well below the rate of inflation but well above the average 0.9 percent price rise experienced across Europe. In addition, according to the motor industry index which tracks car prices across Europe (Roadtodata Euro Index¹³⁴) new car prices in Ireland are now 29 percent higher than the average price in the Eurozone.

However, the relatively high prices of cars in Ireland appear to be almost entirely due to Ireland's Vehicle Registration Tax (VRT) regime. Indeed, traditionally, Irish pre-tax prices have been lower

131 The sector has been governed by a Block Exemption Regulations for many years. The 2002 Regulation deals with issues relating to repair and maintenance and the supply of spare parts, since over the lifetime of a vehicle, the costs associated with these services are around as high as the initial purchase price of the vehicle itself. The Regulation was also designed to increase competition and open the way to greater use of new distribution techniques, such as internet sales and multi-brand dealerships; to increase competition between dealers; make cross-border purchases of new vehicles significantly easier; and ultimately, lead to greater price competition. These Regulations are subject to regular review, the latest of which was in 2002.

132 Speech by Neelie Kroes, "Market developments and future perspectives in the automotive sector". Conference organised by the European Council for Motor Trades and Repairs (CECRA) Brussels, 25th September 2006

133 European Commission, DG Competition: Car Price Report, Car Prices at 1/11/2006. The car price report, which is based on standardised data provided by vehicle manufacturers, provides manufacturers' recommended prices for about 100 car models of 25 different brands, and the degree of price dispersion across the EU.

134 <http://www.rtdEuroindex.com/home.asp>

than in many other Member States as manufacturers attempted to offset the high taxation system in force in some countries - so in many ways price convergence has not been beneficial for Irish consumers.

The level of VRT remains a key issue for Irish consumers and although clearly not a Single Market issue, it is viewed by consumers and the industry as a “national impediment” to greater cross-border purchases. This was highlighted by the Consumers Association of Ireland as one of the most significant obstacles to greater cross-border shopping - as adding VAT and VRT to the purchase price often wiped out the potential savings in buying a car overseas.¹³⁵

The latest registration statistics indicate an increase cross-border activity. The following table shows the number of second hand cars registered in Ireland for the first time and confirms that registrations have begun to increase again in the last two years, after a significant decrease in the early 2000s. This trend continued into 2007, with registration figures for the first quarter showing a 16 percent increase on the previous year’s level.

Table 3: Second Hand Car Registration Figures

	1999	2000	2001	2002	2003	2004	2005	2006
Second hand cars	36,878	24,003	15,237	13,352	13,472	21,391	38,207	54,244

Source: CSO Vehicles Licensed for the First Time.

The vast majority of these vehicles are being imported from the UK, including Northern Ireland. These markets are clearly more accessible for Irish consumers; vehicle specifications (specifically right-hand drive) tend to be similar and in recent years, currency movements between the Euro and sterling have also been beneficial.

The re-emergence of cross-border car purchases has also been reflected in an increase in the number of complaints received by the ECC in Dublin. In general, it would appear that these are related to issues around after-sales service and the difficulties that consumers have in returning the vehicle if a problem arises. While provisions are in place to deal with problems with new cars under the manufacturers’ warranties (though issues can arise because of differences in the duration of warranties in different markets), no such provisions exist for warranties provided by dealers.

While the European Parliament has passed a proposal which would see VRT being phased out over a ten year period, the car industry is concerned that because this proposal requires the unanimous agreement of all Member States, Ireland and other Member States will continue to oppose such a move. In addition, the Parliament approved a proposal that where a used car is exported from a country with a VRT, that there should be a refund of the residual amount of VRT left in the value of

¹³⁵ Consumer Association of Ireland, “Action Pack Consumer Choice: How to Import a Car into Ireland”.

the car. The Society of the Irish Motor Industry (SIMI) argues that the absence of such a refund is a gross interference with the free movement of goods in the Single Market. In Ireland's case 40,000 and 50,000 used cars are being imported into the country each year but none are exported because, without the refund of VRT, they are too expensive to sell in other countries. SIMI believes that "this is contrary to the principles of the Single Market and is a massive interference in the car market in Ireland" and has called on the Government to implement this refund on export immediately.¹³⁶ While the Programme for Government makes recommendations in altering VRT calculations, no changes have been suggested in relation to a total VRT refund on vehicles.

4.8.11 Consumer Issue 11: Energy

Promoting energy production and consumption patterns that are environmentally sustainable, economically competitive and secure is a challenge that has moved to the top of the political agenda across the globe and is central to any discussion of national competitiveness. Ireland is particularly exposed to today's energy challenges, due to a number of factors including: our location, the small size of market and the dependence on imported fossil fuels. Electricity price inflation in Ireland comprises both controllable (e.g. efficiency of the Irish electricity sector) and uncontrollable factors (e.g. international cost of oil/gas, etc). Increases in uncontrollable factors should be passed on to consumers in a fair and transparent manner. In terms of controllable costs, which account for 30 percent of the difference from EU costs, the regulator should rigorously promote efficiency as a way to help reduce costs.¹³⁷

It is also interesting to note that a NCC survey found that Irish energy prices were 17 percent above the EU average. Indeed, the Consumer Strategy Group pointed out that until the mid 1990s, the cost of electricity to Irish domestic customers was one of the lowest in Europe. Over recent years, however, and to coincide with the phased liberalisation of the energy market, prices have grown substantially. Electricity prices were kept artificially low during the 1990s and as a result there was minimal investment in new generation capacity or to the supply grid. The high prices in recent years are in large part due to the lack of investment and the huge increases in demand caused by strong economic and population growth. The price increases of recent years have put Ireland at a competitive disadvantage in relation to the EU-15 average. Up until 2001, industrial electricity prices in Ireland were below the EU-15 average but since then they have been significantly higher.¹³⁸

In 1996, to facilitate the establishment of a single European market for electricity, the EU adopted the European Community Energy Directive 96/92/EC. The Directive provided the framework for participant countries, including Ireland, to introduce competition into national electricity markets on a phased basis. In 2003, Directive 2003/54/EC concerning common rules for the Internal Market in Electricity and repealing Directive 96/92/EC was adopted. The legislation focuses on opening up electricity markets and developing common rules for generation, transmission and distribution. The

¹³⁶ SIMI Press Releases and Motor Industry News (January/February 2007).

¹³⁷ National Competitiveness Council, (2006), "Annual Competitiveness Report: Volume 2: Ireland's Competitiveness Challenge"

¹³⁸ Forfas, (2007), "Electricity Benchmarking Analysis", December 2007.

intention is that liberalised (or deregulated) electricity markets should benefit customers. In particular, the Directive encourages rules that facilitate fair competition and free internal trade. It is intended that competition should improve the transparency and cost reflectivity of the electricity markets, helping customers to ensure that the price they pay is fair across Europe.

The adoption of the energy policy package recently endorsed by the Spring European Council (March 2007) has repeated the Member States' commitment and specifically focuses on the need to address sustainability, security and competition in energy markets. Specifically, the Commission explores instruments in different areas of energy and environmental policy at both Community and national level. By reviewing all variables the EU should be well placed to construct a roadmap towards stabilising EU energy markets in the future.¹³⁹

The 2007 Spring European Council also underlined the need to strengthen security of supply in a spirit of solidarity between Member States, while the European Parliament expressed strong political support for a common energy policy and called for enhanced "cooperation between national regulators at EU level, through an EU entity, as a way to promote a more European approach to regulation on cross-border issues".¹⁴⁰

Ireland at present has high prices, relatively insecure supply and a poor environmental performance. While a certain amount of structural reform has taken place in Ireland, success largely depends on accessing an open electricity network in mainland Europe. The challenges facing energy policymakers in Ireland are considerable, covering a wide range of different areas and a number of difficult economic and organisational problems. Preparing for a world of much higher energy prices, potential fuel shortages and increasing greenhouse gas emissions requires significant policy changes. It is critical for Ireland's future competitiveness and economic success that a clear and unambiguous roadmap for the future supports the delivery of a competitively priced, secure and environmentally sustainable supply of energy.

4.8.12 Consumer Issue 12: Telecommunications

Advanced telecommunications services are critical for the attraction of foreign direct investment, for the development of indigenous industry and the promotion of the knowledge economy. The increasing importance of services to the economy, in particular those that are structured around electronic transactions and information flows, makes it essential that Ireland has access to a highly efficient and reliable communications system. For SMEs, effective use of ICT allows them to compete more effectively with their counterparts in other markets, for example by reducing costs and improving the quality of services to their customer base.¹⁴¹ For consumers an advanced telecommunications infrastructure facilitates easy access to online shopping and in many cases substantial cost savings.

¹³⁹ An energy policy for Europe - COM(2007) 1, 10.1.2007

¹⁴⁰ Commission of the European Communities, (2007) "Directive of the European parliament and of the Council amending Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning Common Rules for the Internal Market in Electricity".

¹⁴¹ Forfas (2006) Overview of Ireland's Broadband Performance.

Broadband take-up has grown strongly with almost 700,000 broadband subscribers in Ireland at the end of June 2007, a 90% increase on subscriber numbers in June 2006. This includes 45,000 mobile broadband subscribers. Ireland is ranked 21st in the OECD for broadband penetration, with penetration rates below the OECD average¹⁴². In addition, limited progress has been made in increasing competition and the availability of innovative and high speed broadband services.

The EU has attempted to promote competition, interoperability, technology neutrality and universal service in the telecommunications industry through various directives but at present Ireland has not fully succeeded in liberalising its market. The incumbent operator, Eircom, has retained significant market share in the fixed line market despite liberalisation of the market in 1998. Market development, has in the past, been hampered by the lack of competing alternative platforms to DSL and difficulties with local loop unbundling (LLU), whereby alternative operators provide services over the incumbent's network. The Commission for Communications Regulation (ComReg) had consistently pointed out that progress and the pace of LLU, is unacceptable. The continued absence of a fully effective LLU product limits consumer choice, innovation and pricing flexibility. Both existing and potential new entrants to the market have highlighted to ComReg that a predictable and consumer friendly product needs to be available before they could either invest or enter the market with enhanced consumer products.¹⁴³

ComReg has adopted a pro-active approach to addressing a broad range of issues, from spectrum management to innovative services and consumer protection. In a recent Communications Regulation (Amendment) Bill Comreg has been awarded new powers. The main provisions in the Bill are:

- To increase enforcement powers to compel compliance by providers of telecommunications services (operators) with their obligations under EU Regulatory Framework for electronic communications networks and services;
- To increase penalties for breaches of certain obligations;
- To enable the Comreg to investigate breaches of competition law in the telecommunications sector;
- To establish an emergency call answering service;
- To transfer responsibility for the oversight and management of the Irish internet domain name .ie to Comreg; and
- To grant the Minister for Communications, Energy and Natural Resources and the Commission information gathering powers.¹⁴⁴

The move follows other changes to the framework regulations, which introduced increased penalties, abolished the Electronic Communications Appeals Panel (ECAP) appeals process and moved appeals against ComReg to the High Court. The primary purpose of the Act is to increase

142 Forfas, (2007), Ireland's Broadband Performance and Policy Requirements

143 Comreg, (2007) "ComReg responds to eircom LLU announcement, Press Release, March 2007

144 Communications Regulation (Amendment) Bill, 2007. Available online:
<http://www.oireachtas.ie/documents/bills28/bills/2007/0807/b807s.pdf>

ComReg's enforcement powers so that it can better achieve one of its primary functions, which is the promotion of competition, thereby leading to better and more competitively priced telecommunications services for consumers. It is hoped that these changes will give ComReg the tools necessary to deliver on its objectives.¹⁴⁵

4.8.13 Consumer Issue 13: Postal Service

The postal service is vital for consumers. There is a common regulatory framework at EU level (Directive 97/67/EC as amended by Directive 2002/39/EC) which guarantees a universal service. The Commission has proposed a full market opening by 2009. Some 87.5 percent of letter post is Business to Business (B2B). Therefore BEUC has long argued that there should be a uniform tariff across the EU for consumer-generated correspondence; a proposition which Ireland should support.¹⁴⁶ About one third of postal services are generated by mail services (parcel and express services). The efficiency of this segment of the market is critical, as without competition, the costs of shipping goods bought via the internet would be too high. Full market opening seems feasible within the EU but there are large differences in the postal services between each Member State that contribute to uncertainty. In particular the size and density of the population (both urban and rural), the degree of market maturity and cultural differences have made it difficult to find the common denominator for integration. The likely consequence for the consumer and in particular the universal service obligation is therefore hard to predict.¹⁴⁷ Since 1997 Member States have attempted to bring their practices in line with the principles of the EU Directive and by and large the results have been positive. Generally Universal Services Providers (USP) have increased cost efficiency, quality of service and reliability. USP performance improvements appear to be in expectation of market liberalisation (i.e. threat of competition).¹⁴⁸

Postal Services in the EU earned about €90 billion in 2004 or 0.9 percent of the gross domestic product (GDP). The postal sector makes a significant direct contribution to the EU economy, with its estimated direct contribution to EU GDP to be in the region of 37 billion or 0.4 percent. On average, national regulators and USP expect the letter post volumes to remain largely stable over the next five years; virtually all parties expect direct mail volumes to grow while correspondence volumes by way of mail vary substantially. National regulators and competition authorities from Member States have increasingly complained in recent years about abusive behaviour of universal service providers who still dominate the national letter markets. Indeed prices appear to vary significantly throughout the EU. The basic tariff of a 20 gram letter sent by the fastest standard category of universal service ranges from €0.16 to €0.65. Adjusting for differences in purchasing power, tariffs range from €0.23 to €0.90.¹⁴⁹

145 DCMNR (2007), "New Penalties for Non-Compliance with ComReg Decisions - 10 percent of Turnover or €5 million". Available online: <http://www.dcmnr.gov.ie/Press+Releases/New+Penalties+for+Non-Compliance+with+ComReg+Decisions+-+10+per+cent+of+Turnover+or+€5+million.htm>

146 BEUC response to the proposal for a Directive concerning the full accomplishment of the Internal Market of Community postal services (COM (2006) 0594), February 2007.

147 Price Waterhouse Coopers, The Impact on Universal Service of the Full market Accomplishment of the Postal Internal Market in 2009.

148 WIK Consulting, Main Developments in the Postal Service (2004-2006)

149 WIK Consulting, Main Developments in the Postal Service (2004-2006)

ComReg have highlighted that An Post need to improve the quality of service provided to its customers. Performance statistics for 2006 show that overall 72 percent of single piece priority mail was delivered within one working day throughout Ireland against a target of 94 percent. This represents a one percent decline in service quality performance over the annual result in 2005. In general, 97 percent of all mail was delivered within three working days, considerably short of the 99.5 percent target set by ComReg.¹⁵⁰

Market opening within the EU would increase competition in the sector, improve services and reduce costs further. Market forecasts highlight that full market opening could lead to a 21 percent reduction in process across the EU15.¹⁵¹

4.9 Conclusion

In this section we reviewed the progress made to date on creating and enhancing a Single Market for citizens across the EU. It is clear that effective consumer awareness, protection and redress mechanisms are as important at Community-level as domestically. While Irish consumers have a generally positive view of the Single Market, they remain concerned about value for money i.e. the choice of goods and services has increased but prices remain comparatively high. There appears to be room for the Single Market to deliver more to Irish consumers in areas such as financial services and the motor industry in particular, and services generally. In addition, Irish consumers are not using technology to exploit the opportunities associated with online shopping and e-commerce. Overall, this chapter prompts us to consider: first, what action can be taken to improve consumer awareness, protection and redress mechanisms; second, how price disparities can be assessed, explained and addressed; third, how can we promote greater use of e-commerce; and finally, how choice and value in specific services can be improved for Irish consumers.

¹⁵⁰ ComReg (2007) ComReg reports on An Post quality of service for 2006

¹⁵¹ Ibid.

Chapter 5: Trading in Europe - The Irish Experience

5.1 Introduction

As previously mentioned, Britain is the main trading partner for indigenous Irish exports. In some sectors indigenous industry's reliance on the UK market is particularly stark. It is the sole destination of a massive 76 percent of all consumer foods exports. Similarly, almost three-quarters (74 percent) of all exports from the print, packaging and environmental sectors are sent to the United Kingdom. For the construction and timber industry, the figure is 68 percent, and for consumer products, 57 percent.¹⁵²

To capture Irish SME's experience and their apparent reluctance to trade in Europe, Forfás issued a call for 'cradle to grave' stories detailing the successes and failings of the EU Single Market, as well as direct consultation with exporters. The objective was to hear from people who are currently trading in Europe, but also from people who once traded in Europe and don't anymore, or who tried to get into the market but could not trade due to barriers. This wide range of experiences ensured that a broad picture was captured, while also recognising that this process could not reveal the entirety of problems encountered.

Once the initial primary research was collected and analysed, Forfás then conducted a number of meetings (in Poland, France and Denmark). Discussions were held in each of these Member States with economic ministries, business representatives, importers and exporters.

5.2 Accessing New Markets

Initial research into the area of the Single Market was conducted through a number of exploratory interviews. A generation of ideas and a collection of themes emerged through various meetings. Each participant was made aware of the nature of the research and the potential areas that would be covered. Participants were then encouraged to elaborate on personal experience from trading within the Single Market. External organisations (the Irish Exporters Association, Irish Business and Employers Confederation, Enterprise Ireland, National Standards Authority of Ireland, Competition Authority, Financial Regulator and SOLVIT Ireland) were also asked to recount experiences of their members.

Discussions centred on:

- The way the Single Market is working;
- The problems exporters are encountering and the sectors affected;
- The policies the EU has introduced to alleviate these problems;
- Regulatory issues that hamper trade;

¹⁵² Enterprise Ireland (2006), "Beyond Britain", Regional Focus, The Market, April

- Ways to increase cross-border trade within the EU;
- How Mutual Recognition and harmonisation is working and how it could be improved;
- The biggest challenges when entering an export market;
- The effects of company size and their ability to export; and
- Difficulties that firms have encountered in breaking into each other's marketplace.

Respondents were encouraged to elaborate at length when interesting themes were identified. Over the course of this research it emerged that Irish businesses tended to export less to mainland Europe due to a combination of reasons (some of which have been outlined earlier in the 'factors influencing trade patterns' section). Relatively few problems with the operation of the Single Market and technical harmonisation were reported. The primary factors that reduced trade to mainland Europe are set out below.

5.2.1 Cost and Payback Issues

Competition in mainland Europe is intense. Irish companies entering a new market have to disrupt an incumbent's strong market share and consumer loyalty base if they are to make significant returns. If market growth slows down, or the incumbent wishes to protect its lead position, it can in many cases adjust their margins accordingly. Irish exporting companies find it difficult to emulate this strategy. The physical distance to the marketplace means that Irish exporters have additional fixed costs that they can not adjust. To compound these difficulties, cheap products that are manufactured in low cost countries have added to competitive pressures in European markets.

5.2.2 Lack of Market Knowledge

Companies have difficulties in finding the right staff to help in export markets. A 1998 study highlighted that apart from the primary skill set, an entirely different range of skills is required for market development and the subsequent export sales process.¹⁵³ Multi-skilled staff with language skills, knowledge of local culture, and business practices are required to facilitate new market penetration. Finding staff with this knowledge is not straightforward. The Irish abroad who once were available to fill these positions are increasingly returning home. When an organisation finds the right individual with direct market experience, many are unwilling to work for extended periods in Eurozone markets. These factors can contribute to poor market intelligence and result in missed opportunities. If quality sector specific market intelligence were available this could potentially speed up a company's entry strategy. This was acknowledged by EI when they surveyed a number of client companies in different sectors. 64 percent of respondents said lack of market knowledge was the main barrier they face when trying to increase exports.¹⁵⁴

¹⁵³ Enterprise Ireland, (1998), "Analysis of Indigenous Irish Export Activity to the Eurozone".

¹⁵⁴ Enterprise Ireland, (2004), "Expenditure Review of Enterprise Ireland's Overseas Office Network", Department of Enterprise, Trade and Employment. It should be noted that this Review was undertaken in 2003. EI organised and designed the survey and the focus groups, provided much of the text contained in the document and submitted it to the Steering Group. Furthermore, the 30-plus recommendations have been implemented.

Consultation during the course of this study revealed that the information EI provides is perceived by some exporters as 'generic' though this word was not clearly defined. It is also not possible to state how widespread this view is.

In 2006 there were over 50 industry experts in specific sectors and geographical markets (in-market business accelerators) working with EI client companies. In addition, EI established four new advisory boards in 2006 to provide the expert advice, guidance and support to accelerate client company growth in the United States. Three advisory boards support specific sectors: Wireless Technologies, Medical Devices and Construction Products. The fourth supports participants in the 'Leadership 4 Growth' programme at Stanford University.

The latest review of EI's overseas office network¹⁵⁵ addressed the possible reasons for the lack of uptake in their service. Focus group research raised the lack of consistency with regard to quality of service among overseas offices as an issue. The corresponding recommendations suggested that EI should investigate if further education and training could help reduce problems concerning sectoral knowledge. The study also recommended the use of performance reviews to measure the efficiency of overseas offices to ensure that the level of service meets the expectation of the network's client base both internally and externally.

In their latest strategy¹⁵⁶, EI recognise the importance of market knowledge and the ability of companies to identify and exploit emerging opportunities. The new strategy aims to ensure that the right resources are available to Irish companies when and where they need them most. EI's international network is to remain under constant evaluation and be adjusted continually to enable Irish companies to gain maximum results, particularly from high growth economies and emerging sectors. A focus on providing 'specialised support' to Irish companies has also been highlighted as fundamental in increasing market knowledge and ensuring market responsiveness.

Access to the relevant information and advice is of critical importance to potential, new and experienced exporters alike, with inexperienced exporters also being more likely to require some degree of 'hand holding' during the initial stages of market entry. The Irish Exporters Association (IEA) has highlighted the importance of focused information for exporters as the single most important and enduring issue facing new and small exporters. In a recent IEA survey only 21 of the 152 respondents stated that they often use EI and nine respondents used Irish Embassies for market entry advice.¹⁵⁷ We should note that issues have been raised around this survey, specifically the response rate, validation of data, interpretations, and when (and the degree to which) respondents actually use the services of the agencies.

155 Enterprise Ireland, (2004), "Expenditure Review of Enterprise Ireland's Overseas Office Network", Department of Enterprise, Trade and Employment.

156 Enterprise Ireland, (2007), "Transforming Irish Industry 2008-2010".

157 Irish Exporters Association (2006), "Export Ireland Survey 2006 and International Trade Finance Review".

Exporters, agencies and representative organisations should continue dialogue to rectify these problems. While business and other organisations may interact usefully with Government Departments and agencies, effective follow up and communications with their membership can be more difficult. For maximum benefit to be derived from interaction between representative groups and Government, those groups must have effective communications mechanisms for their membership.

5.2.3 Culture and Language

Language and cultural differences are still a significant issue for companies operating in Europe. Each EU Member State requires a certain amount of attention prior to market entry. Product offerings in one market do not necessarily transfer to another market. Success therefore is dependent on an exporter’s ability to understand the consumer. (See sections 3.4.5 and 3.4.6).

5.2.4 Network Effects

This was an important aspect mentioned in chapter three. Throughout the course of the study a significant amount of exporters and trading organisations placed a high importance on the need to create a social and business network. The speed of market entry and indeed market success was closely related to a company’s ability to effectively establish a network. In many cases, new markets presented new distribution channels and set norms within industry circles. Irish exporters, in many cases, were unaware of these country specific idiosyncrasies. This lack of knowledge concerning network effects significantly delayed market entry. The IEA have previously highlighted (in their Survey of Irish Exporters) the difficulty in establishing local relationships with end customers, distributors and agents.

5.2.5 Consumer and Business Confidence

Irish SMEs that have a desire to branch into a European market can find it difficult to generate sales when brand awareness among consumers and company awareness among distributors and retailers is poor. Awareness of company competency amongst foreign customers is perceived to create further barrier to trade.

Figure 15: Analysis of key Issues for Irish Companies Exporting to Mainland Europe

	Example
Cost and Payback	The majority of participant companies estimated that it takes about four years to break even in mainland Europe. Irish exporters understandably have focused on the UK where culture is not dissimilar to Ireland and where distance is minimal. Irish SMEs often find it easier to devote scarce resources to the UK marketplace rather than distributing them amongst uncertain markets in mainland Europe.
Market Knowledge	An Irish SME in a new accession Member State had no prior knowledge of a bilateral agreement and under the heading of ‘professional services withholding tax’ it was charged a ten percent levy on some of their invoices for some licence sales. This charge was significant. The Irish SME was also told that there was no method of reclaiming this tax.

Culture & Language	An Irish food manufacturer attempted to enter the French market three years ago with a successful Irish product. The initial product launch was unsuccessful. After some market research and customer profiling they rebranded the product to fit more in line with French culture and ideals. This product was then relaunched, and met with great success. Understanding the consumer and their preferences was seen as the key to market entry.
Network Effects	An Irish food manufacturer had met with foreign retailers to assess the potential of market entry. While interest in the products was promising, sales did not materialise until a national distributor was sourced in the new market and negotiated on behalf of the Irish company. Distributing through a national intermediary was expected in industry circles.
Consumer & Business confidence	An Irish food company trying to enter the French market was asked by a French retailer to obtain a letter from a State Agency stating that they had confidence in the Irish firm's ability to deliver on its contract. The State Agency's letter was viewed as instrumental in securing the contract.

Participants highlighted how they have encountered (in some cases) a misapplication of existing community law or a varied response to its application. When these problems presented themselves there was a tendency to comply with the country specific requirements which often resulted in delays and increased costs. The awareness of the SOLVIT programme was generally poor among these individual businesses and indeed within trade bodies.

5.3. Company Specific Findings

Heterogeneity across the EU Single Market is significant. This makes it harder for businesses to utilise and transfer efficiencies gained in one market to all other markets. There were instances where businesses are forced into localising almost everything. Each new market presents new challenges and differences, reducing the potential for economies of scale. The value of the Single Market is largely undermined by the need to employ specialists (regulatory, advertising, etc.) in each individual country. This slows down an organisation's capacity to drive a business.

Some issues identified by Irish SMEs trading within the EU Single Market as reported to Forfás are detailed below. While the EU Commission has tackled some of these issues in the past, the perception among Irish SMEs was that these areas continue to impact negatively on their business.

5.3.1 Late Payments / Debt Collection

The implications of credit risk for enterprises and economies are significant. The European Commission, in its proposals for a common EU Directive aimed at combating late payment (1998), identified that one quarter of insolvencies were due to late payment of account receivables. The Commission forecast that this caused approximately 450,000 redundancies and €23.6 billion in receivables lost in Europe each year.

A study conducted by the Small Business Forum¹⁵⁸ (2006) noted that SMEs are most vulnerable to variations in cash flow, tend to have a narrower customer base and are frequently suppliers to large enterprises with strong bargaining power. More importantly, however, the study identifies that over 70 percent of respondents believed the regulations had not made any difference to payment periods, either to or from their business. SMEs also felt that there should be stronger enforcement of the legislation by the State, and that late payers should be publicly identified.

Current late payments legislation permits a representative organisation (such as the Small Firms Association, Irish Small and Medium Enterprises, or Chambers Ireland) to take legal action on behalf of its members, in order to prevent large companies applying unfair contractual or payment terms to small suppliers. However, few, if any, such cases have been taken.

The EU Directive 2000/35/EC entered into force in August 2002, harmonising EU law in relation to the payment period in commercial transactions.¹⁵⁹ The directive makes it compulsory for all companies to settle invoices within 30 days of receipt of invoice. Businesses benefit from a statutory right to interest 30 days after the date of the invoice, unless another payment period has been negotiated in the contract. This standardisation of legislation has had the effect of facilitating the process of seeking legal recourse for the default or late payment of account receivables.

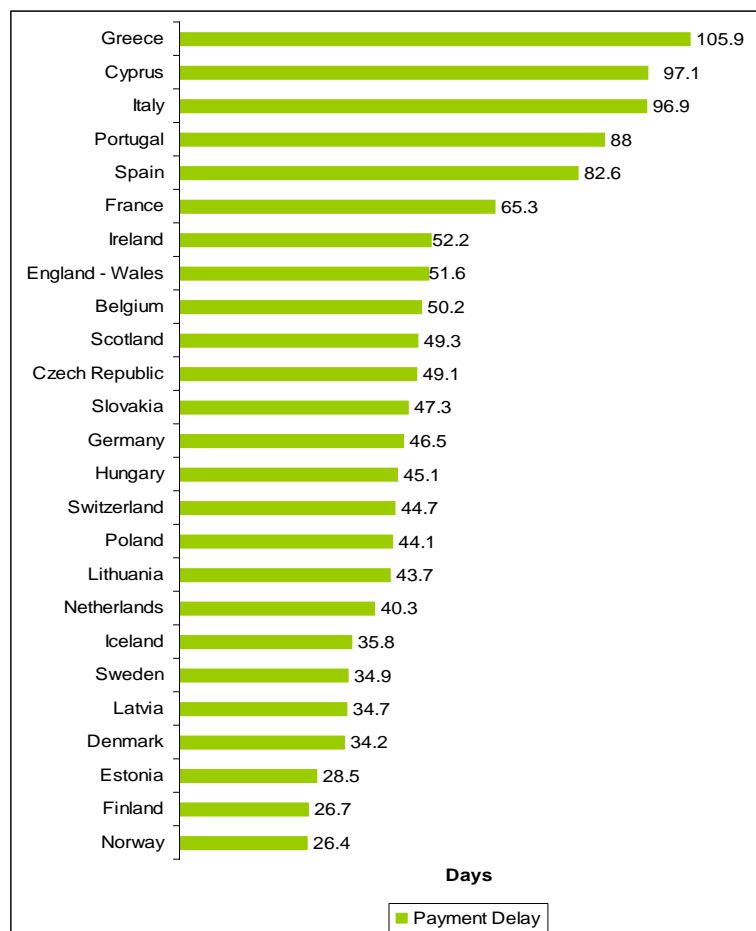
In theory, the additional credit risk adopted by engaging in international trade with EU states is greatly reduced, as this legislation is binding on contracts with both domestic customers and EU customers. In reality, wide variations exist in the payment period of invoices across the EU. A 2007 study¹⁶⁰ found that the pan-European average for payment of invoices was 58.6 days. Compared to the previous year, twelve countries displayed more prompt payment while seven countries had even longer overall payment duration (see Figure 13).

158 Small Business Forum, (2006), "Small Business is Big Business". Available online: <http://www.smallbusinessforum.ie/>

159 As transposed by S.I. No. 388/2002

160 European Payment Info, (2007), 'Economic Growth Masks poor Payment', European Payment Index, Spring.

Figure 13: International Comparison - Late Payments



Source: 'Economic Growth Masks poor Payment', European Payment Index, Spring 2007.

Research conducted by the Small Firms Association (2003) states that 6.3 percent of small businesses or 10,836 enterprises cite late payment as the single biggest problem facing their business, despite the introduction of the EU legislation on late payments. Furthermore, 38 percent or 65,360 enterprises view delayed payment as being a serious business problem.

In June 2003 a questionnaire (delivered by the SME Unit in DETE) on the Late Payment in Commercial Transaction Regulations was sent to 1107 randomly selected companies. The sample covered all regions of Ireland, all sectors and all sizes of enterprises and achieved a response rate of 41 percent.

The survey showed:

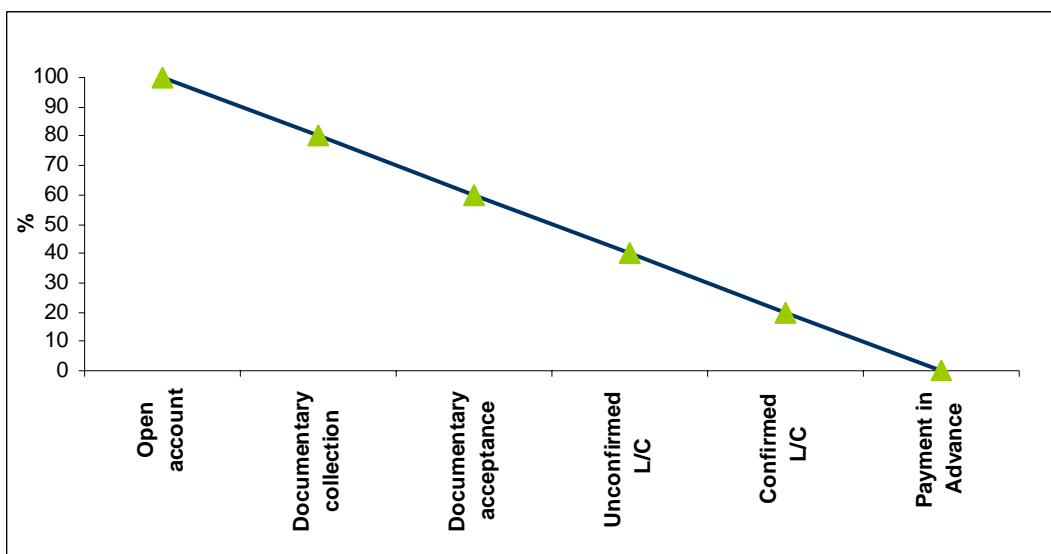
- That there was a high level of awareness of the Regulations, (82 percent of respondents had heard of the Regulations);
- Since the Regulations came into operation there has been a seven percent increase in respondents paying their bills within 30 days;

- Very few business seem to charge or be charged late payment interest, only 17 respondents stated they had charged interest and 19 stated they had been charged interest;
- Only six respondents have had compensation for debt recovery costs claimed against them and ten have charged their purchasers compensation; and
- Just over 70 percent of respondents who replied considered the Regulations had not made any difference to payments period either to or from their business.

In general, respondents felt that there should be stricter enforcement of the regulations (presumably by the State) and that the Department should have audits carried out each year and should compile and publish a list of late payers.

There are various types of payment instrument that an exporter can use in order to secure payment for goods and services. These terms can be ranked in order of the risk exposure that they entail. At the high-risk end of the scale, open account provides no security or guarantee that the vendor will be paid for his goods or services. Conversely, payment in advance ensures that default or delayed payment is not an issue (see Figure 14). A wide range of financial services are also offered by banks and financial services organisations (e.g. Letter of Credit or L/C) in an effort to minimise risk when exporting.

Figure 14: Risk Exposure by Payment Method



Source: MacDonnell, C and McEvoy, B. (1996) 'International Trade: Policy and Practice'. Institute of International Trade of Ireland.

The Institute of International Trade of Ireland estimate that 82 percent of Ireland's export sales are made on credit terms, most of which are on open account. This view is supported in the recent IEA Export Ireland Survey (2006)¹⁶¹ which estimates that 56 percent (or 85 out of 152 respondents) of export firms operate on an open account basis. In an open account contract, the exporter (vendor) agrees to deliver the goods to the customer affording the customer an agreed period of trade credit before which payment is due. The period of credit is agreed upon before the contract is formed, and is typically of duration of 30 to 90 days. Interest is often charged on the invoice price during this period of credit, usually in a staggered structure so to encourage prompt payment.

Regardless of the actual credit period agreed, in an international transaction the exporter delivers (directly or indirectly) the goods to the customer in the foreign market without any guarantee that he will secure payment. This risk is greatly increased by the fact that both parties are in different geographical and legal jurisdictions.

Thus all risk is carried by the exporter, while no risk is carried by the importer or customer in this type of transaction. Therefore, it is advisable that the exporter have complete confidence in the integrity and credit worthiness of the importer (customer).

¹⁶¹ Irish Exporters Association, (2006), "Export Ireland 2006 Survey & International Finance Review". Available online: http://www.irishexporters.ie/artman_new/uploads/ie_brochure_ins_2_001.pdf

Example 1: The Irish fish exporter

An Irish SME fish exporter (exporting to England, France, Spain, Germany, Luxembourg), has had a number of problems in securing payments in some markets. Like many other Irish SMEs, they operate on an open account basis. Export insurance is considered very expensive and the insurance companies are generally too selective when it comes to insuring against new clients.

In an effort to minimise bad debts, the Irish SME researches new clients themselves. Firstly a credit check through a financial institution is performed. However, these checks are considered ineffective at capturing the overall financial situation of the potential customer. While the bank will tell you how much the customer has in their account on a given day, they will not tell you how much the potential customer owes in loans to other parties. To ensure a comprehensive check, the Irish fish exporter travels to the client's home country to take a look at the operation and talk to other businesses who have dealt with the client in the past. A standard trip, taking all expenses into account, costs around €2,000. Once a certain degree of confidence has been reached, the Irish exporter will send one shipment and request payment on receipt of invoice (usually within 4-7 days). New customers generally comply with these terms in an effort to build trust.

If payment problems arise at a later date, then the Irish SME has a number of options open to them:

- 1 Write off the debt: From past experience, the Irish SME has decided that it is not worth pursuing a debt if it amounts to less than €14,000. This is primarily due to legal costs, red tape and time considerations involved in recouping the debt. In the last ten years the Irish company has written off an estimated €150,000 due to bad debts.
- 2 Pursue legal action: In order to initiate legal proceeding, the owner of the SME has to approach an Irish Notary to be given power of attorney to act on behalf of his company. This has cost the Irish fish exporter €1,000 in the past. Once this paperwork is complete, the SME is permitted to approach and employ a Spanish solicitor to act on the behalf of the Irish company. The SME therefore has to pay €1,000 just to get a Spanish solicitor involved in the case. The SME then has to pay the Spanish solicitor's fees on top of this Notary fee.
- 3 Debt Collection Agencies. The Irish SME has employed debt collection agencies to recoup debts in certain markets. These companies usually charge 20-25 percent on the value of the debt.

In the past the Irish SME has seen a Spanish customer declare bankruptcy in order to avoid payment of debts. The bankrupt company has then reopened two days later under a different name, using the same board of directors with the same premises and staff. The Irish SME has experienced this on two occasions.

The Export Credit Insurance Scheme provided by Department of Enterprise Trade and Employment in former years was suspended in 1998. The Irish Exporters Association has stated that Irish exporters are not able to enter markets with the same level of assurance as their competitors in other OECD countries. They state that only 20 percent of firms take out credit insurance meaning an “unprotected rush” into new markets would expose Irish firms to unnecessary and significant risks.¹⁶² While it appears that the State would see re-entering the export insurance market as unwarranted at this time, insofar as Irish firms are or could become disadvantaged vis-à-vis other trading States, this issue must be closely monitored. According to Enterprise Ireland, their client companies have not directly raised concerns with them around the availability of export credit insurance.

Example 1 above highlights the importance of the need for reasonably priced legal services, as well as the importance of the freedom of movement for legal practitioners between Member States and the streamlining of procedures. Administrative co-operation is also paramount. Administrative co-operation would ensure easy to use, low cost, efficient, transparent and quick administrative procedures underpinned by legal commitments applying to the Member States concerned. It would ensure that a citizen, consumer or business has (and feel confident that they have) as much a chance of having a wrong righted that was committed against them in another jurisdiction as they have (or believe that they have) if the wrong was committed against them in their own jurisdiction, minimising the need to employ private international law.

The Regulation of the European Parliament and of the Council on the law applicable to contractual obligations (“Rome I”), which was adopted on 6 December 2007, is based on the Rome Convention of 1980 on the law applicable to contractual obligations. Concern was expressed during the negotiations on the Regulation that the Commission had failed to undertake a comprehensive sectoral consultation or a Regulatory Impact Assessment (RIA) on the proposal. Although a compromise has been reached on the contentious Article 5 of the Regulation (choice of law in business to consumer transactions), it is not certain that potential conflicts with other internal market legislation or proposals have been entirely avoided. Moreover, the Regulation, in particular Article 5, has the potential to conflict with ongoing work to create a Single Market.

5.3.2 Advertising in Member States

The General Advertising Code applies to broadcasters under the jurisdiction of Ireland or those who make use of a frequency or satellite capacity or up link situated in Ireland. The code will not apply to other services commonly received in this country, which are broadcast from another country. Advertising on these services is governed by the Television Without Frontiers Directive (TWF Directive) and by any code or regulation laid down by the regulator in the country of origin, where applicable (i.e. the country in which these services are licensed).¹⁶³

¹⁶² “Irish Exporters launch Export Credit Insurance Initiatives”, IEA, July 2007.

¹⁶³ Broadcasting Commission of Ireland, The General Advertising Code, Consultation Document, 2006

A comparison of Irish and international advertising codes¹⁶⁴ found that a significant number of areas have been omitted from the Irish code. That said, certain areas in the Irish code may not have a separate category but may be contained elsewhere, for example, under 'miscellaneous' or 'prohibited and/or unacceptable categories'. When compared to international practice, one finds similar content to the Irish codes albeit under more generally styled headings. The study concluded that where some areas need minimal regulation, others - for example, - 'finance' - need a more extensive approach. Furthermore, the study highlighted the varying international requirements relating to 'slimming' and 'alcohol' advertisements. Drawing on these points it seems that a uniform approach cannot be taken and that the rules and level of regulation must be adapted and subsequently adjusted for different areas and different needs.

Different advertising rules across Member States add to confusion and increase costs. In the UK, one company is responsible for the pre-transmission examination and clearance of television advertisements¹⁶⁵. As part of their licensing agreements, broadcasters are required to clear advertising before it is broadcast. Systems in other jurisdictions can be more self regulatory. A company places its advertisement on television and consumer bodies then object to the advert if they deem it inappropriate. The French advertising system appears complex in nature for some Irish exporters. From January 2007, French distributors were permitted to advertise on television. If the distributor mentions their brand name in the advert and highlights a collection of branded products that they distribute, the cost of the advert increases incrementally. When it comes to Direct Response TV (DRTV), advertisers are not permitted to highlight a telephone number for direct sales. Instead adverts must highlight a telephone number directing the customer to 'more information'. When potential customers inquire about the product via the information line they are then given the direct sales telephone number. Lastly, if a company wishes to gain exposure for their product they may decide to produce an "infomercial". Infomercials vary in price, depending on the content used. Displaying the product brand name (considered blatant advertising) can add significant cost to an advert. However, general descriptions of the product attributes and product benefits without referral to the product /company brand can mean reduced cost. In this type of infomercial, provide your audience with a direct sales telephone number to process orders is also permitted.¹⁶⁶

164 Quinn, R., (2005), 'General Advertising Codes, a Review of National and International Practice', June 2005

165 See <http://www.yorkshiretv.co.uk/clearcast>

166 Conseil Supérieur De L'Audiovisuel, (2007). <http://www.csa.fr/index.php>

Example 2: The Irish bio-medical SME

An Irish bio-medical SME developed a consumer product and entered the French market, employing a French distributor to distribute the product. In an effort to increase sales, the Irish SME wanted to air a television advert that would inform the consumer about their product, the price it retailed at and where consumers could purchase it. Under French advertising regulations, the Irish company found that a substantial cost would be incurred if they mentioned their product but also if they informed the consumer where the product could be purchased (i.e. this was viewed as additional advertising which promoted the French distributor's brand). The Irish SME was also prohibited from mentioning the exact price the product retailed at. They were only allowed to offer a recommended retail price.

The Irish SME was therefore left with the following choices;

- 1 Mention the Irish brand and the French distributor's brand and incur the additional costs;
- 2 Mention the Irish brand but not the distributor. Consumers would then be unaware of where they could purchase the product; or
- 3 Mention the concept of the product (without referring to the brand) and tell consumers where they could purchase it (i.e. mention the distributor's brand).

The online retailer

In another case, an online retailer trading in Poland highlighted a national requirement which specified that all online retailers must provide a detailed Polish description of every good they sell online. The SME sells a large collection of English literature books online and by law must provide a Polish description of each book. This is considered an onerous task, particularly with the volume of books concerned and, given the target market of English literature books may have little need for a Polish description of the book's content.

5.3.3 Customs Classifications

Indirect taxation of goods takes two primary forms, namely tariffs, which do not apply for goods traded within the Internal Market, and domestic taxes (i.e. excise duties and VAT), which apply to all companies regardless of origin, even if they are based in the host market. The classification of goods for the purposes of domestic goods can have a large impact on the rate of tax that is levied.

A number of Irish companies have reported that they have been adversely affected by Member States' classifications which unfairly categorise their goods in higher tax brackets. Further, the fact that a re-classification of tax can be applied retrospectively can result in companies facing large tax bills and fines accumulated over a number of years. Such decisions by Member State's tax authorities may be motivated by a desire to protect a locally based competitor, to increase tax revenues or simply be an arbitrary decision by a local tax authority. This problem was not specific to Irish exporters.

Example 3: The Polish Agricultural importer

A Polish SME had imported Irish agriculture products into Poland for a number of years under a particular customs classification category. The corresponding VAT rate was charged at seven percent. One customs officer perceived that the product was miscategorised or that a mixture of classification applied to the Irish agriculture products. The customs category was then altered. The corresponding VAT rate accordingly jumped to 22 percent. The Polish importer was heavily fined and was also charged for arrears at 22 percent.

There is external pressure on the EU to act on this issue. In June 2006 the US brought a case to the World Trade Organisation (WTO) against the way the European Union administers the customs classification of certain goods, and in particular, LCD¹⁶⁷ monitors. Each Member State deals with claims individually resulting in procedures varying widely across the EU.¹⁶⁸ The U.S. also challenged the lack of an EU tribunal or other procedure for the prompt review and correction of customs administrative actions whose decisions would apply throughout the EU. The US argued that the lack of a uniform administration of EU customs law poses a significant barrier to trade, especially to the SME exporters that lack the resources to navigate a system that was complicated and, at times, opaque and confusing.¹⁶⁹

A new set of rules, known as the Community Customs Code, is expected to become law by early next year. The modernisation of the Customs Code mean that Irish exporters will no longer have to engage customs agents in the country to which they are exporting.¹⁷⁰ It is hoped that this reform package will take into account persistent customs classifications problems like those detailed above.

5.3.4 Excessive Documentation

The problem of the excessive administrative burden on firms is one that has been raised by a number of bodies, most notably the National Competitiveness Council and the Small Business Forum. The act of exporting or importing is one area where there is a substantial regulatory burden. Companies involved in international trade regularly have to prepare and submit large volumes of information and documents to governmental authorities to comply with import, export and transit-related regulatory requirements. This information and documentation often has to be submitted through several different agencies, each with their own specific (manual or automated) systems and paper forms. These extensive requirements, together with their associated compliance costs, can constitute a serious burden to both the business community and governments and can also be a serious barrier to the development of international trade.

¹⁶⁷ LCD is the common abbreviation for "liquid crystal display" monitor.

¹⁶⁸ WTO, European Communities-Selected Customs Matters, 2007

¹⁶⁹ The United States Mission to the European Union, 'WTO Appellate Body Finds Against EU Customs Law Administration', November, 2006

¹⁷⁰ Irish Times, (2007), "New EU Code will Cut Red Tape for Exporters", Business today, June 26th

Example 4: The Irish Exporter

For example, an exporter from Ireland must comply with all the regulatory requirements of the Customs bodies of both Ireland and their destination countries, including revenue collection, protection and security issues. Further, many other governmental agencies can be involved, whether in Ireland or in other countries. For example, the Department of Enterprise, Trade and Employment is mandated to manage the licensing system for dual use military/civilian goods, while the Department of Agriculture and Food ensures food safety.

Further, the act of exporting or importing requires far more procedures than simply dealing with government. Apart from the communication between the buyers and sellers, a number of service providers are also involved, and most of the data required for each is common:

- Packers;
- Freight forwarders;
- Carriers;
- Customs brokers;
- Hauliers;
- Chambers of Commerce; and
- Banks and other financial institutions.

The data required by these private sector service providers overlaps with the requirements of the regulatory authorities to a significant extent. As such, much of the work involved is duplicated, and unnecessary. Costs are not only in direct monetary terms, but also arise from the effect of time delays and other uncertainties which may complicate the process of trade. Further, there can be substantial implications of 'getting data wrong'. If a firm only has to enter data once, they can take care to do it properly, and greatly reduce the risks of incorrect data.

5.3.5 Banking

In 2005 the European Central Bank (ECB) published a report¹⁷¹ on EU banking structures. The report reviewed the main structural developments in the EU banking sector. While the pace of consolidation has declined steadily since the end of 2002, there are some indications of a possible revival of enthusiasm for large cross-border deals. In general, there are still significant differences between the structures of banking sectors across EU countries. The study showed that syndicated lending has grown significantly over the last two decades. It has become an important source of international funding for large companies and also accounts for a significant proportion of total lending by large EU banks.

¹⁷¹ European Central bank, (2005), 'Report on EU Banking Structures', October 2005

Example 5: The Business Banker

Consultation with an Irish bank and Irish SMEs would suggest that barriers persist to business banking. Variations in banking laws throughout Europe can result in significant time delays for SMEs wishing to take out a loan. For example, a €2m loan for an SME can be arranged by a bank in Ireland in a relatively short time period, usually less than one week. Once the company has been approved for the loan the only requirement left is to fill out the paperwork. In Poland, an Irish SME wishing to take out a similar loan has a number of additional requirements to fulfil. There is no standard loan document. Both the SME and the bank employ lawyers to draft up a contract, which can take some time to agree on. Once the contract is agreed upon and signed a similar negotiation process occurs once again with the security document. The security document is presented in Polish and then translated into English, adding to further delays. The SME is also required under Polish law to submit a summary report every quarter to affirm its ability to make repayments on the loan. A standard €2m loan in Poland can take anything from 4-6 weeks to complete. In general there is no predictability in the loan process. This unpredictability can deter SMEs and financial institutions alike from trading across borders, and it is unclear whether domestic customers face the same complex procedures.

5.3.6 Inconsistency in the Interpretation of Legislation

Article 95 of the EC Treaty (among others), provides the principal legal basis for the adoption of measures to bring about the Internal Market. It lay down that the Council (and European Parliament) can adopt measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States. Within Article 95, matters relating to health, safety, environmental protection and consumer protection are well safeguarded.

If after the adoption by the Council or the Commission of a harmonisation measure, a Member State deems it necessary to maintain national provisions on grounds of major needs referred to in Article 30 of the EC Treaty, or relating to the protection of the environment or the working environment, it must notify the Commission of these provisions as well as the grounds for maintaining them. A Member State can introduce national provisions based on new scientific evidence relating to the protection of the environment on grounds relating to a problem specific to that Member State arising after the adopting of the harmonisation measure. These measures are then later subject to approval by the Commission.¹⁷²

Ultimately this adds to the subsidiarity problem within Europe. Indeed, another Irish exporter has emphasised that different countries have different policies in relation to which devices they allow to be sold or reimbursed through their health systems. This factor has a direct influence on the amount of markets that the company enters. There is also an element of cynicism among exporters.

172 EurLex (2007), "Treaty establishing the European Community". Available online: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E095:EN:HTML>

While companies recognise the value of allowing health to be derogated to each Member State for the protection of consumers, they also see this as a way of protecting domestic market from competition in other countries. At the very least, these requirements add to increased market knowledge requirements for exporters, create uncertainty about what markets are accessible, decreases economies of scale and reduces cross border activity.

Example 6: The Irish Exporter of Food Supplements

An Irish manufacturer of veterinarian food supplements exports to twelve EU countries. The company entered the Italian market 18 months ago and formed a working relationship with an Italian distributor. Recently the Italian distributor was visited by the local enforcement office, which demanded 'Documents of Conformity' in accordance with EU legislation. The Irish SME has its products and Irish premises audited annually by the Department of Agriculture and Food and each product label carries an EU number certifying this fact. In addition, each product is registered with the Irish Medicines Board and is categorised as 'not requiring a marketing license for sale'.

The Italian enforcement office did not accept the EU certifying number and requested a complete dossier on all the products and ingredients. They have since found that one of the ingredients is not permitted in the Italian market. The same product is currently on sale by the Irish SME and its competitors in Ireland, UK, Spain, Finland, Portugal, Germany, Sweden, Poland, Holland and Austria. The inconsistency in the interpretation of legislation (or additional country specific requirements) has contributed to extra costs and time delays. SMEs are also increasingly reliant on foreign customers/distributors to interpret the local legislation. This ultimately frustrates business and adds to uncertainty as to how products will be perceived in new markets.

5.3.7 Market Protection through Country Specific Regulation

The present system of charging VAT in cross-border transactions can lead to confusion among businesses, including manufacturers but especially service providers, as to which rate should be charged and in what circumstances.

Example 7: The Irish Quantity Surveyor

An Irish quantity surveyor has a number of customers in Northern Ireland. When conducting business in Northern Ireland the Irish SME (based in the Republic) normally charges zero percent VAT when the Northern Ireland customer is registered for VAT in the United Kingdom. Recently the Irish SME has been instructed by a customer (who is not registered for VAT) that they should register their company for VAT in the UK, as detailed in the UK government Customs and Excise document under 'Place and Supply of Services'.

"If you are a supplier who does not belong in the UK, and your customer is not registered for UK VAT, you, as the supplier, are responsible for accounting for any UK VAT due on your supply. If you are not already registered in the UK, you may be liable to register".

To add to this confusion, the SME does not have to register for VAT if its UK sales turnover is below the registration (turnover) limit.

5.3.8 Public Procurement

The single biggest challenge for Irish SMEs is the ability to create the scale necessary to compete successfully in global markets. The Irish experience shows that companies below a certain size tend to avoid projects abroad, even if they have specific solutions that fit. Winning business from their own public service is an important credibility issue when many of these companies seek to supply the public service in export markets. In general, public procurement processes are often seen as high risk and time consuming. In EU-wide competitive processes, the chances of getting a contract are not regarded as being very high, and the cost of preparing a bid may be too high given the chances of actually being awarded the contract.

The National Public Procurement Policy Unit (Department of Finance), consultation document highlighted some of the principle barriers to public procurement, such as:

- Degree of risk aversion within public sector buyers;
- Bureaucratic nature of the process;
- Reluctance to consider new suppliers; and
- Financial capacity criteria.

With regard to the financial capacity criteria, the requirement sometimes specifies a requirement to have the average turnover for the last three years greater than three times the estimated project cost, and on other occasions the exact criteria being applied was not specified in detail.

Some tenders also specify a requirement to present the tenderer's balance sheets or extracts from the balance sheets for the previous three years. For many small new companies both these requirements can prohibit their direct participation in tenders, as they do not have three years accounts with significant turnover, and their balance sheets may be weak.¹⁷³

5.3.9 Employment in Member States

From an employer's perspective, it can be a difficult task to hire people in EU Member States. In practice, a company has to set up a separate subsidiary in each Member State. This is a long and rigorous process and adds a significant administrative and cost burden to a company with aspirations to expand throughout the EU. This issue was highlighted by a number of SMEs wishing to expand within Europe. Health and safety is derogated between Member States and countries therefore have a huge part to play in shaping their employment law. This practice, however, slows down the expansion by SMEs throughout the Single Market. To draw a comparison, a company trading in the USA can have a subsidiary in one state and easily employ additional people (through this subsidiary) in other states.

5.4 Conclusion

This chapter has outlined some of the problems that continue to impede the effective functioning of the Single Market, with interviews from Irish exporters, supporting agencies, and international consultation providing the empirical base. The problem areas highlighted above form a non-exhaustive list of difficulties that Irish SMEs have encountered when trading within the EU Single Market. These findings are not meant to be normative in nature, or indicative of what other countries within the EU have experienced. The purpose of this chapter is to stimulate discussion at an EU level and to highlight areas where change has the potential to integrate the Single Market further.

¹⁷³ Irish Software Association, (2007) 'Improving SME access to public procurement ISA submission'.

Chapter 6: Recommendations

6.1 General Comments

Having consulted among a wide number of Irish businesses and business representation organisations, it is clear that the Single Market is working well. Ireland has had a positive trading relationship with the rest of Europe since the removal of trade barriers in 1993. While certain factors may be beyond immediate policy actions (such as language, distance and culture), from our interviews it appears there are a number of non-legislative barriers to trade that continue to frustrate traders. Measures are needed to alleviate these concerns.

Irish consumers and their representative organisations have a generally positive attitude towards the Single Market. It is recognised that the Single Market has delivered real benefits for Irish consumers in terms of the range and quality of the goods and services available in Ireland and in making it easier for Irish consumers to purchase goods from other Member States. However, despite these developments, it would appear that Irish consumers are continuing to pay higher prices than many of their European counterparts for some essential goods and services. While this raises issues for Irish policymakers, particularly in relation to “home-grown” inflation, it also underlines the importance of educating, empowering and enabling Irish consumers to access cheaper products through increased use of cross-border shopping.

Unfortunately, it would appear that there is a lack of consumer confidence (not only in Ireland but across the EU) when it comes to cross-border transactions. Central to this concern is the correct perception that adequate redress and cross border administrative co-operation is not uniformly available. Moreover, consumers are not always aware of their rights, and even if they are, they often do not know how to ensure that these rights are respected. Good consumer information and education is therefore essential as a means of shifting consumer protection to consumer empowerment.

In light of this, Forfás have made a concerted effort to highlight those areas of greatest perceived benefit to both businesses and consumers. This concluding chapter will initially outline some business policy recommendations before presenting some consumer policy recommendations.

6.2 Business Policy Recommendations

6.2.1 Tax

New VAT rules for cross-border business should be introduced to shift the place of VAT taxation to where services are consumed, to replace the existing rules based on the location of the supplier. In addition, an online VAT registration, declaration and refund facility should be established for cross-border traders. A co-ordinated information and awareness campaign must complement this facility.

The present system of charging VAT in cross-border transactions can lead to confusion among businesses as to which rate should be charged and in what circumstances. Since rates and

exemption levels vary from country to country, the need for an efficient and easily understood system is important.

Businesses, especially SMEs, for whom cash flow is often an important issue, would benefit from a system that recognised exemptions in advance and did not require payment followed by refund claims. The VAT Package presented in May 2006 represents a roadmap/strategy for the phased implementation between 2006 and 2010 of the long-running and yet to be agreed Place of Supply proposal and certain supporting elements of the 'one-stop-shop' proposal.

The Place of Supply proposal deals with new rules for cross-border business-to-business (B2B) and business-to-consumer (B2C) services which will, in general, shift the place of taxation to where services are consumed, replacing the existing rules based on the location of the supplier.

The 'one-stop-shop' online facility providing cross-border traders with an online VAT registration and declaration facility coupled with an online VAT refund facility are key to the operation of the new B2B and B2C rules and are envisaged under the package by 2010.

In the interim, the VAT package provides for a facility based on the existing but technically limited 'one-stop-shop' online facility for third country traders supplying eCommerce services into the EU. Such services are already taxed at the place of consumption and include electronically supplied services, and TV and radio broadcasting services. The introduction of the fully-fledged online 'one-stop-shop' system supporting all B2B and B2C transactions is envisaged by 2010.

According to the interdepartmental committee chaired by the Department of Finance, Ireland is supportive of the VAT package as the new B2C rules in particular hold benefits for Irish companies selling services to consumers electronically over the Internet as the generally lower VAT rates operating in other Member States would apply to such services.¹⁷⁴

Speedy agreement on (and implementation of) VAT package proposals expected in 2008 should be complemented by an education initiative on the ground, so that businesses know what to do when dealing with a supplier or customer in another EU country, especially when beginning to trade across borders for the first time.

6.2.2 Streamlining of Credit Terms

Credit terms and procedures should be streamlined across the EU.

The financing of trade is a complex subject, but it could be simplified through the streamlining of credit terms, which vary from country to country at present. Businesses must make provision for a

¹⁷⁴ Tax Strategy Group, Department of Finance, "VAT Issues and Options", September 2006.
www.finance.gov.ie/documents/tsg/2006/tg0905.pdf

cash flow determined not only by their pattern of exports but the varying number of days in each country. Further measures in this area could include improvements in the way in which banks provide references across borders, and this might be achieved by having some “scorecard” for businesses prepared by the banks that would allow potential suppliers from other countries more easily to assess the degree to which it was advisable to do business with them. This would not replace the work of credit rating agencies, but would provide a low-level, commonly understood financial quality rating for normal business transactions, based on a few key performance indicators.

In general the Directive 2000/35/EC regarding Late Payments in Commercial Transactions¹⁷⁵ does not go far enough. This EU wide law came into effect in August 2002 to combat late payment in commercial transactions. The principle was that a penalty interest would become payable if payments for commercial transactions are not met within 30 days, unless otherwise specified in a contract or agreement. Most contracts therefore state a payment day later than the 30 day or industry norms dictate that a 30 day payment period is inappropriate. The result is that most exporting SMEs have to contend with varying payment duration periods in different Member States.¹⁷⁶ To increase market integration a concerted effort to increase uniformity in each market should be pursued.

Regarding debt collection, the establishment of the European Small Claims Procedure (applying in all Member States, with the exception of Denmark, from 1st January 2009), may help exporters recoup bad debts in international transactions. This regulation will apply to cross-border cases, where the value of a claim does not exceed €2,000 at the time when the claim is received by the competent court or tribunal, excluding all interest, expenses and outlays. The European Small Claims Procedure has the potential to instil confidence in exporters and, in general, increase cross border activity. However, the €2,000 limit must be kept under review to ensure its relevance.

6.2.3 Banking

Best practice in terms of business banking should be rolled out across the EU, particularly for the securing of loans.

There are still significant differences between the structures of banking sectors across EU countries, particularly in the area of business banking. Variations in banking laws throughout Europe can result in significant time delays for SMEs wishing to take out a loan. Indeed, the investment capital needed to start and grow a SME does not appear to flow easily within the Single Market. Therefore some markets (where it is particularly arduous to get a loan) may be closed to potential investment. This runs contrary to the aspiration of the Single Market. Every effort must be made to standardise procedures and the time taken to secure a business loan. A commitment at EU level to rectifying these country-specific differences would be welcome.

¹⁷⁵ As transposed by S.I. No. 388/2002.

¹⁷⁶ European Payment Info, (2007), ‘Economic Growth Masks poor Payment’, European Payment Index -Spring 2007.

6.2.4 Insurance Markets

Measures to encourage cross-border insurance provision should be introduced.

Liberalisation in the financial services area will allow insurers to offer products across country borders. Consolidation in the sector has already led to the formation of a few large companies active in many of the individual country markets, and it is not clear whether the liberalisation will lead to any change in the market situation, which can be quite concentrated in smaller countries such as Ireland. Insurance companies should be encouraged to assess risk on a Europe-wide basis, which would make it easier for insurance firms to do business across borders, and, by increasing competition, lower the cost of insurance to consumers.

6.2.5 Market Alert Systems

An electronic market-alert system for business should be setup to keep enterprise informed of important and relevant EU proposals, decisions and changes.

Businesses get their market information in a variety of ways, but these could be supplemented by a market alert system. Changes in procedures, standards, regulations and taxation in the different EU Member States, as well as similar changes at EU level, including Court decisions, can all affect the way in which enterprises do business within the EU. It is governments and the Union institutions that make these decisions, and they should ensure that the relevant information reaches the affected enterprises as soon as possible, and in terms that businesses can understand. Notification of proposed amendments and consultation processes would give business prior knowledge of proposals rather than merely the outcome of deliberations. This could be done through a service for which enterprises could sign up, based on their specific interests. An alert service of this kind would be better than a website alone, which would require specific action on the part of firms to monitor it daily and to navigate to areas of interest.

6.2.6 Support for the Retail Sector in Cross-Border Sourcing

Consideration should be given to selective promotional and awareness activities that would encourage the retail sector to undertake more cross-border sourcing.

This would increase overall competition in the supply market as a whole, as well as putting downward pressure on consumer prices. With respect to FDI, encouragement of retailers to move across country borders within the EU would, because of their supply chains, also increase cross-border trade, as well as militating against over-concentration in national retail markets.

6.2.7 Public Procurement

Public procurement notification across the Community should be online and comprehensive.

The opening up of public procurement to companies in other Member States has been one of the corner stones of the Single Market. In practice, progress has been mixed. The main vehicle for information provision, that is supposed to make it easier for firms to acquire knowledge of

opportunities to tender, is the Supplement to the Official Journal of the European Communities. In practice, the web-based data base of announcements of public tenders (TED) is the more accessible form, rather than the paper Journal. There is however a tendency to give only the minimum information, requiring the interested business to request further details. The information requirements should be made more detailed. Also, the Commission website aims to provide information on opportunities for public tendering at country level but in fact the information is often absent for all 27 countries, and the message “this information has not yet been updated by the Member State responsible” is displayed.¹⁷⁷ Consideration should be given to compulsory inclusion of all public tendering information in the electronic database, which would be little or no extra burden on the authorities concerned, and would let SMEs become aware of smaller contracts on which they might have more chances of success.

6.2.8 Business Costs Information

Market prices for a selection of key production inputs from different countries should be published to encourage firms to identify potential suppliers in other countries.

It is equally important that measures be taken to increase business-to-business trade across borders, since this is a significant part of total trade. Market price information from different countries covering a selection of key commodities and materials (and perhaps also capital goods) would encourage firms to identify potential suppliers in other countries. This would encourage an increase in the amount of inputs to production that are sourced from other EU countries.

6.2.9 Bilateral Trade Partnerships

Ireland should work to improve bilateral trade with Member States where bilateral trade is weak and where a positive return from market entry seems likely.

The trade intensity indices in conjunction with market hierarchy information¹⁷⁸ (Appendix 1) could spur Ireland to develop guidelines for bilateral cooperation, particularly with those Member States where trade is unexpectedly low and/or market hierarchical information is positive. A programme could include trade and investment missions, direct links between business organisations in the two countries, advertising and targeted information campaigns.

6.2.10 Customs Classification

The EU should take steps to guarantee uniform and predictable cross-community customs classifications to ensure they do not represent a barrier to trade.

The right of EU countries to apply locally determined VAT and excise duty should not be interfered with. As long as companies face predictable taxes that are the same as for their competitors, the

¹⁷⁷ http://ec.europa.eu/yourEurope/nav/en/business/public-procurement/info/opportunities/index_en.html
¹⁷⁸ As outlined in section 3.2.1

Internal Market will not be adversely affected. However, the fact that there is freedom for local authorities to apply a customs classification which has the practical effect of discriminating against the foreign provider represents a real barrier to trade within Europe. Further, the fact that a re-classification can be retrospectively applied results in uncertainty for firms who wish to trade across borders. The letter and spirit of the law that companies should face uniform and predictable taxes must be given full effect. This could either be achieved through a new body at an EU level to determine the correct classifications for goods where there is a dispute between individual companies and Member State authorities. Alternatively, an arrangement similar to the Binding Tariff Index (BTI) could be introduced for internal trade.

Further, the European Small Claims Procedure (due from 1st January 2009) will not apply, in particular, to revenue, customs or administrative matters or the liability of the State for acts and omissions in the exercise of state authority (*acta iure imperii*).¹⁷⁹ Exporters with customs classifications grievances are not catered for under this procedure.

Overall, while the political agreement reached by the EU Council on proposals for a Modernised Community Customs Code (MCCC) is welcome, the proposals could be expanded to look at classification issues in addition to simplifying legislation and streamlining customs processes.

6.2.11 Review of the Retail and Distribution Sector at EU Level

An EU level review of the retail and distribution sector should be undertaken to identify obstacles to realising the potential of the Single Market.

The retail and distribution sectors play a vital role in linking producers, especially of goods, and final consumers. These consumers may be households or they may also be other enterprises, who need the inputs to their own production. Some European retailers are among the largest in the world, and have significant market power. They have in many cases established well-functioning supply chains and have networks of suppliers who are sometimes in a wholly dependent position. As large retailers continue to grow, it can be difficult for a new supplier to win business, because the bar in terms of scale, price and quality is continuously being raised. It is all the more difficult to do this on a cross-border basis. With regard to the distribution sector, the use of an intermediary may be the only option for smaller firms to enter a new cross-border market. The precise operations of this sector are complex and may involve elements of exclusive agreements, multiple agencies etc. A better understanding of the sector will allow for the identification of any obstacles that it presents to the growth of the Single Market. Important initiatives at the European level have been taken in some specific distribution sectors, such as the motor vehicle industry, but a wider perspective needs to be taken.

¹⁷⁹ Conflict of Laws (2007), 'EC Regulation Establishing a European Small Claims Procedure Adopted'. Available online: <http://www.conflictoflaws.net/2007/jurisdiction/eu/ec-regulation-establishing-a-European-small-claims-procedure-adopted/>

6.2.12 Revisiting the “Refusal to Trade” Issue

The reasons behind traders’ refusal-to-trade’ across borders should be investigated at EU level to ensure maximum choice for consumers.

One important obstacle to an increase in cross-border trade is the reluctance or unwillingness of companies to supply customers in other EU countries. The concern is that this may be due to distribution agreements. For inter-company trade, it may be due to a reluctance to extend the normal credit terms to customers in other countries because of the perceived risk that debts would be more difficult to recover.

For mail order and internet trading, there may be significant disparities in postal and shipping charges for international as opposed to domestic deliveries: consideration should be given to revisiting the universal service obligations and moving towards uniform tariffs for deliveries within the EU, analogous to what has been done for payments within the Euro zone.

It is a fundamental policy question as to whether companies should legally be entitled to reasonably refuse to deal with a customer in another Member State, simply due to location.

6.2.13 Labelling Requirements

Labelling requirements should be reviewed to determine the extent to which they represent a barrier to trade, and appropriate action taken.

Consideration should be given to the degree to which these requirements, especially in the food sector, act as a barrier to cross-border trade. If labels have to indicate the ingredients in the language of the market country, this may impose an additional cost, especially if revisions are made frequently to the composition of the product according to the cost of supplies. The packaging costs could be reduced if the information requirements were reviewed regularly to make sure that they are necessary. Also, as stated in Ireland’s submission¹⁸⁰ to the EU Commission’s 2006 Labelling Consultation, the use of symbols to provide general information is interesting and worth exploring. As well as being particularly useful for low literacy or socially disadvantaged groups, using symbols might reduce the translation-costs incurred by traders.

6.2.14 Harmonisation of Advertising Codes

A unified, agreed EU Advertising Code should be introduced to establish norms and certainty.

The existence of a unified advertising code would make it simpler, less expensive, and less risky for firms to do business across borders, by ensuring that they complied with requirements in each market being addressed. At present the nature, legal force, and governance of advertising codes

¹⁸⁰ European Commission Labelling Consultation: Response from Ireland, Food Unit, Department of Health and Children, June 2006

varies across EU countries. The advertising industry at European level could be encouraged to make proposals in this regard. The need for such developments will be increased by the growth of satellite and Internet Protocol Television (IPTV) services in the future, since at present these are regulated in the EU by the telecommunications regulators in the Member State in which the service originates, even though broadcasting will increasingly take place across Europe and beyond. That said, voluntary codes are probably preferred as they tend to be more readily accepted and adhered to. Furthermore if codes become law they can encounter legal or constitutional problems. These considerations should be taken into account when reviewing the current advertising status quo.

6.2.15 Business Start-Up Co-operation

There should be maximum co-operation at EU level between agencies involved in enterprise and business start-up support activity in border areas to allow for development and partnerships.

Member States, regional and local authorities, and business organisations often provide services to enterprise in their respective areas. Such services include start-up advice, marketing support, technology and training services, shared design or marketing services. Cross-border cooperation at would allow for the development of partnerships between businesses and the development of new, cross-border markets. Such co-operation could be explicitly supported as necessary by the INTERREG programme.

6.2.16 Excessive Documentation

Ireland should progress the implementation of the 'Single Window' trade documentation facility to reduce administrative burden.

One approach to address the problem of excessive trade documentation that has been adopted throughout the world is the establishment of a "Single Window". A Single Window is a system that allows traders to lodge information with a single body to fulfil all import or export related regulatory requirements. This can enhance the availability and handling of information, expedite and simplify information flows and can result in a greater harmonisation and sharing of the relevant data across governmental systems. It is intended to bring meaningful gains to all parties involved in trade.

The successful development, implementation and adoption of Single Window services could yield significant annual savings from the use of electronic over paper based systems and greater potential for security and control of goods movements between and through States.¹⁸¹ The UN (through the Economic Commission for Europe, UNECE) has promoted the concept of a Single Window for some years.¹⁸² The UN estimates that, depending on the size of country and complexity of the system, a

181 "A Roadmap Towards Paperless Trade" www.unece.org/forums/forum05/roadmap/roadmap_oct05.pdf and www.unece.org/cefact/recommendations/rec33/rec33_trd352e.pdf

182 Fontagne, L., Freudenberg, M., Peridy, N. (1997), "Trade Patterns Inside the Single Market"

Single Windows project can cost anywhere between €8m and €40m. Given that Ireland already has advanced customs systems, the cost may be at the lower end of this scale.

The European Commission now mandates that Single Window initiatives should be developed throughout the Member States of the EU and this forms a key element of multi-annual strategic plan for the EU's Taxation and Customs Union Directorate General. The Single Window is a practical application of trade facilitation concepts aimed at reducing non-tariff trade barriers and delivering immediate benefits to all members of the trading community. Every effort to fast track this important burden-reduction tool should be made.

6.2.17 The Community Patent

Progress must be made towards agreeing the "Community Patent" for the EU.

At present, the costs of protecting patents across the EU are simply too high. Such a requirement is a complete negation of the Single Market concept. Progress towards agreement on this issue has been slow, in spite of the fact that it would bring immediate tangible benefits to all of Europe's existing enterprises as well as those outside. It would also encourage innovation more generally within Europe, by encouraging new ideas to be commercialised. Finally, it would provide an important stimulus to inward investment in the EU in general, if the accelerated growth of innovation and associated skills development ensued.

6.2.18 Inconsistent Interpretation of Legislation

Efforts at EU level to remove unnecessary national standards requirements, as well as clarification of application of the Mutual Recognition principle should be intensified.

Article 95 of the EC Treaty outlines that a Member State can introduce national measures (after the harmonisation process) when scientific evidence is furnished to support country specific problems relating to matters of health, safety, environmental protection and consumer protection. Further to this, the Commission and any Member State may bring the matter directly before the Court of Justice if it considers that another Member State is making improper use of the powers provided for in this Article.¹⁸³ These measures, while well meaning, add to subsidiarity within the Single Market. In general, national market measures add to Member State idiosyncrasies. This in turn, adds to increased market knowledge requirements for exporters, creates uncertainty about what markets are accessible, decreases economies of scale and reduces cross border activity. All Member States have the same objective in protecting health, safety, environmental protection and consumer protection, it therefore seems unnecessary to have varying national requirements. Mutual Recognition, has in the past, obliged Member States to accept products lawfully marketed in another Member State that are not subject to Community harmonisation (Articles 28 and 30 of the EC Treaty).

¹⁸³ EurLex (2007), 'Treaty Establishing the European Community'. Available online: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E095:EN:HTML>

The 2006 public consultation on the future of the Single Market shows that in practice many obstacles created by national rules still hamper trade within the EU. Mutual Recognition is judged to fall short of its objective due to lack of awareness of the principle, the uncertainty of burden of proof, and the absence of regular dialogue between competent authorities. The Commission has made a concerted effort to rectify these problems. The forthcoming solution to both harmonisation and Mutual Recognition problems should be to promote uniformity between markets. Every effort should be made to help SMEs benefit from the relatively fragmented nature of the Single Market. Solutions should be delivered in a clear, unambiguous and direct nature to ensure a clear understanding among SMEs.

6.3 Consumer Policy Recommendations

6.3.1 Prices

Formal and ongoing investigation should be undertaken into price differences across Member States for a basket of typical consumer goods and services.

While the Single Market may have facilitated greater price convergence across the EU, survey evidence suggests that in many instances the prices paid by Irish consumers are significantly above the EU average. Given the wide disparities that exist in respect of most items covered by the Consumer Price Index (CPI), it may be appropriate to carry out continual investigation into the cross-country price differences for a basket of typical consumer goods, with a specific focus on branded goods, and services. This investigation should, for example, examine the drivers of costs on the Irish market for retailers and wholesalers which are different to those prevailing in other Member States and the extent to which Ireland's high cost base for business is contributing to higher consumer prices.

6.3.2 Consumer Information Campaigns

The EU should begin consumer information campaigns with a Single Market focus.

An important way to encourage more cross-border trade is to provide more information for consumers. This is done in many countries at national level, with national consumer bodies, private organisations and media providing comparative data on costs of different goods and services from different retailers and service providers within the country. The publication of Harmonised Index of Consumer Price (HICP) data by Eurostat in product terms, including in particular the details of prices of branded goods, would alert consumers to potential savings that could be achieved through purchasing from other Member States, either through mail order, internet shopping, or direct shopping in neighbouring countries. Irish consumers should be given access to these regular cross-border price comparisons, as well as education and advice on how best to go about protecting their interests when shopping online or abroad.

6.3.3 Consumer Redress

The National Consumer Agency should lead consumer-redress awareness and facilitation.

From the Eurobarometer surveys it is clear that much more needs to be done to raise awareness levels among Irish consumers about their rights and redress mechanisms. Therefore, the NCA should assess the issues of concern as expressed by Irish consumers in these surveys and in cooperation with the consumer organisations in Ireland facilitate effective and cost efficient consumer redress in respect of both goods and services sold domestically and from other countries. Consumers should be informed as to how they can use arbitration to resolve disputes. Action at EU level would be needed to enforce decisions taken by Irish courts in respect of suppliers outside the State with whom Irish consumers are in dispute.

6.3.4 e-Commerce

An action plan should be prepared of key initiatives to be taken at EU and national level to unlock the potential of e-commerce for consumers.

Electronic commerce is likely to be the preferred medium for Irish consumers to purchase goods and services abroad. The barriers to e-commerce have been clearly identified in consumer surveys and by research conducted for the European Parliament. This suggests that a key priority should be the removal of all identified barriers by legislative and other measures.

While it may not be possible to “compel” e-commerce and mail order companies to supply consumers in all Members States, every effort should be made to encourage and facilitate traders to ensure that Irish consumers do not lose out. Drawing on the evidence to hand, Ireland could contribute to an action plan for consumers of key initiatives to be taken at EU and national levels, which would unlock the potential of e-commerce thereby facilitating more cross-border shopping.

The action plan should also detail specific measures to improve consumer confidence in e-commerce as a method of doing business. Specific measures or initiatives should also be made in terms of consumer redress mechanisms which are particularly important in non face-to-face transactions.

6.3.5 Financial Services

There should be an up-to-date assessment of the implementation of the Competition Authority’s outstanding recommendations on consumer choice and the cost of banking. In addition, there should be an assessment of what measures, if any, should be taken by Ireland in the light of EU inquiries into retail banking and insurance to protect consumers’ interests.

Recent reviews by both the Irish and EU Competition Authorities have concluded that competition is not functioning properly in certain areas of retail banking to the detriment of consumers. It is the statutory responsibility of the Financial Regulator’s Consumer Director to protect Irish consumers in relation to financial services.

Therefore it is recommended that the Director, as a priority, prepare an up-to-date assessment about the extent to which the implementation of the Competition Authority's 25 recommendations have improved consumer choice and reduced the cost of banking. In addition, the Director should also assess what measures, if any, should be taken by Ireland in the light of the DG Competition inquiries into retail banking and insurance in order to protect consumers' interests.

Ireland, in the context of the Single Market review, should press for early decisions on EU measures to facilitate switching arrangements for retail bank accounts; for the purchase of motor insurance from companies not located in Ireland over the internet; and for the introduction of EU-wide mortgage credit.

6.3.6 Other Initiatives

To ensure that consumers can take full advantage of the Single Market, the following broad measures are also proposed:

- 1 The interests of the consumer should be to the forefront in the next phase of the Single Market and to this end **all new relevant EU proposals should clearly demonstrate positive consumer welfare benefits** before they are adopted;
- 2 To maximise resolution of problems caused by the misapplication of Internal Market law by public authorities without legal proceedings, **SOLVIT Ireland should construct a three year strategy to increase awareness** of the programme among businesses and consumers;
- 3 Fewer and better resourced EU and national consumer services should be put in place. The current plethora of bodies and initiatives should be better coordinated and their activities better publicised; and
- 4 Ireland should pro-actively support EU proposals to achieve the **full liberalisation of the postal market by 2009**.

Appendix 1: Ireland's Export Performance in the EU

Average Number of Exporters, Entry and Exit by Destination

	Exporters	Entry	Exit		Exporters	Entry	Exit
UK	584	30	26	Saudi Arabia	40	9	10
USA	228	30	25	Hong Kong	36	10	10
Germany	213	26	27	Hungary	38	12	9
France	210	26	22	China	39	11	7
Netherlands	183	26	22	S.Korea	31	8	8
Italy	144	21	19	Taiwan	32	7	6
Spain	136	24	20	India	35	11	9
Belgium	139	25	24	Brazil	23	5	6
Sweden	122	19	21	New Zealand	33	10	8
Denmark	110	20	17	Malaysia	31	7	6
Portugal	76	18	18	Egypt	26	7	7
Switzerland	87	19	15	Philippines	21	5	7
Japan	75	17	17	Argentina	19	4	4
Norway	74	15	16	Kuwait	23	6	6
Canada	71	15	14	Mexico	24	8	6
Austria	69	15	14	Lebanon	17	6	7
Finland	78	16	11	Nigeria	22	6	4
Poland	61	14	11	Slovakia	14	6	6
Australia	65	16	13	Slovenia	19	6	5
South Africa	56	15	14	Jordan	17	6	6
Greece	59	12	11	Thailand	20	6	3
Russia	43	8	10	Pakistan	17	4	3
Israel	53	11	10	Chile	15	3	4
Turkey	41	11	14	Algeria	7	2	4
Czech Rep.	46	13	12	Morocco	8	3	3
UAE	44	11	12	Tunisia	5	3	2
Singapore	40	11	12				

Source: Lawless, M. (2007), "Research Technical Paper: Firm Export Dynamics and the Geography of Trade".

Intensity Indices Output Tables

Table 1: Export Intensity 1992

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	1.76	0.98	1.32	1.35	0.87	1.22	0.66	0.29	0.84	1.31
Belg.-Luxbg	1.73	-	2.81	1.60	0.65	0.93	1.31	0.50	0.22	0.41	0.45
Netherlands	0.80	2.31	-	1.57	0.54	1.20	1.64	0.94	0.21	0.60	0.49
Germany	0.98	1.14	1.46	-	1.02	0.61	0.88	1.47	0.52	0.62	0.55
Italy	1.50	0.77	0.85	1.35	-	0.66	0.75	0.73	1.06	0.33	1.01
UK	1.18	0.97	1.15	1.07	0.82	-	5.39	1.55	0.38	0.89	0.66
Ireland	0.38	0.30	0.55	0.43	0.28	4.19	-	0.57	0.09	0.25	0.18
Denmark	0.52	0.56	0.94	1.32	0.48	0.79	0.87	-	0.19	0.86	0.27
Greece	2.05	1.53	2.76	3.20	4.63	1.63	1.83	2.69	-	0.83	1.36
Portugal	2.19	1.07	1.13	1.60	2.24	1.32	0.93	1.02	0.20	-	7.21
Spain	2.48	0.97	0.93	1.61	1.84	1.30	1.13	0.82	0.38	3.39	-

Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

Note: The rows reading from left to right represent the exporting nation while the columns reading from top to bottom represent the destination of the exports. For example, Irish exports to France in 1992 had an export intensity of 0.38.

Table 2: Export Intensity 2006

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	2.98	1.64	2.04	1.89	1.51	1.50	0.91	0.25	1.34	2.11
Belg.-Luxbg	1.54	-	3.52	1.62	0.63	0.98	5.03	0.38	0.10	0.46	0.43
Netherlands	0.68	2.20	-	1.41	0.41	0.93	1.08	1.03	0.13	0.44	0.40
Germany	1.03	1.47	2.06	-	0.90	0.60	0.84	1.35	0.27	0.61	0.51
Italy	1.69	1.16	1.18	1.71	-	0.60	1.30	0.78	0.76	0.53	1.16
UK	1.41	1.53	1.85	1.67	1.06	-	4.98	1.76	0.36	0.81	0.94
Ireland	0.50	0.65	0.81	0.65	0.39	4.18	-	1.13	0.11	0.26	0.32
Denmark	0.63	0.83	1.36	1.85	0.71	1.11	0.98	-	0.24	0.42	0.49
Greece	3.26	2.75	3.45	3.94	7.97	1.90	2.71	3.61	-	0.99	3.11
Portugal	2.29	1.60	1.69	2.10	2.13	1.44	1.50	1.72	0.38	-	11.82
Spain	3.70	1.63	1.70	2.44	2.86	1.58	2.36	1.38	0.55	7.26	-

Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

Note: The rows reading from left to right represent the exporting nation while the columns reading from top to bottom represent the destination of the exports. For example, Irish exports to France in 2006 had an export intensity of 0.50.

Table 3: Change in Export Intensity Indices 1992-2006

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	1.22	0.66	0.72	0.54	0.65	0.28	0.25	-0.04	0.51	0.80
Belg.-Luxbg	-0.19	-	0.71	0.02	-0.02	0.05	3.72	-0.11	-0.12	0.05	-0.01
Netherlands	-0.12	-0.11	-	-0.16	-0.12	-0.27	-0.55	0.09	-0.08	-0.16	-0.10
Germany	0.05	0.33	0.60	-	-0.13	-0.01	-0.04	-0.12	-0.25	-0.01	-0.04
Italy	0.19	0.39	0.33	0.36	-	-0.07	0.56	0.05	-0.30	0.20	0.14
UK	0.23	0.56	0.70	0.60	0.24	-	-0.41	0.22	-0.02	-0.08	0.28
Ireland	0.13	0.35	0.26	0.21	0.11	-0.02	-	0.56	0.02	0.01	0.14
Denmark	0.11	0.28	0.42	0.52	0.22	0.32	0.12	-	0.05	-0.44	0.22
Greece	1.20	1.22	0.69	0.74	3.34	0.27	0.89	0.92	-	0.16	1.75
Portugal	0.10	0.53	0.57	0.50	-0.11	0.13	0.56	0.70	0.18	-	4.61
Spain	1.22	0.67	0.76	0.83	1.02	0.28	1.23	0.56	0.17	3.87	-

Source: Eurostat for all trade data

Note: The rows reading from left to right represent the exporting nation while the columns reading from top to bottom represent the destination of the exports. For example, the increase in Irish export intensity to France from 1992 to 2006 was 0.13. All figures in the above table are rounded to the nearest decimal point.

Table 4: Import Intensity 1992

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	1.48	0.67	1.02	1.37	1.01	0.31	0.42	1.71	1.89	2.03
Belg.-Luxbg	2.00	-	2.50	1.37	0.94	0.96	0.32	0.54	1.58	1.15	0.84
Netherlands	1.12	3.23	-	1.86	1.03	1.41	0.65	0.97	2.76	1.85	0.86
Germany	1.14	1.25	1.25	-	1.19	0.91	0.33	1.09	2.57	1.29	1.18
Italy	1.42	0.57	0.44	1.09	-	0.80	0.22	0.49	4.35	2.13	1.68
UK	0.87	0.82	0.88	0.67	0.65	-	3.89	0.74	1.42	1.26	1.07
Ireland	1.39	0.76	1.27	1.05	0.88	5.48	-	0.79	1.71	0.74	1.08
Denmark	0.74	0.49	0.91	1.63	0.77	1.60	0.55	-	2.41	0.97	0.81
Greece	0.32	0.14	0.18	0.58	0.98	0.37	0.06	0.18	-	0.16	0.36
Portugal	0.93	0.36	0.49	0.71	0.33	0.91	0.20	0.85	0.76	-	3.23
Spain	1.37	0.41	0.42	0.62	0.91	0.69	0.13	0.25	1.39	7.01	-

Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

Note: The rows reading from left to right represent the importing nation while the columns reading from top to bottom represent the country providing the imports. For example, Irish imports from France in 1992 had an import intensity of 1.39.

Table 5: Import Intensity 2006

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	1.59	0.61	1.06	1.45	1.30	0.36	0.60	2.67	1.86	3.03
Belg.-Luxbg	2.71	-	1.86	1.41	1.03	1.38	0.36	0.73	2.66	0.96	1.25
Netherlands	1.41	3.23	-	1.83	1.13	1.63	0.58	1.12	3.01	1.31	1.43
Germany	1.67	1.38	1.25	-	1.44	1.32	0.51	1.61	3.07	1.63	1.83
Italy	1.66	0.59	0.37	0.83	-	0.95	0.29	0.72	6.39	1.58	2.28
UK	0.94	0.83	0.70	0.64	0.50	-	3.24	0.68	1.49	0.81	1.02
Ireland	1.68	5.96	1.17	1.12	1.32	4.91	-	1.31	2.97	1.58	2.54
Denmark	0.78	0.34	1.00	1.21	0.68	1.83	0.71	-	2.93	0.87	1.08
Greece	0.26	0.11	0.12	0.27	0.73	0.36	0.06	0.24	-	0.33	0.48
Portugal	1.25	0.45	0.44	0.57	0.59	1.45	0.20	0.49	0.85	-	6.64
Spain	1.99	0.45	0.41	0.56	1.14	1.12	0.25	0.46	2.81	11.63	-

Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

Note: The rows reading from left to right represent the importing nation while the columns reading from top to bottom represent the country providing the imports. For example, Irish imports from France in 2006 had an import intensity of 1.68.

Table 6: Change in Import Intensity Indices 1992-2006

	France	Bel-Lux	Neth	Ger	Italy	UK	Ire	Den	Greece	Port	Spain
France	-	0.11	-0.06	0.04	0.09	0.28	0.05	0.19	0.96	-0.03	0.99
Belg.-Luxbg	0.71	-	-0.64	0.04	0.08	0.42	0.05	0.19	1.08	-0.19	0.41
Netherlands	0.29	0.00	-	-0.03	0.11	0.22	-0.07	0.15	0.25	-0.55	0.56
Germany	0.53	0.13	-0.01	-	0.25	0.41	0.18	0.52	0.50	0.34	0.65
Italy	0.24	0.02	-0.07	-0.26	-	0.15	0.07	0.23	2.04	-0.55	0.60
UK	0.07	0.01	-0.18	-0.04	-0.15	-	-0.66	-0.06	0.08	-0.45	-0.05
Ireland	0.29	5.20	-0.09	0.07	0.44	-0.57	-	0.53	1.27	0.84	1.46
Denmark	0.04	-0.14	0.09	-0.42	-0.09	0.23	0.16	-	0.53	-0.10	0.27
Greece	-0.07	-0.03	-0.06	-0.30	-0.24	-0.01	0.01	0.07	-	0.17	0.12
Portugal	0.32	0.09	-0.05	-0.14	0.27	0.55	0.00	-0.36	0.09	-	3.41
Spain	0.62	0.03	-0.01	-0.07	0.23	0.42	0.12	0.21	1.42	4.62	-

Source: Eurostat for all trade data (Note: Belgium and Luxembourg figures are jointly calculated prior to 2000).

Note: The rows reading from left to right represent the importing nation while the columns reading from top to bottom represent the country providing the imports. For example, the increase in Irish import intensity to France from 1992 to 2006 was 0.29. All figures in the above table are rounded to the nearest decimal point.

Gravity Model: Aggregate Results

In an effort to understand how Ireland's trade patterns look when the distorting effect of economy size, distance and language are taken into account, a gravity model was run based on a global data set. The model looks at bilateral merchandise trade flows between 140 countries. In total 5,500 trade flows were observed from OECD trade data. A huge amount of trade between two countries can be explained by two variables i.e. the size of the respective economies and the distance between them. We have also included two extra variables in the model, the existence of a common language and the existence of a land border. The model is constructed in such a way that it is perfectly symmetrical. By putting the variables into natural logs it smoothes the data and allows for statistical validity and percentage comparison. The GDP variable is not adjusted for Purchasing Power Parity and is the log of exporter GDP + log of Importer GDP, this generates one coefficient. For imports and exports values are expressed in thousands of United States dollars and relate to declared transaction values (imports c.i.f., exports f.o.b.). Trade conversion rates (source International Monetary Fund- IMF and United Nations Statistical Division-UNSD) are used to convert data from national currencies into United States dollars. The exchange rates are the rates provided to the UNSD either by the country concerned or compiled by the IMF. Based on this analysis, it was possible to calculate the 'Predicted Trade' Ireland should have with each of these countries, and compare this with the 'Actual Trade' observed.

$$\text{Formula: } \ln x_{xm} = C_{xm} + \beta_1 (\ln \text{GDP}_x + \ln \text{GDP}_m) + \beta_2 \ln \text{dist}_{xm} + \beta_3 \text{lang}_{xm} + \beta_4 \text{bord}_{xm} + \epsilon_{xm}$$

where:

x_{xm} = exports from country x to country m;

C_{xm} = constant term;

GDP_x = GDP of exporting country (2002, current \$ prices);

GDP_m = GDP of importing country;

dist_{xm} = distance between capitals of exporting and importing country in kilometres;

lang_{xm} = existence of a common main language;

bord_{xm} = existence of a common border (assumed no border between UK and Ireland);

Table 7: Model Summary

Model Summary^a

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.832 ^a	.692	.692	2.02599	.692	3038.236	4	5401	.000	1.556

a. Predictors: (Constant), Distance, GDP2, Comm_lang, Land_border

b. Dependent Variable: Trade

Table 8: Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-8.213	.432		-19.005	.000	-9.060	-7.365					
	Land_border	.508	.180	.023	2.830	.005	.156	.860	.119	.038	.021	.856	1.168
	Comm_lang	.724	.081	.068	8.924	.000	.565	.883	.121	.067	.967	1.034	
	GDP2	1.126	.011	.790	104.292	.000	1.105	1.147	.805	.817	.787	.993	1.007
	Distance	-.869	.039	-.183	-22.532	.000	-.945	-.794	-.263	-.293	-.170	.867	1.153

a. Dependent Variable: Trade

Table 9: Anova

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49883.307	4	12470.827	3038.236	.000 ^a
	Residual	22169.091	5401	4.105		
	Total	72052.397	5405			

a. Predictors: (Constant), Distance, GDP2, Comm_lang, Land_border

b. Dependent Variable: Trade

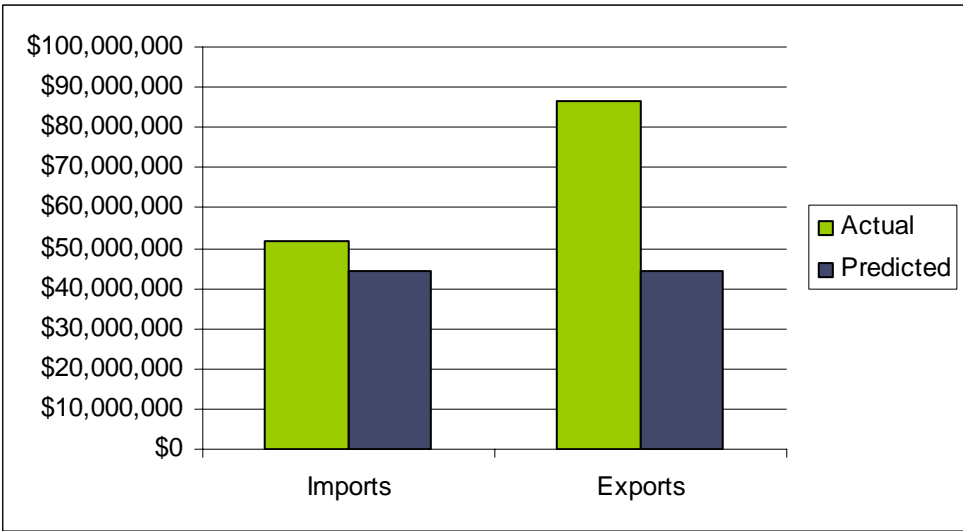
In interpreting the results, we must first look to the F statistic. The null hypothesis is that the intercept and slope coefficients are simultaneously zero. It is measured by the difference between the estimates of the variances. In this case, the F value is extremely high at 3038.236, and it has a P value (probability value) of 0.000, meaning that overall the model appears statistically significant at the 95 percent level.

The R Square in this model is 0.692. This means that 69 percent of the variation of trade can be explained by the variation of the independent variables in the gravity model. All the coefficient values are all statistically significant at the 95 percent level.

Irish Global Trade

All the figures in the model relate to 2002 and are in dollar values. Results for total Irish trade show that we are a more open economy (than predicted) in terms of both imports and exports. While the model predicts we should export and import \$44bn, the actual figures are \$87bn and \$52bn respectively.

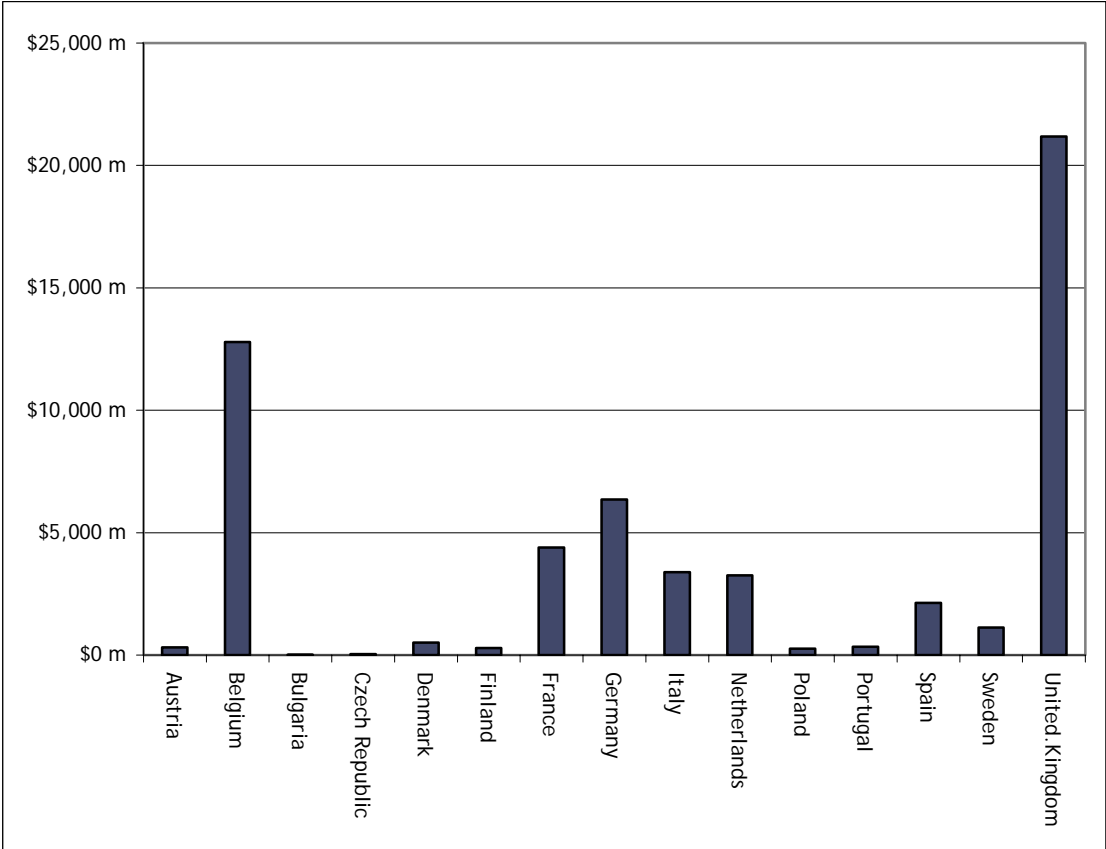
Ireland’s Actual and Predicted Exports and Imports 2002



Exports

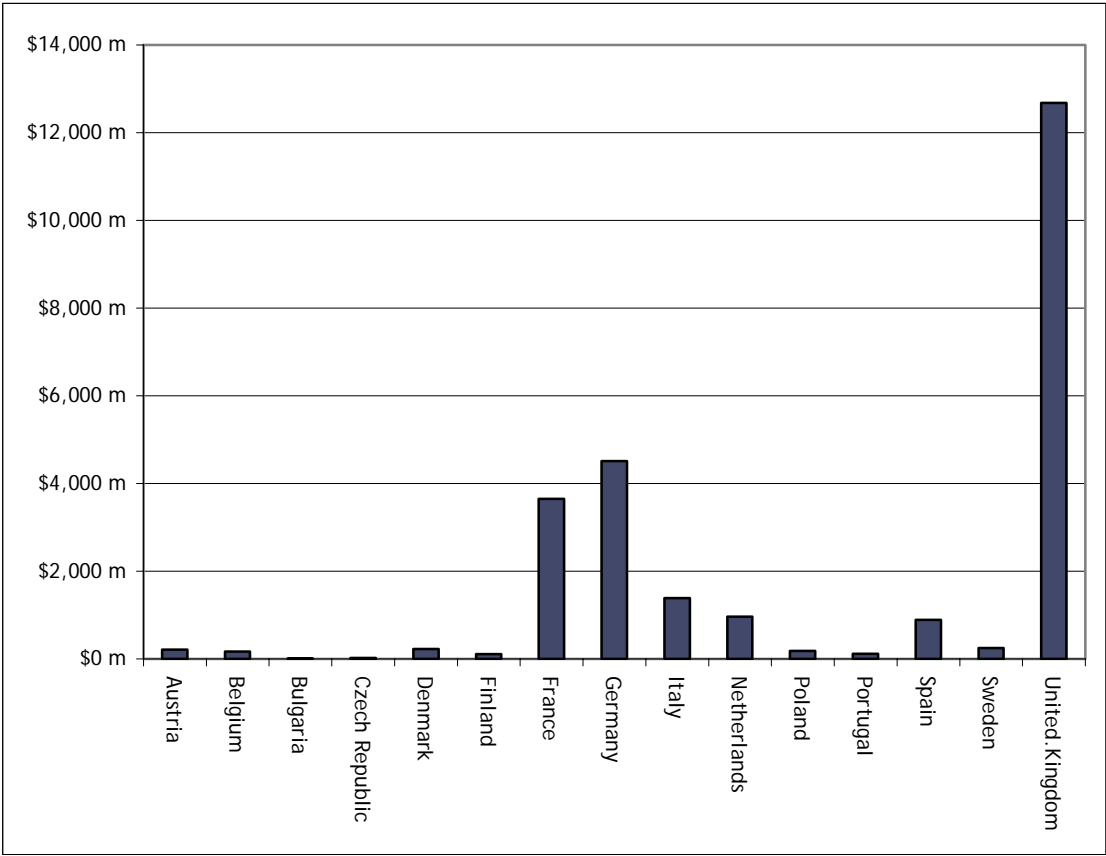
Actual Export Trade: Actual exports are dominated by two countries; the UK and Belgium. The latter is because of foreign MNCs routing their European trade through this country. Other EU countries are relatively insignificant in comparison to the UK and Belgium. Germany and France represent the next most significant EU export market.

Total Exports 2002



Predicted Export Trade: Predicted exports are strongly focussed on the UK, as well as Germany and France. In reality Ireland's exports to the UK and Belgium are far greater than the graph predicts. When Belgium is excluded (for the MNC distribution effect) the ordering in the predicted export graph mirrors the actual export graph.

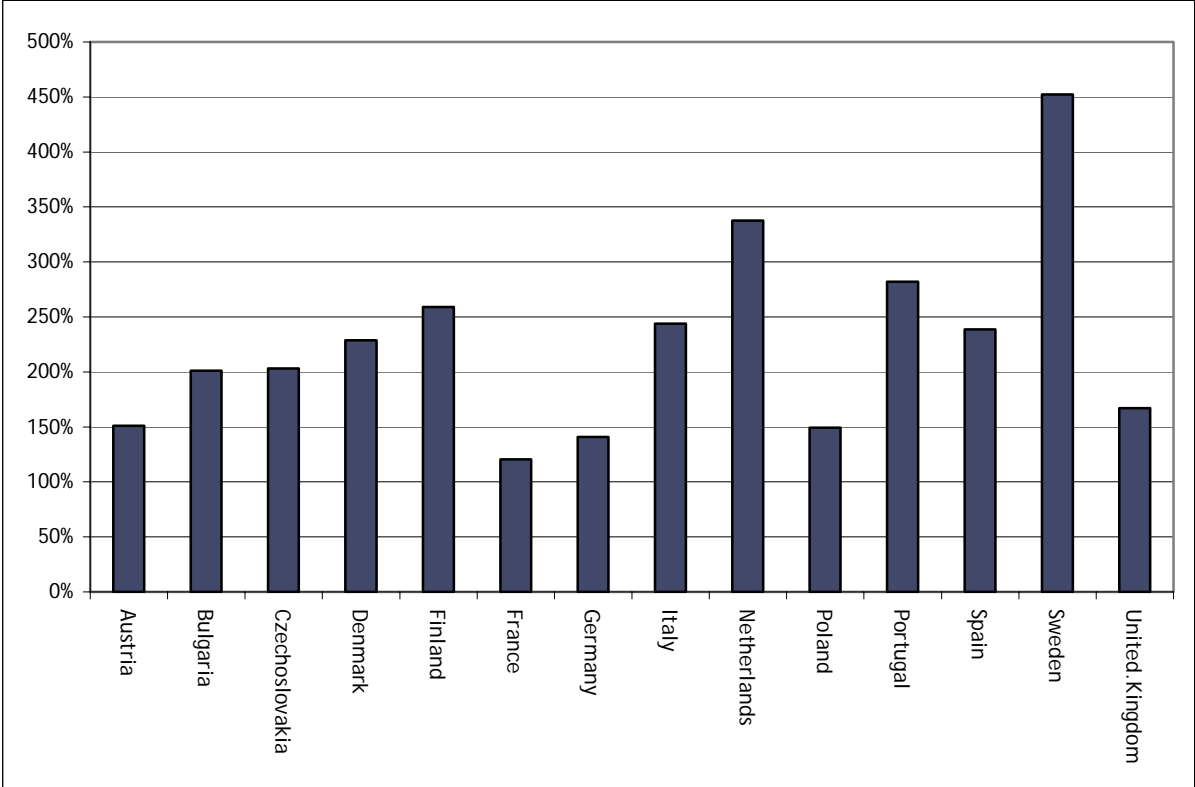
Predicted Exports 2002



Ratio of Actual to Predicted Exports: In the graph below, countries with a level equalling 100 percent indicate the level of trade exports that is expected when accounting for the relevant variables (i.e. land border; language; GDP and distance). Each country is above 100 percent, indicating that Ireland is experiencing more export trade than would be expected given the size of the Irish economy. Importantly, this graph excludes Belgium (to nullify the MNC distribution centre effect), and if the exports routed through this country were distributed through other countries, then the overall ratios to the other countries would be even higher.

For some countries, Irish levels of trade are highly impressive and are multiples of what would be expected. For example, Ireland’s exports to Sweden are over four times what would be expected given our relative size, distance and linguistic differences. Ireland’s level of exports with the two largest continental European economies, namely France and Germany, is just over what would be expected. In all of the four major European markets (UK, Italy, France and Germany) Irish exports are well above the level predicted in the model.

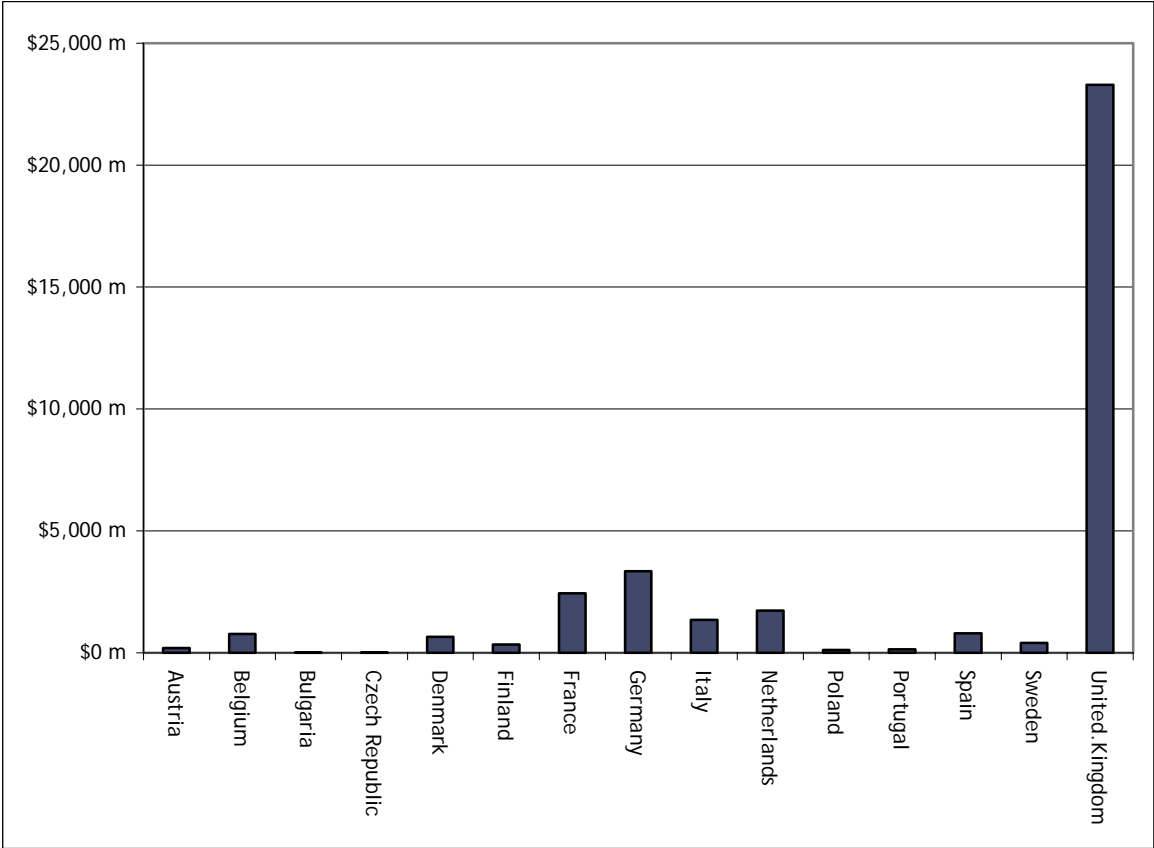
Ratio of Actual to Predicted Exports 2002



Imports

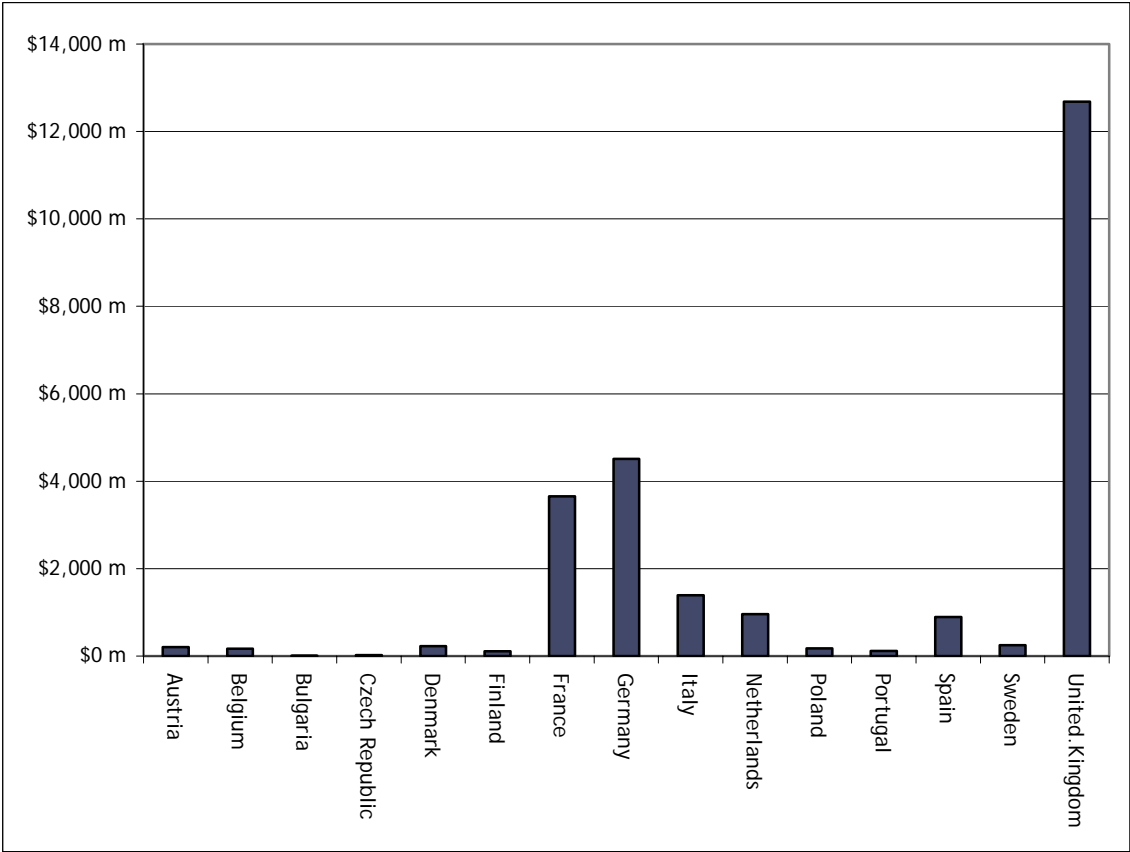
Total Imports: Ireland's total imports are dominated by the UK, with Germany as the next most important import market. All other countries surveyed appear insignificant in comparison (see figure below). The previous export graphs indicated that a significant amount of exports are destined for Belgium. When we look at imports, it is evident that relatively few imports come from Belgium.

Total Imports 2002



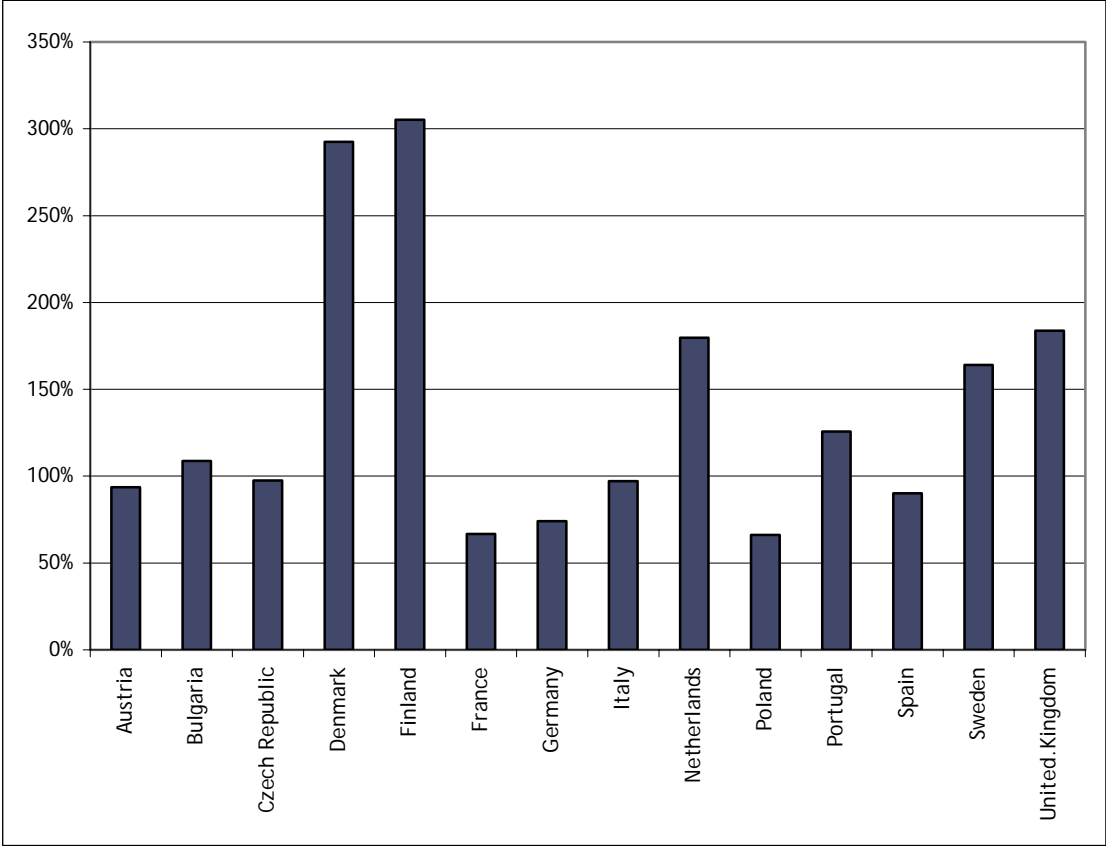
Predicted Import Trade: The model suggests that Ireland should conduct the majority of its trade with the UK. This is in large part due to the size of the UK market, the close proximity of the market and the fact that we share a common language. Predicted import levels from the UK are much lower than Ireland is currently experiencing. The level of imports from other European countries are quite low.

Predicted Imports 2002



Ratio of Actual to Predicted Imports: Yet again the graph excludes Belgium (to nullify the MNC distribution centre effect). In some countries (namely Austria; Czech Republic; France; Germany; Italy; Poland and Spain) the import ratios do not all reach 100 percent, indicating that Ireland is not fulfilling its import potential. For Austria (94 percent), Czech Republic (98 percent), Italy (97 percent), and Spain (90 percent) the underperformance is fairly modest. However Ireland’s imports from Poland (66 percent), France (67 percent) and Germany (74 percent) are significantly below the level predicted in the model. Ireland is not performing as strongly in these markets as we would expect. What is striking is that imports from Denmark and Finland are significantly higher than expected given our relative size, distance and linguistic differences.

Ratio of Actual to Predicted Imports 2002



Appendix 2: Consumers and the Single Market

The Eurobarometer Surveys indicate that in general, Irish consumers view the Single Market extremely positively:¹⁸⁴

- In relation to worker and personal mobility, 79 percent of Irish respondents are satisfied with the free movement of persons; with 61 percent stating it is easier now to travel than it was ten years ago;
- 82 percent of Irish consumers believe that the Single Market has increased competition in many areas - well ahead of the EU average;
- 82 percent of Irish consumers view the Single Market in a positive manner; with 67 percent stating that it has had a positive impact on prices;
- Ireland tops the EU (at 78 percent) in believing that the Single Market has had a positive impact on the quality of goods and services;
- 57 percent of Irish consumers agree that the Single Market has increased consumer protection;
- 75 percent of Irish consumers have noticed that there is a better choice of products from other countries in shops and supermarkets over the past ten years;
- However, only 35 percent of Irish consumers were aware that products bought outside the country were guaranteed in Ireland.

The findings of the Eurobarometer surveys are also consistent with those of the survey conducted for the Consumer Strategy Group (CSG) which found that the majority (71 percent) of Irish consumers perceive their choice of goods and services to be getting better.¹⁸⁵

The CSG also found, however, that while choice had increased, the majority of consumers surveyed also believe that they do not receive value for money when purchasing goods and services. In fact, the survey found that 87 percent believe that they are being over-charged; 75 percent believe that the price they pay for goods is not fair, and 71 percent believe that the price they pay for services is not fair. Food prices are on average 25 percent higher than the EU average, while many branded goods are almost twice as dear in Ireland as in Germany or the Netherlands. There is also little variation in prices between the main retailers, leading some to conclude that there is a lack of competition in the market.¹⁸⁶

Eurobarometer Survey into Cross Border Shopping

- Indeed, the survey found that 27 percent of Irish travellers buy abroad compared to the EU average figure of 17 percent, and younger people and people with higher education levels are most likely to buy when they are abroad. Those that did buy goods abroad did not do so because of price (91 percent), or for quality considerations (97 percent); In relation to cross-border

184 EUROBAROMETER Special Report 252 and Special EUROBAROMETER 254; 'Internal Market' - Opinion and Experiences of Citizens in the EU-25. Interviews were conducted in February/March 2006 with 24,750 respondents, including 1,000 from Ireland. A summary of these findings is enclosed (Appendix 2).

185 Report of the Consumer Strategy Group - Make Consumers Count: A New Direction for Irish Consumers.

186 Irish Times (2007), "Consumers still Paying the Price", 1st August.

shopping, a third of Irish consumers surveyed reported that they had purchased goods abroad in the previous twelve months. This was slightly higher than the EU average of 26 percent, but was well behind Luxembourg at 67 percent. Nevertheless, the survey also found that purchase values tend to be relatively low, with 71 percent of Irish respondents reporting that items purchased were valued at less than €500.

- However, while Irish consumers are happy to shop when abroad for other reasons, the vast majority (89 percent) indicated that they did not make a special shopping trip abroad in past year and only 42 percent of Irish consumers surveyed would actually consider going abroad for shopping. Cheaper flights, increased capacity across the Atlantic and a more favourable exchange rate against the dollar are the factors driving an extraordinary travel boom that sees shoppers willing to travel more than 10,000 km in search of bargains. In November and December 2006 it was estimated that up to 100,000 people travelled from Ireland to North America on pre-Christian shopping trips, which ranged from one night to a week.¹⁸⁷
- For Irish consumers the main issues related to cross-border shopping were high travel costs (42 percent); language barriers (37 percent); and the time involved (35 percent);
- Only 34 percent of Irish consumers felt confident about purchasing goods and services from outside the country, with 66 percent believing it is more difficult to resolve problems when compared to domestic purchases. In this context too, 72 percent of Irish consumers believe there is a greater possibility of delivery problems if they choose to purchase abroad and Ireland was also found to be near the top of the list in terms of a perception that providers refuse to sell because they are not resident in that country;
- Language is clearly seen as a barrier by many Irish consumers, as only 20 percent would be prepared to purchase using another EU language. This put Ireland at the bottom of the EU list; and
- A high (75 percent) number of Irish consumers indicated that they are not interested in cross-border shopping on the grounds that they prefer to see what they purchase; some 58 percent said they are not interested in making such a purchase in the near future. At the same time, however, a sizeable majority (63 percent) of Irish consumers indicated that they did not know where they could get information and advice about cross-border shopping.

These survey findings indicate that Irish consumers are active cross-border shoppers, largely due to the significant numbers now travelling outside Ireland on a regular basis. There are no legislative impediments to cross-border shopping. Barriers such as they exist, language for example, are common across Europe. Significantly, Irish consumers signalled how difficult it was to get price comparisons across Europe.

¹⁸⁷ Irish Times, (2006). "Just nipping across to the shops", November 25.

Appendix 3: Internet Usage and Online Shopping

- Census 2006 revealed that over 828,000 (56.6%) households have a personal computer. This compares with just 422,000 households with home computers (or 32.5%) in 2000 i.e. an increase of 96% over the period.¹⁸⁸
- 683,000 households (46.7%) have access to the Internet. Of these, 292,000 households have a broadband connection to the internet. Just 266,000 households (20.5%) had internet access in 2000.
- In the 12 months prior to February 2006, 709,200 persons had ordered goods or services from the internet for private use. This compares with a figure of 580,700 in 2005. The most popular type of goods and services ordered on the internet were travel and holiday accommodation (450,100), tickets for events (273,600), and books/magazines/newspapers/e-learning material (223,800). The numbers of persons ordering tickets on-line increased from 157,000 in 2005 to 274,000 in 2006. Nearly 92% of those who had ordered on-line in the last 12 months had encountered no problems.
- The main reasons given by persons who do not make on-line purchases were that they had no need (372,900) and that they prefer to shop in person (239,700).

Purchases on the Internet	2004	2005	2006
	000's	000's	000's
Types of goods and services ordered in last 12 months			
Food/groceries	17.1	35.5	50.8
Household goods		40.8	57.5
Films/music	88.5	158.1	221.0
Books/magazines/newspapers/e-learning material	95.2	135.2	223.8
Clothes/sports goods	21.6	52.5	92.3
Computer software	17.9	60.6	148.2
Computer hardware	18.6	26.5	66.2
Electronic equipment	18.4	40.5	79.4
Share purchases/financial services/insurance	5.9	14.6	35.1
Travel and holiday accommodation	209.4	317.6	450.1
Tickets for events	63.7	157.0	273.6
Lotteries/betting	2.9	9.1	15.1
Other	39.2	28.3	34.6
Problems Encountered			
Uncertainty concerning guarantees	13.2	13.0	7.7
Delivery slower than indicated	16.5	25.6	21.2

¹⁸⁸ 2006 Census of Population – Principal Socio-Economic Results, Press Release, Central Statistics Office, June 2007.

Final cost higher than indicated		24.2	12.1
Wrong or damaged goods delivered		19.4	12.0
Lack of security of payments	5.3	6.6	6.0
Complaints and redress difficulties/unsatisfactory response after complaining		14.4	12.1
Other	38.6	42.7	14.1
None	382.5	459.8	651.1
All persons who have purchased on the internet in the last 12 months	485.5	580.7	709.2

Source: CSO, ICT Ireland 2006, Quarterly National Household Surveys

Reasons for not purchasing via the internet	2004	2005	2006
	000s	000s	000s
Reason			
Have no need	385.7	340.1	372.9
Prefer to shop in person	192.6	233.6	239.7
Security and privacy concerns		56.4	61.8
Don't have a payment card		34.0	49.6
Lack of skills		24.1	41.7
Too long delivery times		3.6	6.1
Trust concerns	6.1	11.3	19.5
Speed of internet connection is too slow			
Other (inc. no credit card)	75.3	46.7	26.5
All persons who have never purchased via internet	679.5	677.3	696.7

Source: CSO, ICT Ireland 2006, Quarterly National Household Surveys

Appendix 4: EUROBAROMETER Survey of Irish Consumers' Perceptions of the Single Market

Consumers' Perceptions

Insofar as consumer issues are concerned, recent EUROBAROMETER surveys provide evidence about the functioning of the Internal Market and the impact it has and has had on Irish consumers, and on consumers' attitudes and experiences on cross-border transactions, as well as their views on certain consumer protection measures.¹⁸⁹

The following are the principal findings which are relevant to Ireland:

QUESTION	RESPONSE	COMMENT
Worker and personal mobility	79% of Irish respondents are satisfied with the free movement of persons; with 61% stating it is easier now to travel than it was ten years ago.	The range at EU level varies from 57% to 90% as regards worker mobility.
Views on increasing competition	Well ahead of the EU average, 82% of Irish consumers believe that the Internal Market has increased competition in areas such as telecoms and financial services	
From a consumer perspective	82% of Irish consumers view the Internal Market in a positive manner; with 67% stating that it has had a positive impact on prices	The EU average is 73%, with a high of 86% (Finland). Only France and Austria have a consistently negative view about the impact of the Internal Market on the range, prices and quality of products and services.
Quality of products and services	Ireland tops the EU (at 78%) in believing that the Internal Market has had a positive impact on the quality of goods and services.	The EU average was 58%.
Perceptions on impact of Internal Market	57% of Irish consumers agree that the Internal Market has increased consumer protection; however, with a high 35% 'Don't	On average 53% of EU citizens believe the Internal Market has had a positive impact on consumer protection; with the

¹⁸⁹ EUROBAROMETER Special Report 252 and Special EUROBAROMETER 254; 'Internal Market' - Opinion and Experiences of Citizens in the EU-25. Interviews were conducted in February/March 2006 with 24,750 respondents, including 1,000 from Ireland.

	Know' response.	UK at the bottom of the list at 41%.
Choice of products in shops	75% of Irish consumers have noticed that there is a better choice of products from other countries in shops and supermarkets over the past ten years.	The EU average was 61%.
Price differences	42% of Irish consumers have not noticed any price differences for the same products or services between Member States.	Considerable variations exist between Member States, ranging from Luxembourg (76%) to Spain (29%).
Knowledge of Internal Market measures	Only 35% of Irish consumers were aware that products bought outside the country were guaranteed in Ireland	Although awareness levels are generally high at EU level, there is major gap in information about consumer protection in terms of guarantees for products.

Cross-Border Transactions

Cross-border shopping includes purchases made from retailers or providers located in another Member State, either in person or via distance shopping (by telephone, post and internet). There is an almost unanimous interest in cross-border shopping, or at least the principle of the idea. A study on this phenomenon came to the following conclusions: ¹⁹⁰

The following key findings of the EUROBAROMETER 252 survey from the perspective of Irish consumers are as follows:

QUESTION	RESPONSE	COMMENT
Level of cross-border shopping in previous year	33% of Irish consumers purchased abroad compared to the EU average of 26%; with Luxembourg highest at 67%.	Level of purchases has increased since 2002, when only 12% of EU consumers on average made a cross-border transaction
Value of purchases	71% of Irish purchase were for items valued at less than €500	One of the factors influencing the value of purchases is the level of wealth in different Member States, with 24% of Luxembourg consumers making

¹⁹⁰ Qualitative Study on Cross Border Shopping in 28 European Countries, European Commission, May 2004.

		purchases in excess of €1,000
When is purchase made	27% of Irish travellers buy abroad compared to the EU average figure of 17%, with younger people and people with higher education levels most likely to buy when they are abroad	The most common form of cross-border shopping is purchasing goods and services when on holiday or abroad on business. Irish people travel a lot hence the high level of such purchases.
Shopping trips - trends	In common with the EU average, 89% of Irish consumers did not make a special shopping trip abroad in past year. Those that did buy did not do so because of price (91%) or for quality considerations (97%). Only 42% of Irish consumers would consider going abroad for shopping.	The figure is higher in countries with multiple borders. Almost seven out of ten EU consumers prefer to shop in person than via distance selling mediums; with 56% stating they had no intention of travelling abroad for shopping.
Barriers to shopping trips	For Irish consumers the main issues were high travel costs (42%); language barriers (37%); and too time consuming (35%).	
Package holidays	Ireland (at 30%) is among the top purchases of such holidays	12% of the Irish consumers who had made such purchases were not satisfied with the information provided to them prior to their visit
Level of confidence	Only 34% of Irish consumers are confident about purchasing goods and services from outside the country, with 66% believing it is more difficult to resolve problems when compared to domestic purchases	Levels of satisfaction for personal shopping are higher than for distance purchasing. However, some two thirds of Europe's consumers think it is harder to settle complaints when a purchase is made outside their own country.
Delivery	72% of Irish consumers believe there is a greater possibility of delivery problems if they choose to purchase abroad	The figure is as high as 8% in Finland
Refusal to supply	Ireland is near the top of the list in terms of a perception that providers refuse to sell because they are not resident in that country	This level of discontent is above the EU average of 33%.

Language	Irish consumers (20%) are at the bottom of the EU list when asked if they would be prepared to purchase using another EU language	In contrast, 85% of Luxembourgers would have no such difficulty.
Sources of information	63% of Irish consumers claimed they did not know where they could get information and advice about cross-border shopping	The majority of respondents in every Member State, except Slovakia, stated they had not heard of EU information services to help citizens concerning their rights in the Single Market.
Level of interest in cross-border shopping	A high (75%) number of Irish consumers are not interested in cross-border shopping on the grounds that they prefer to see what they purchase; some 58% said they were not interested in making such a purchase in the near future.	Across the EU there is a high (55%) disinterest in cross-border shopping
Financial services	6% of Irish consumers have considered taking out insurance or a mortgage in another Member State. This may be explained by the fact that only 35% of respondents knew that shopping for financial products outside Ireland was possible.	70% of EU citizens have not purchased financial services in the past year. Having to communicate in another language is seen as the largest barrier (31%); with lack of personal contact the second reason for 26% of consumers. Same trend in 2002.
Barriers to discouraging use of financial services	54% of Irish consumers have no wish to access such services outside Ireland; 30% cite language barriers; and 20% cite a lack of information about opportunities	Also at EU level a high number of consumers (61%) have no intention of shopping abroad for financial services products; language barriers is a factor in ten out of 25 countries.

Internet

QUESTION	RESPONSE	COMMENT
Volume of transactions	12% of Irish consumers used the internet to buy from a provider in another country. Nearly 50% of Irish consumers who have the internet buy outside Ireland. 47% of Irish consumers made one internet purchase in previous	Those countries with higher levels of internet access at home make more purchases. However, on average only 6% of EU consumers made a cross-border internet purchase in the past year; reflecting the fact that only

	year (including domestic).	12% of these have home connections.
Level of confidence	In line with the EU average some 42% of Irish consumers expressed a lack of confidence in making a purchase in another country, with 42% confident.	Mistrust in internet shopping is highest in those countries that make the most purchases using this medium
Level of interest in internet shopping	42% of Irish consumers are not interested in cross-border shopping because they do not have access to the internet	The EU average figure is just below the Irish figure at 39%.
Barriers to internet shopping	For Irish consumers the main barriers are: unwilling to disclose credit card details (50%); no internet access (45%); unsure what to do if delivery is not satisfactory or faulty (45%).	Lack of internet access is the most common barrier across the EU. It is also clear that consumers have major issues about payment security.

Consumer Protection Issues

QUESTION	RESPONSE	COMMENT
Level of complaints	Only 11% of Irish consumers made a formal complaint; with 49% declaring it is easy to settle disputes via arbitration mechanisms and 36% stating that the courts provide the best solution	EU average is 14%, with Sweden top of the list at 24%. Some 41% of consumers were unhappy with the way their complaint was dealt with. Consumer Associations were the preferred first port of call for further action
Responding to advertising from another country	58% of EU consumers have received unsolicited advertisements in the past year	82% of Irish consumers are opposed to this type of advertising.
Warranty rights	11% of Irish consumers have asserted their rights.	
Scams/fraud	75% of Irish consumers believe there is a greater risk of being a victim of a scam when purchasing from abroad.	The EU average is 68%.
Safety of goods	In line with the EU average, 61% of Irish consumers do not trust the safety of goods and services purchased outside of the country.	

Has the Internal Market increased consumer protection	57% of Irish consumers agree with this sentiment; with 58% happy with domestic consumer protection measures	The EU average is 53%. Across the EU the more educated and informed consumers are the more confident they feel in making cross-border purchases.
Do sellers respect consumers' rights	65% of Irish consumers agree with this statement.	The new Member States are far less positive
Clear and transparent pricing	53% of Irish consumers believe this is the best way to protect their interests.	Only 24% of Ireland's consumers look at unit pricing
Right to replace an item	This is the second highest (47%) reason cited by Irish consumers	
Consumer organisations	In line with the EU average figure, 68% of Irish consumers trust the Irish consumer organisations; with 66% trusting Government to protect their interests	Across the EU at least one in four consumers think that their rights are not protected.
Familiarity with EU services	Awareness among Irish consumers about Commission financed Internal Market and consumer services were low ranging from 2% to 12%.	At EU level, awareness levels are very poor with nearly 70% of respondents not aware of any EU service

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