Liberalization of services in Europe: Polish perspective on economic implications of the Services Directive[☆]

Jan Hagemejer [a,*], Jan J. Michalek [b], Tomasz Michałek [c]

[a] *National Bank of Poland and University of Warsaw, Poland*
[b] *University of Warsaw, Poland*
[c] *National Bank of Poland, Poland*

Abstract

The original EU Service Directive proposal met widespread opposition and was subsequently narrowed down. Some believed that the competition from the New Member States would endanger the situation of the "old" EU service providers. We assess the importance of the Service Directive for Poland and other EU members by performing a revealed comparative advantage analysis and a computable general equilibrium simulation of the outcome. The liberalization provides minimal welfare gains for Poland and the main opponents of the Service Directive, while they are expected to be higher for small economies open to trade in services.
© 2014 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

1. Introduction

The internal market has been defined as "*an area without frontiers in which the free movement of goods, persons, services and capital is ensured*". (Treaty Establishing EC – TEEC).[1] The

---

implementation of the internal market for goods led to a gradual elimination of border controls. In order to achieve genuine free movement of goods, member states had to accept the mutual recognition principle and a gradual harmonization of technical standards of products available on the single market.

Despite TEEC provisions, free flow of services remained incomplete within the EU. There are several possible explanations why the progress in liberalization of trade in services has been much slower in comparison to goods. The often quoted reasons are the intangible character of services together with quality of service and the need for consumer protection. Moreover, contrary to merchandise trade theory of trade in services is elaborated to a much smaller extent and the policy guidelines are less clear-cut. The assessments of EU services trade barriers were usually performed on the basis of detailed questionnaires. For example, Copenhagen Economics (2005) describes restrictions at different stages of services' provision.[2] They include requirements regarding local residence of management, special licenses, requirements for additional diplomas, local professional insurance, constraints on the use of home country inputs, the necessity to fully apply all local labour laws (even for temporary services), restrictions on marketing, inter-firm cooperation, or the juridical form of the company, unclear regulations, a multiplicity of regulatory agencies or simply a fuzzy implementation procedures.

Given the wide scope of possible trade barriers in this sector it was not surprising that the Commission, in 2004, presented an important, horizontal proposal of services liberalization.

2. Commission proposal (2004) and accepted directive (2006)

The first proposal of the Services Directive was presented by the Commission in 2004, and is known as the "Bolkestein Proposal (Directive)".[3] In the summary it was stated that "it is part of the process of economic reform (. . .) with a view to making the EU the most competitive and dynamic knowledge-based economy in the world by 2010. Achieving this goal means that the establishment of a genuine internal market in services is indispensable". The objective of the proposal "is to provide a legal framework that will eliminate the obstacles to the freedom of establishment for service providers and the free movement of services between the Member States, (. . .)".[4] Therefore, it was a "horizontal" proposal, which would establish a legal framework applicable, in principle, to all services.

The proposal identifies two specific types of situations where obstacles to trade in services are significant. First, "when a service provider from one EU country wishes *to establish himself* in another EU state in order to provide his services". Second, "when a service provider wishes to *provide a service from his* Member *State of origin* into another Member State, particularly by moving to the other Member State on a temporary basis". (for example, he may need to obtain a relevant authorization).[5]

There were three major categories of instruments proposed to achieve a genuine internal market for services. First, in order to promote *freedom of establishment* the proposal called for administrative simplification measures, particularly involving the establishment of "single points of contact".[6] Moreover, it laid down certain principles for the *authorization schemes* that were supposed to make most of the lengthy authorization and licensing procedures disappear.

---

[2] Copenhagen Economics (2005, Annex I, pp. 3–6).
[3] European Commission (2004, p. 3).
[4] European Commission (2004, p. 3).
[5] European Commission (2004, p. 5).
[6] At this point a service provider should be able to complete all administrative procedures by electronic means.