WORKING PAPER | ISSUE 15/2025 | 18 JULY 2025

THE EUROPEAN SINGLE MARKET: RESTARTING THE PERPETUAL REVOLUTION

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The single market is the European Union's most powerful economic asset, yet persistent barriers continue to undermine its potential. We argue that realising that potential requires a dual strategy: strengthening compliance with existing rules and advancing targeted harmonisation where regulatory gaps persist. Despite recent efforts, compliance outcomes have stagnated while formal enforcement has weakened, possibly reflecting institutional shortcomings. On harmonisation, we highlight key areas, particularly services and regulated professions, for which new legislation is urgently needed, while recognising that politically sensitive fields will require gradual, coordinated progress.

We also assess the European Commission's 2025 Single Market Strategy, which takes welcome steps in areas such as construction and telecommunication, but falls short of addressing structural weaknesses in enforcement and offering a bold regulatory vision. We identify four types of barrier that demand tailored responses: stronger enforcement in areas with existing rules, deeper harmonisation where partial integration persists, incremental convergence in minimally harmonised sectors and facilitated voluntary alignment in politically sensitive areas. Delivering on these priorities is essential to unlock the single market's full potential and secure Europe's long-term competitiveness.

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We thank Jeromin Zettelmeyer, Hans Geeroms, Bertin Martens, Ignacio Garcia Bercero, André Sapir, Nicolas Veron, Jasper Berg and Rebecca Christie for comments on an earlier draft, and Nicolas Boivin and Ella Joyce Bullock-Papa for excellent research assistance.

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Recommended citation:
Dom, R. and N. Poitiers (2025) 'The European single market: restarting the perpetual revolution', *Working Paper* 15/2025, Bruegel

1 Introduction

The European single market is a great success story and has become the largest integrated market in the world. It has been a driver of both the economic and political integration of the European Union[1]. Arriving at its current state has been the work of more than a generation, and a generation's work remains to achieve its full potential.

The pursuit of this goal is the key task of the European Commission in its pursuit of an ever-closer union. It's not a one-off undertaking that can be achieved by a single concerted effort, but a perpetual revolution that requires continued effort but also yields continuous reward. However, this work appears to have been relegated as a priority during the current period of economic and political upheaval, when crisis management has taken precedence. If the EU wants to regain economic momentum as the global economic order becomes untethered, it should refocus on this work of building the home economy.

The persistence of internal barriers in the single market is not due to lack of awareness. The barriers are well documented and include horizontal obstacles such as national rules on taxation, labour markets and consumer protection, and sector-specific regulatory variation that often favours domestic firms (European Commission, 2020b; Dahlberg *et al*, 2020). Tackling the barriers requires two separate but interlinked issues to be addressed: the scope and ambition of EU legislation (harmonisation) and the degree to which EU countries comply with that legislation (compliance).

In many sectors, harmonisation remains incomplete and cross-border trade in the single market relies instead on mutual recognition of standards and certifications. EU countries can impose barriers to trade if they comply with proportionality principles. Although enforcement via formal infringement proceedings can challenge unjustified restrictions even in these areas, its effectiveness is constrained, particularly where EU competence is limited, such as in labour and taxation. In such cases, advancing harmonisation would likely be more effective than relying on compliance tools to deepen the single market. Meaningful progress toward a more integrated single market requires a combination of targeted new legislation and efforts to improve compliance with existing legislation – through stronger enforcement, enhanced administrative coordination, and by better informing consumers and businesses.

Although overcoming these well-known barriers may seem daunting, the economic evidence suggests that further integration would be both feasible and highly beneficial. Head and Mayer (2021) showed that trade costs have declined continuously within the EU, by roughly a third for goods since the creation in 1968 of the Community Customs Union, a predecessor to the single market. They found also a decline since the 2000s in services trade costs. Quantifying the remaining barriers is still an open debate, and measurement remains difficult especially for services.

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[1] For an evaluation of the economic gains see Fontagné and Yotov (2024); for an overview of the discussion on the political economy of the EU, see for instance Dür *et al* (2020).

Head and Mayer (2021) saw the EU as having achieved equivalent if not better integration for goods in the single market than the United States, whereas Santamaría *et al* (2023) and Adilbish *et al* (2025) found substantial remaining barriers, even for goods. It is uncontested though, that the barriers are substantially higher for services than for goods. Reducing these barriers further could generate substantial benefits: according to Dorn *et al* (2024) reducing barriers by 10 percent could increase EU GDP by 0.5 percent, and a 25 percent reduction would give a 2.3 percent GDP boost.

Against this backdrop, we explore how compliance and harmonisation can be strengthened to unlock the single market's untapped potential. We also assess whether the European Commission's new strategy, published in May 2025 (European Commission 2025a), rises to this challenge[2]. We argue that unlocking the single market's full potential continues to require a dual focus: strengthening compliance with existing rules and advancing targeted new regulation, as the two are complementary.

On compliance, we find that declining infringement activity and persistent implementation gaps reflect institutional weaknesses that the Commission strategy acknowledges but does not fully resolve. On harmonisation, we identify specific areas, especially in services and regulated professions, where new legislation is essential, while recognising that politically sensitive areas such as labour and taxation will require gradual, coordinated progress.

We first examine the respective roles that strengthening compliance and regulatory action can play in unlocking the single market's untapped potential, highlighting how each addresses distinct but interrelated barriers to integration. Section 2 analyses the state of compliance, its recent decline and the institutional and procedural reforms needed to make it more effective. Section 3 turns to regulation, identifying key areas for which new or updated EU rules are indispensable to overcome fragmentation. Finally, we assess the European Commission's May 2025 single market strategy, evaluating whether it responds adequately to these challenges and where further ambition is required.

2 Compliance

Compliance is central to the functioning of the single market, ensuring that agreed rules deliver their intended benefits. EU institutions have consistently prioritised compliance and developed strategies to support it, but progress has been uneven. While the precise causes are not fully clear, formal enforcement activity seems to have weakened[3]. The use of informal enforcement mechanisms or changes in the numbers of complaints do not fully explain this decline. Instead, organisational and operational shortcomings prevent the EU's enforcement framework from delivering fully on its objectives.

[2] The official title of the strategy is 'The Single Market: our European home market in an uncertain world. A Strategy for making the Single Market simple, seamless and strong'.

[3] Enforcement refers to the actions taken by the European Commission and member states to ensure that EU laws and rules are correctly applied, implemented and complied with.

The institutional framework for compliance with EU law relies on a division of responsibilities between the European Commission and EU member states. While member states are responsible for implementing and applying EU legislation at national level[4], the Commission acts as the 'guardian of the Treaties', overseeing and enforcing compliance by taking corrective action where needed. This role is carried out by the directorates-general that draft the legislative proposals. Oversight is coordinated by the Secretariat-General and supported by a network of infringement correspondents[5]. The Commission uses a mix of preventive instruments and infringement procedures, which can ultimately lead to a ruling by the EU Court of Justice. Nonetheless, the burden of resolving breaches ultimately rests with member states.

EU institutions have said consistently that the strengthening of compliance with single market rules is a political priority. Over the past fifteen years, the Commission has pursued a broad strategy to improve compliance by combining better enforcement, information, coordination and monitoring. Examples include Points of Single Contact (required since 2009) that make it easier for service-sector companies to understand and meet administrative requirements online; an Internal Market Information (IMI) system to facilitate the exchange of information between local administrations; SOLVIT, a problem-solving network that helps people or businesses when their cross-border rights are breached by public authorities; and EU Pilot, introduced in 2008 as an informal pre-infringement mechanism to resolve potential breaches of EU law through dialogue with national authorities before formal proceedings are started.

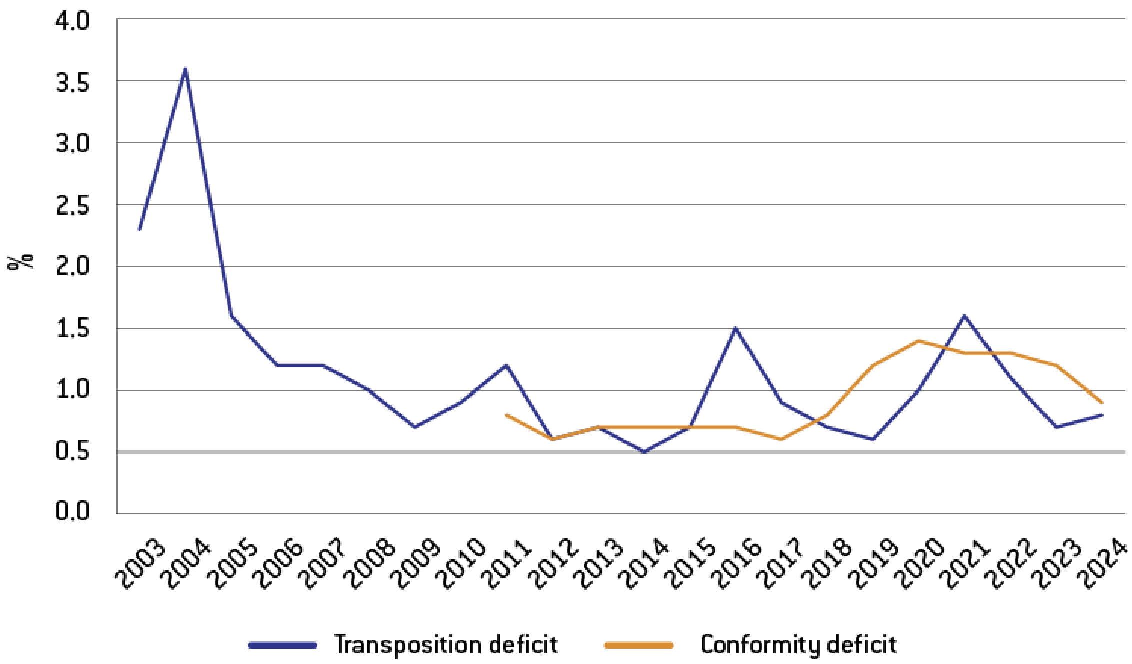
The Commission has also tightened enforcement policy. The 2017 Communication 'EU law: Better results through better application' (European Commission, 2017) shifted the focus toward serious and systemic breaches, a line reinforced by the 2020 'Long-Term Action Plan for Better Implementation and Enforcement' (European Commission, 2020a), supported by the Single Market Enforcement Task Force (SMET)[6].

Despite these efforts, compliance outcomes have not improved substantially. The transposition deficit, a measure of *delayed* EU rule implementation[7], has remained broadly unchanged over the past 15 years (Figure 1). Although it fell from 3.6 percent in 2003 to 0.7 percent in 2009, the transposition deficit has – with some fluctuations – hovered around the benchmark of 1 percent ever since. It exceeded the benchmark in 2016 (1.5 percent), 2020 (1.0 percent), 2021 (1.6 percent) and 2022 (1.1 percent), suggesting recurring delays in implementation. Meanwhile, the conformity deficit, a

[4] In some member states, regional authorities implement parts of the single market *acquis*, but since national governments are ultimately accountable to the EU, regions may have weaker incentives to ensure timely compliance.
[5] Each European Commission directorate-general has an infringement correspondent who acts as the liaison with the Secretariat-General.
[6] SMET is a taskforce consisting of Commission and member-state representatives that identifies the most important and pressing barriers in the single market, and works to eliminate or ease them.
[7] The transposition deficit is the percentage of transposition deadlines for which a member state has not yet completely notified its transposition measures to the Commission, relative to the total number of transposition deadlines for which member states should have notified complete transposition.

measure of *incorrect* EU rule implementation[8], has deteriorated in recent years. After reaching a low of 0.6 percent in 2017, it rose steadily to 1.4 percent in 2020 and stood at 0.9 percent in 2024. This indicates that, even when directives are formally transposed, a growing share are transposed incorrectly or incompletely. Taken together, these patterns suggest that compliance challenges remain.

Figure 1: Average transposition and conformity deficits

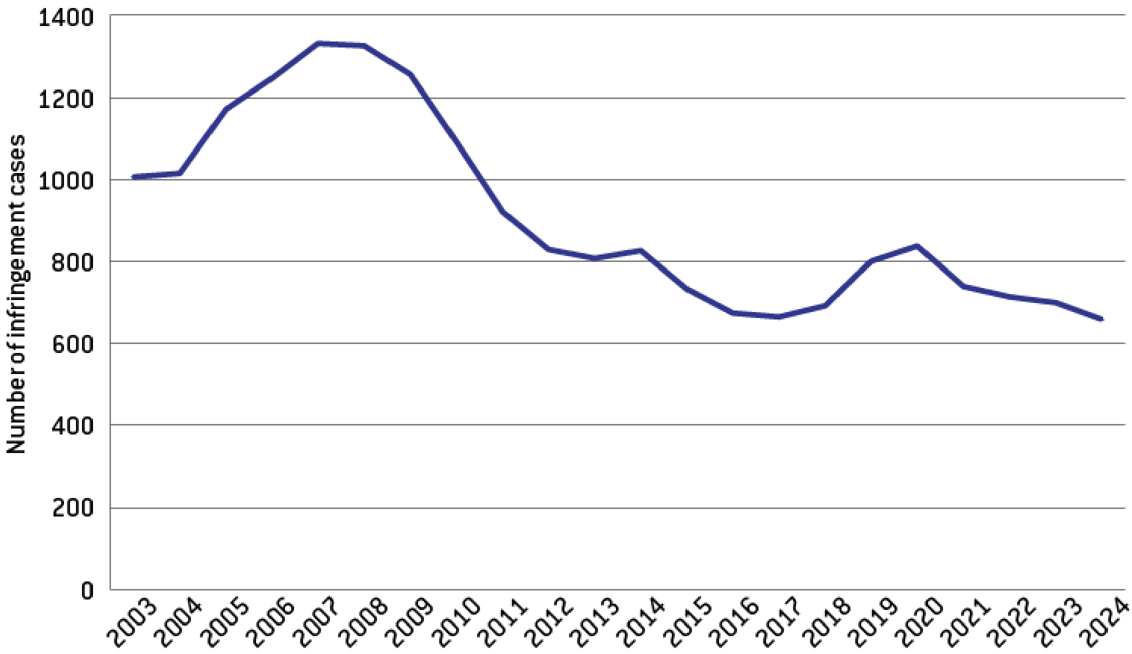


Source: European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

The reasons for the lack of progress on compliance are not entirely clear, but the decline in formal enforcement is noteworthy. The number of infringement cases launched by the European Commission has declined steadily over the past two decades. Infringement cases peaked at 1,332 cases in 2007 but dropped to 658 in 2024, or a decline of about 50 percent. The trend in Figure 2 suggests a long-term downward trajectory, with minor fluctuations in 2019 and 2020, when there were slight increases. The composition of the 2024 cases reveals that enforcement remains concentrated in a few sectors. Waste accounts for the largest share (11 percent), followed by atmospheric pollution (9 percent), water (9 percent), air transport (8 percent) and energy (8 percent). Other sectors with notable shares include services and professions (7 percent), digital and connectivity (5 percent) and finance (5 percent). By contrast, traditional single market pillars such as free movement (2 percent) and public procurement (2 percent) make up smaller shares of cases. Overall, the patterns in infringement activity do not seem to reflect a strengthened focus on formal enforcement.

[8] The conformity deficit measures the number of directives transposed for which an infringement case for incorrect transposition is pending, as a percentage of the number of directives notified to the Commission as 'transposed' or 'not requiring any further transposition measures'.

Figure 2: Number of single market infringement cases



Source: European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

Table 1: Single Market infringement cases by sector (2024)

Sector	Number	Percentage
Waste	70	11%
Atmospheric pollution	60	9%
Other	59	9%
Water	57	9%
Energy	55	8%
Air transport	54	8%
Services and professions	47	7%
Finance	35	5%
Connectivity/media/digital society	34	5%
Transport safety	29	4%
Employment, social affairs and inclusion	27	4%
Direct tax	24	4%
Nuclear	22	3%
Road and rail transport	21	3%
Environment	15	2%
Public procurement	14	2%
Chemicals	13	2%
Free movement	11	2%
Justice	11	2%
Total	**658**	**100**

Source: European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

The evidence suggests that the decline in infringements cannot be explained by a rise in informal resolution or a commensurate fall in complaints. While the Commission can turn to EU Pilot[9] to address non-compliance outside formal procedures, its use has not grown in line with the decline in formal infringement activity. According to the Commission, 253 new EU Pilot cases were started in 2023 (European Commission, 2024a), down from 1,201 in 2011 (European Commission, 2012). This decline reflects a deliberate shift in Commission strategy: since its 2017 Communication, EU Pilot is no longer used systematically but only when it *"is seen as useful in a given case"* (European Commission, 2017)[10]. Meanwhile, new complaints from the public about potential EU law breaches, as registered by the Commission, dropped to 2,351 in 2023, from 4,277 in 2022 and 3,525 in 2019 (European Commission, 2024a). This evidence supports observations made by Letta (2024) that the sharp drop in formal infringement cases is not offset by increased EU Pilot activity or a proportionate drop in complaints. The EU's enforcement efforts seem thus to have contracted at a time when compliance problems persist.

The decline in infringement procedures may reflect deeper institutional and organisation weaknesses. Both Letta (2024) and the European Court of Auditors (ECA) have pointed to the slow pace of infringement proceedings. ECA (2024) concluded that, while the Commission has improved some aspects of case management, infringement procedures still take too long to close and compliance with internal benchmarks remains weak and unreported. Although the 2017 Communication (European Commission, 2017) made transposition and conformity checks priorities, ECA (2024) found that half of these checks still exceeded the Commission's own deadlines, often because of inadequate planning and poor documentation. Letta (2024) similarly pointed to a chronic underutilisation of enforcement resources, highlighting that the identification of serious breaches is slowed by weak monitoring mechanisms and insufficiently dissuasive policies, which undermine the deterrent effect of enforcement policies. Both Letta (2024) and ECA (2024) suggested that the administrative machinery for enforcement continues to face challenges that make it harder for the EU to detect and address major infringements in a timely and credible way.

Letta (2024) and ECA (2024) both offered detailed recommendations to strengthen the EU's enforcement framework. ECA urged the Commission to enhance planning and documentation (by allocating resources early and tracking all transposition and conformity checks), to streamline complaints and EU Pilot handling (eg through clearer triage criteria and better tracking), and to reinforce infringement case handling (including by better monitoring bottlenecks and ensuring penalties act as true deterrents). It also called for strengthened monitoring and reporting on enforcement activities (ECA 2024). Letta (2024) complemented this with proposals to spot major infringements faster, including binding minimum investigation criteria, AI-powered detection, more dissuasive penalties and the creation of either a specialist enforcement body (akin to EU competition

[9] The EU Pilot dialogue is a mechanism for informal exchange between the Commission and the member state concerned on issues relating to potential non-compliance with EU law.
[10] Before 2017, EU Pilot had become the default first step in all infringement cases. In part because this added to delays, the Commission decided to be more selective. The precise selection criteria are detailed in specific internal guidelines.

authorities) or a single market enforcement office, supported by a cohesive network of independent single market enforcement bodies across the EU (akin to the European Anti-Fraud Office, OLAF) (Letta, 2024).

Strengthening enforcement remains crucial if the EU wants to ensure compliance with single market rules. Weakened enforcement results in delayed and incomplete implementation of EU law, leading to fragmentation which reduces the benefits from the single market. As section 3 shows, this fragmentation is further compounded by regulatory gaps and complexity, which deepen the integration challenge.

3 Legislation

Despite its importance, enforcement alone cannot deliver full harmonisation. Enforcement can only lead to harmonisation where a common EU framework exists. Where there is no legal basis for EU harmonisation, national fragmentation persists by design. In addition, EU rules often fall short of 'maximum' harmonisation, which prohibits member states from setting stricter or divergent national rules. More often, EU law only sets minimum standards, leaving member states free to go beyond them. Moreover, fragmentation persists as member states use legal options to deviate, for example through the discretion allowed in EU laws or derogations permitted under the Treaties[11]. In other areas, harmonisation would be legally possible but has never been agreed, leaving national rules intact.

This section looks at these dynamics by providing examples of single market barriers, organised by their decreasing levels of harmonisation and increasing difficulty of integration. First, there are areas (such as goods regulation) in which a high degree of harmonisation exists, but remaining gaps and national gold-plating give rise to differentiated policies. Second, there are areas (such as telecommunication) in which EU rules cover some domains, but the general market framework is national. Third, there are areas that are either politically sensitive (such as labour) or touch on sovereignty (such as taxation), slowing progress. We distinguish between vertical (ie sector-specific) barriers and horizontal (ie cross-cutting) barriers, though in practice this distinction is not always clear cut, as many vertical barriers are similar across sectors and horizontal barriers may have sector-specific provisions.

3.1 Vertical barriers

When it comes to sector-specific trade barriers, the picture is very complex. In some areas a large degree of harmonisation has been achieved, in other areas there has been incremental progress, while other sectors have seen little convergence, if any, towards an integrated market. The examples we give

[11] For example, Article 114 TFEU provides the legal basis for harmonising national laws that affect the functioning of the internal market. However, it explicitly allows member states to maintain or introduce national provisions justified by specific needs, such as public security, public health and environmental protection, provided they are notified and approved by the Commission. This flexibility enables national deviations even where harmonising legislation exists, contributing to continued regulatory divergence.

in this section start with highly integrated goods sectors and end with largely fragmented regulated professions. We use these cases to examine the role of new legislation to complement enforcement of existing rules. We choose examples outside the areas of energy and financial markets, which are discussed in great detail elsewhere (Gotti *et al*, 2024; Véron, 2025; Zachmann *et al*, 2024).

In sectors such as food and beverages and industrial machinery, harmonisation has been largely achieved but a few, though significant, barriers remain. The practice of gold-plating can create barriers even when otherwise a large degree of harmonisation was achieved, either because EU legislation allows higher national standards, or based on health, environment or public safety justifications. For food and beverages, national governments often impose additional labelling requirements[12] that can add significant complexity to selling goods across multiple markets. In the industrial machinery sector, governments at times impose additional technical standards and certifications on top of EU-wide requirements[13].

In some cases, enforcement could be used to remove such barriers[14]. Nevertheless, the development of new EU standards and policies (eg on labelling and technical requirements) can help solve this problem by providing EU-wide alternatives to national standards that are intended to solve policy goals (eg food-labelling standards that are intended to support consumer health). In the case of industrial machinery, Regulation (EU) 2023/1230, adopted in 2023, replaced the former directive with the goal of further reducing barriers in the sector, especially in new fields[15].

Where no EU standards, certificates or rules exist, mutual recognition of standards and certifications is supposed to enable free trade within the single market. However, this principle is not always adhered to by the relevant authorities, which argue that other countries' requirements are insufficient. This is allowed in not-fully-harmonised areas, as long as the additional requirements are justifiable and proportionate. However, the boundaries of this are not always clear cut and can give rise to legal disputes[16]. In the construction sector, only about 75 percent to 80 percent of products follow EU-wide standards (European Commission, 2019); national certifications for the remaining products are often not recognised by other countries (Dahlberg *et al*, 2020). Furthermore, for a whole range of standardised products, additional national requirements are imposed[17], with EU standards being

[12] This includes requirements to specify food origins, ingredient and nutrition labels for alcohol, and a variety of nutritional labels such as the Nutri score; see European Commission (2020b).
[13] Around 9 percent of companies reported in a 2018 evaluation of the Machine Directive that they had experienced a failure in mutual recognition; see European Commission (2018).
[14] The European Commission (2020a) emphasised that in the case of the Machine Directive, requesting additional national certifications is not permitted.
[15] See Council of the EU press release of 22 May 2023, 'New rules for machinery: Council gives its final approval', https://www.consilium.europa.eu/en/press/press-releases/2023/05/22/new-rules-for-machinery-council-gives-its-final-approval/.
[16] The underlying principles were established in the 1979 ECJ landmark case 'Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein', also known as '*Cassis de Dijon*', European Court Reports 1979 -00649 (C-120/78), available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:61978CJ0120.
[17] Germany and Belgium stand out in this regard, with Dahlberg *et al* (2020, p. 38) stating that it was *"virtually impossible"* to market a foreign product in Germany without adhering to the specific standards of its authorisation body – breaking with the principle of mutual recognition.

considered not up to modern technical developments. The market for waste is maybe even more fragmented, with a multitude of national standards and recycling schemes that are not recognised or are incompatible across the EU.

In these cases, enforcement alone cannot resolve the issues. It might help reduce the problem (where gold-plating goes beyond what is allowed under EU law), but where levels of consumer, labour or environmental protection diverge significantly (some countries might prefer to have stricter requirements than others), or standards do not exist, national authorities can claim that non-recognition or additional requirements are justified. Therefore, to achieve a functional single market for these sectors, further development of EU standards and legislation is necessary. In many goods sectors this is indeed happening, with revisions of frameworks that seek to update rules and in some cases transpose directives into regulations to further harmonise implementation.

In contrast to goods, the level of harmonisation is often much lower in services sectors. In some services sectors, the co-legislators chose a path of incremental reform, postponing the removal of major roadblocks while continuing with technical harmonisation. Telecoms are a good example. Since 2007, successive steps have reduced the most egregious effects of market fragmentation for consumers by first reducing roaming charges before largely abolishing them (Negreiro and Niestadt, 2022). However, this has not reduced the fragmentation of the telecoms market itself, as spectrum frequencies managed at national level are insufficiently coordinated (Pelkmans, 2024), additional fees continue to be applied for cross-border calls, and with roam-like-home ending after 90 days to prevent portability of telephone contracts across borders. Telecoms market fragmentation has been cited as preventing further consolidation, which could support investment into the network infrastructure (Letta, 2024).

Another example is air traffic control: after 26 years of negotiation, the European airspace remains fragmented, with 62 *"area control centres"* with differentiated charges (Pelkmans, 2024). Unifying this market could yield shorter flight paths and cut related greenhouse gas emissions[18]. While technical integration of air control has advanced, important steps towards actual market integration have not been taken and flight routes still have to be planned around national boundaries (Pelkmans, 2024).

In these cases, enforcement is not an effective tool as market fragmentation is not the result of a lack of adherence to EU rules or even violation of mutual recognition, but rather the absence of a common market framework. The incremental process of removing minor barriers has reduced some of the negative effects of this absence, but this process has often reached a point at which a legislative step change would be needed to achieve a common market. In cases such as telecoms and air traffic control, management of spectrum frequencies and airspace are closely linked to national sovereignty. However, this should not impede close coordination and integration, and it should be possible to

[18] Eurocontrol (2022) estimated that greenhouse gas emission reductions of 8.3 percent to 12.4 percent could be achieved through more efficient air traffic management, but this includes many different areas of traffic optimisation outside of the scope of the single market agenda.

maintain national control rights over airspace and airwaves, while allowing cross-border integration and consolidation of services delivered via them.

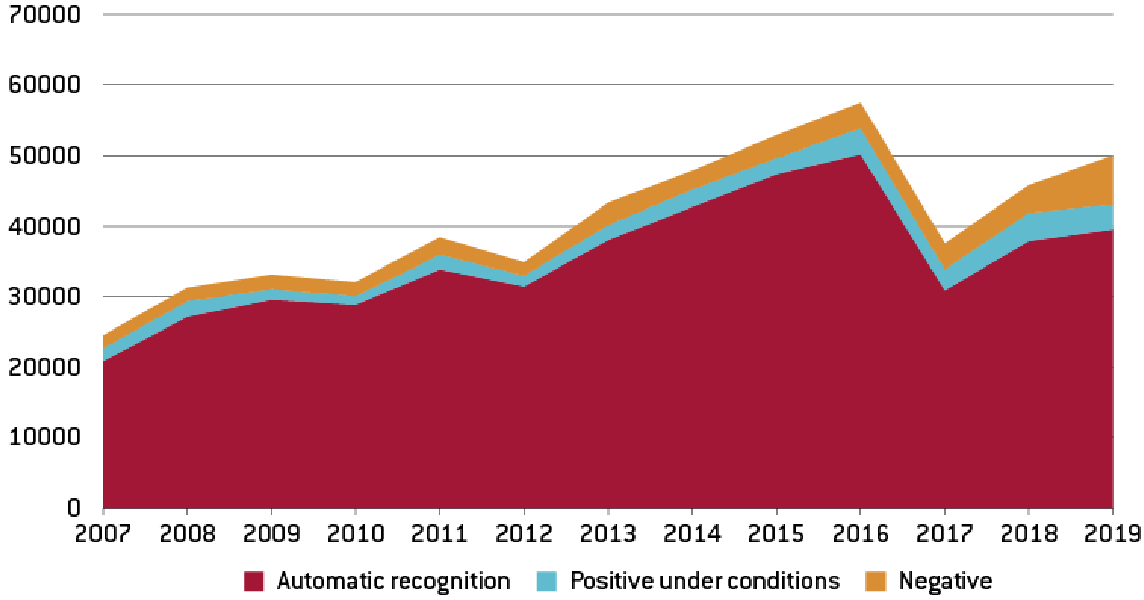
The area where progress seems to have been the slowest, if not entirely absent, is regulated professions, which face a staggering degree of regulatory complexity. There are 368 regulated occupations (Godel *et al*, 2016), with more than 5700 regulations applying to them throughout the EU (European Commission, 2025a). To take the audit market as example, even though the 'big four' companies dominate national auditing markets with an average market share of 70 percent, and despite the importance of international accounting standards and European regulation, the Commission assesses that *"there is no cross-border EU market for audit"* (European Commission 2020b). Different national regulations and high administrative burdens and onerous procedures have prevented any market integration. These differences are also exacerbated by differentiated national supervision (Véron, 2025). However, while the challenge is immense, so are the potential benefits. As Dorn *et al* (2024) highlighted, the services sector accounted for 82 percent of growth in value added in the EU between 2000 and 2023. They estimated that reducing regulatory barriers by 10 percent could yield a 0.8 percentage point increase in value added in the business sector.

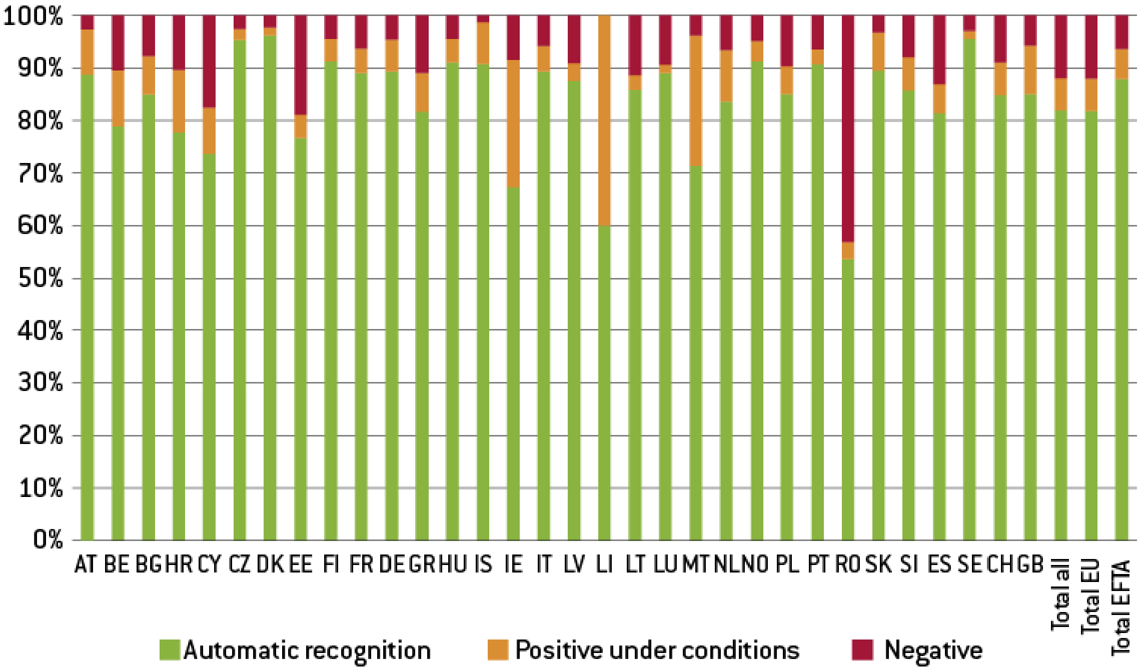
The barriers for such regulated professions start with the recognition of professional licenses and restrictive ownership rules. EU countries can impose 'justifiable' additional requirements on top of mutual recognition, which, given different training and certification schemes, often happens. The hurdles are often very specific to the profession. For seven professions[19], recognition of licences is automatic; for others there are substantial hurdles to clear to be able to perform a profession in another EU country. The number of applications for recognition has increased substantially since the adoption of the Services Directive in 2006 (Directive 2006/123/EC), and in 2019, 82 percent of applications were automatically approved (Figure 3).

It should be noted though that there is likely selection bias: mobility (and thus applications for recognition) will likely be higher in professions with automatic recognition. Even where recognition is automatic, it can still involve substantial administrative burden (European Commission, 2020b). Some member states limit who is allowed to own or operate a company in certain professions[20], and there are often further requirements (such as association membership and compulsory insurance) that need to be fulfilled to perform a service[21]. Furthermore, some countries do not just regulate professional licenses and the legal structure of companies providing professional services, but also the services themselves.

[19] Doctors, nurses, dentists, midwives, pharmacists, veterinary surgeons, architects.
[20] In many of such cases, owners must be members of the national association; for examples, see Dahlberg *et al* (2020).
[21] For example, in the cases of engineers and architects, see European Commission (2020b).

Figure 3: Recognition of professional licenses





Source: Bruegel based on Regulated Professions Database. Note: The chart shows outcomes of applications for mutual recognition based on their outcomes. 'Automatic Recognition' refers to positive decisions on recognition based either on the 'General System' for mutual recognition, sector specific 'Automatic Recognition' in sectors with harmonised training, and the automatic recognition in certain crafts based on minimum professional experience levels ('Recognition based on professional experience'). 'Positive under conditions' refers to positive recognition decisions that imposed 'compensatory measures' – either adaption periods or aptitude tests on the applicants.

To create a single market for such services would require enforcement to chip away at unjustifiable and disproportional restrictions. It would also require development of shared training and licencing standards and a convergence strategy in relation to the rulebooks service providers must abide by. For architects, for example, harmonisation of education has resulted in automatic recognition of licenses through the Services Directive (European Commission, 2020b). As long as there are substantial differences in training and rulebooks, member states can justifiably impose administrative restrictions on the trade, while service providers will continue to find it difficult to navigate unfamiliar regulatory environments.

Furthermore, national supervision contributes to these differences. Véron (2025) argued for capital markets that integration of supervision could be one way of supporting further integration even in a sector where there is stagnation in the harmonisation of the rulebook. For labour law, it is sometimes argued that such differences would be based on 'social models' that the treaties seek to preserve. This is not always convincing, as the policy goals pursued by national professional regulations are often identical and differences in approach are likely linked to regulatory traditions rather than social models. This implies that there is scope for harmonisation not just of training schemes but also of rulebooks, while maintaining the objectives pursued by national regulations.

Given inevitable adjustment costs and influential vested interests in protected domestic markets, any process of convergence will be gradual. Nevertheless, this is an area with some of the largest untapped potential in the single market – a potential that should no longer be neglected.

3.2 Horizontal barriers

Although three decades of legislation have delivered major integration gains, cross-cutting regulatory barriers still hamper integration. Horizontal barriers are the generic, non-sector-specific rules that firms must clear before they can even worry about sectoral regulation – for example, multiple VAT registrations[22], divergent labour-law paperwork or consumer-labelling requirements. Their persistence is striking. According to the Commission, about 60 percent of services-related barriers were the same in 2020 as they were in 2002 (European Commission, 2022a). For smaller exporters these frictions quickly become prohibitive. Case studies collected for the European Round Table for Industry suggest that companies that sell goods online pay around €8,000 in VAT compliance for every country in which they operate, plus 13 separate documents and an average 100 day wait to get the VAT number (ERT, 2024). This patchwork of regulatory hurdles stifles firm-level competitiveness and undermines the macroeconomic potential of the single market.

To illustrate the scale and persistence of these challenges, this subsection highlights three major areas in which horizontal barriers continue to impede integration. While not exhaustive, this selection reflects the uneven progress to date: some areas have seen tangible improvement but remain

[22] As of 1 July 2028, the need to register for VAT in multiple member states will be minimised through an expansion of the One-Stop Shop, following the adoption of the VAT in the Digital Age (ViDA) package. See European Commission news of 11 March 2025, 'Adoption of the VAT in the Digital Age package', https://taxation-customs.ec.europa.eu/news/adoption-vat-digital-age-package-2025-03-11_en.

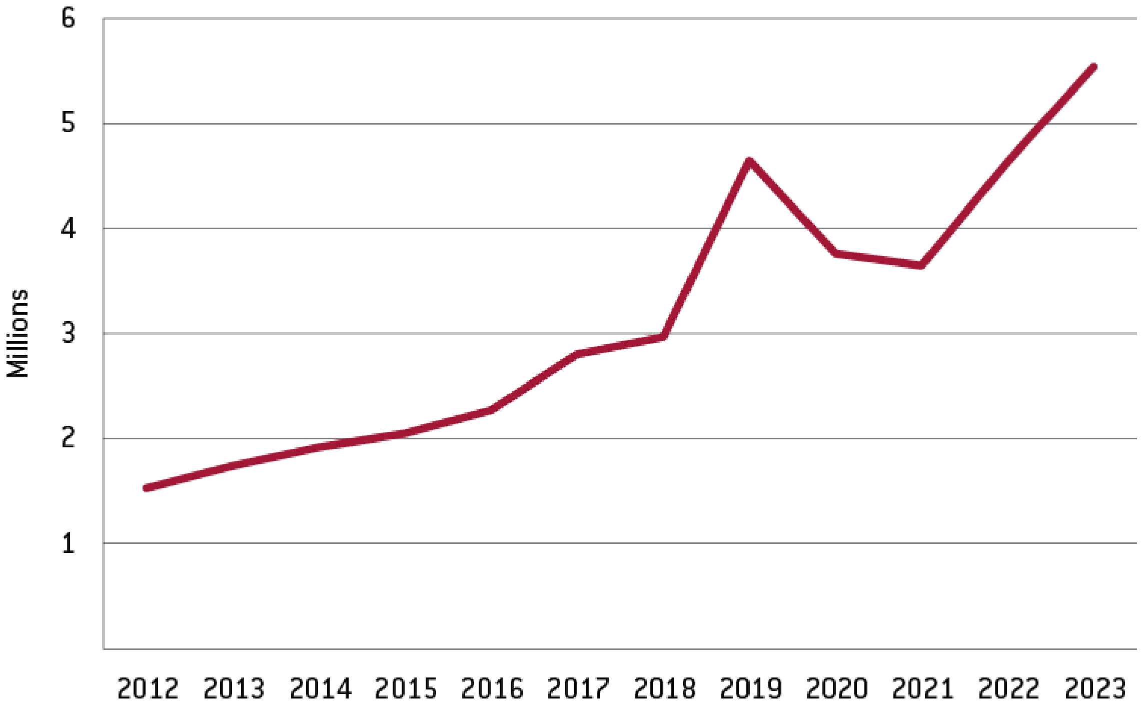
fragmented, others are only partially addressed by recent initiatives and a few remain politically intractable.

Consumer protection. The consumer protection framework illustrates the relative success of EU harmonisation efforts, but also their limits. In the EU, consumers are in principle protected by their country of residence, within a common framework of EU directives (Dahlberg *et al*, 2020). This has raised standards and delivered more predictability for cross-border commerce. Yet, the space is not fully harmonised and national rules fracture the legal landscape, forcing merchant and service providers to navigate 27 different sets of rules. Relatedly, geo-blocking (ie the practice of restricting access to goods or services based on a customer's location) persists, not only in media services but also for goods requiring shipments. These gaps show that even where harmonisation has advanced substantially, remaining deficits leave integration incomplete, calling for further streamlining.

Labour law. Although labour law remains one of the most politically difficult areas to harmonise, the EU is making progress in targeted areas, notably on posted workers. A posted worker is an employee sent temporarily by a company to deliver services in another EU country. The number of postings has more than tripled over the past decade, to over 5.5 million in 2023; Figure), underlining their growing economic importance. The 1996 Posting of Workers Directive (revised in 2018, Directive (EU) 2018/957) provides a harmonised floor in terms of employment conditions in host countries for posted workers, but significant discretion is still allowed at national level. Businesses, for instance, need to navigate over 800 collective agreements in Austria alone (ERT, 2024).

The Commission has also launched pilot projects such as the European Social Security Pass (ESSPASS), easing the verification of workers' social security coverage across borders, and has proposed an EU-wide e-Declaration portal, simplifying employers' posting notifications, but both remain voluntary and under negotiation. This incremental progress shows that, while advances are possible even in politically sensitive domains, labour mobility continues to be constrained by fragmented national rules that impose significant costs and uncertainty on cross-border service providers.

Figure 4: Numbers of EU postings



Source: European Labour Authority.

Taxation. Taxation remains the most burdensome horizontal barrier, and is one of the most entrenched. The 2025 Annual Single Market and Competitiveness Report (European Commission, 2025b) identified VAT compliance as the most important barrier, with businesses still facing fragmented reporting obligations and inconsistent enforcement across EU countries. These burdens are especially acute for SMEs, despite tools such as the One Stop Shop (European Commission, 2022b).

Corporate taxation is even less harmonised, despite efforts dating back to the very start of the EU (eg the 1962 Neumark Committee) and more recent initiatives to harmonise the tax base such as Business in Europe: Framework for Income Taxation (BEFIT). These initiatives have stalled amid sovereignty concerns, leaving companies to navigate a patchwork of tax bases and rules that distort competition and complicate investment. This reflects not only technical complexity but also the fact that taxation sits at the core of national sovereignty, making governments reluctant to cede control over tax policy. While significant progress has been made in aligning indirect taxes, efforts to harmonise direct taxation, even more so beyond corporate income tax, face major political and legal hurdles because of unanimity requirements and the limited scope under the EU treaties[23]. As a result, meaningful reform remains elusive, even where the economic rationale is clear. These tax obstacles also hinder progress in deeper integration of key sectors, most notably finance, for which consistent

[23] The TFEU provides a clear legal basis for the harmonisation of indirect taxes under Article 113, but no unambiguous basis for direct taxation. Article 115 may provide a basis for harmonisation of direct taxation to the extent that national differences *"directly affect the establishment or functioning of the internal market"*.

tax treatment is vital for the functioning of a true capital markets union (Pekanov and Schratzenstaller, 2025). Overcoming these constraints will require not just technical solutions but renewed political will.

These examples underscore the persistence of horizontal barriers across the single market, but they also highlight different types of coordination failure. In consumer protection, where a clear basis for harmonisation exists (eg Article 169 TFEU), progress has been made, but full harmonisation not been achieved. This partly reflects a preference for directives over regulations, because member states cannot agree *ex ante* on uniform rules and prefer the flexibility that directives offer. Even where regulations are used, however, they often include provisions that allow member states to maintain or introduce deviations. Nevertheless, as Letta (2024) argued, shifting towards regulations, when political agreement allows, can help reduce fragmentation.

Labour law, when classified as social policy, falls into a category for which some harmonisation is technically possible under the Treaties, requiring a qualified majority or unanimity depending on the specific legal basis and scope[24]. However, political sensitivity and shared national competence have led to slow, uneven progress and the persistence of divergent national rules. There are also areas, such as indirect taxation, where harmonisation is possible but requires unanimity in the Council, making agreement difficult to achieve. In the absence of such legislation, EU countries remain free to maintain divergent national rules. Finally, some domains, notably direct taxation, remain primarily national competences, and there is no clear basis for EU legislation even with unanimity, leaving the single market fragmented by design.

4 Commission strategy

The European Council's commissioning of the *Letta Report on the Single Market* (Letta, 2024) marked a renewed focus on the single market as an engine for EU economic growth. The European Commission has taken this up and proposed in May 2025 a new single market strategy (European Commission, 2025a). This plan focuses on the services sector, SMEs and addressing of the 10 'worst' barriers in the single market. The strategy is structured around 5 chapters:

4.1 The 'Terrible 10'

With the Terrible 10, the Commission claims to have both identified the 10 most harmful barriers to the single market and a set of actions to reduce each of them (Box 1). The name and framing of this list are however somewhat misleading. Not all of the Terrible 10 are actual barriers to the single market. Item 1 (overly complex rules) is in itself not a barrier to cross-border activity, while item 3 on the complexity of doing business relates to the lack of speed of adoption of EU standards. Item 2 refers to the lack of

[24] The 2018 revision of the Posting of Workers Directive was passed under the ordinary legislative procedure under Article 153(2) TFEU, as it was based on Article 56 TFEU (guaranteeing the freedom to provide services within the EU), Article 3 TEU (promoting social justice and protection) and Article 9 TFEU (requirement linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health).

ownership (read discipline) of the single market by member states. This lack of ownership results in activities that are harmful to trade in the single market, but is not a barrier in itself.

Item 7 flags issues with product compliance by third-country vendors such as Temu and Shein, which use *de-minimis* rules to avoid tariffs by delivering small packages[25], which only indirectly affects intra-EU trade. Item 10 refers to territorial supply constraints, ie the practice that producers segment consumer markets to differentiate by price and quality. This is perceived as discriminatory by consumers and is potentially anti-competitive; however, it is hardly one of the 10 'most harmful' barriers to the single market. Item 8 rightfully identifies restrictive and diverging services regulation as a major obstacle, but offers little in terms of a strategy of how to resolve the issues faced by the sector.

Box 1: The Terrible 10

In 'The Single Market: our European home market in an uncertain world' (European Commission, 2025a), the European Commission claims to have identified the following areas as 'most harmful' to the single market:

1. ***Overly complex EU rules***
   This barrier describes the high degree of complexity of EU rules as barrier to trade and investment in the single market. As a solution, the Commission proposes revisions of frameworks and deregulation, in particular through Omnibus packages[26].
2. ***Lack of single market ownership by member states***
   This barrier largely describes the practice of 'gold plating' by member states, and their willingness to impose additional barriers through new legislation. As a solution, the Commission proposes the appointment of *"high level Single Market Sherpas"* in prime ministers' offices.
3. ***Complicated business establishment and operations***
   This barrier describes the complexity linked to setting up a new business, especially for start-ups. The Commission wants to address this through the introduction of a 28th regime[27].
4. ***Recognition of professional qualifications***
   This describes the administrative burden linked to the recognition of professional licenses. The

[25] Chinese online (budget) merchants such as Temu and Shein avoid paying import duties by shipping their goods directly from China to customers in Europe, which means the individual consignments are below the *de-minimus* threshold for custom duties. The resulting volume of small packages has also raised concerns about compliance with EU product safety rules. See, for example, *Reuters*, 'EU plans 2 euro fee for low-value parcels in setback for Shein, Temu', 21 May 2025, https://www.reuters.com/business/retail-consumer/eu-eyes-2-euro-handling-fee-online-parcels-customs-reform-2025-05-21/.
[26] The Omnibus packages consist of regulatory changes in a number of areas. With the current set of omnibus packages, the European Commission aims to reduce the regulatory burden of EU laws. See European Commission press release of 26 February 2025, 'Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief', https://ec.europa.eu/commission/presscorner/detail/en/ip_25_614.
[27] The 28th regime refers to the idea of EU-wide regulatory frameworks as that can be chosen as an alternative to national frameworks by companies, to make it easier to operate across markets (Letta, 2024).

Commission wants to address this burden by expanding automatic recognition via harmonised training frameworks, and proposes common rules for recognition of qualification for third-country nationals.

5. ***Long delays in standard-setting that weigh on innovation and competitiveness***
   This describes the barriers that arise from the lack of (state-of-the-art) common standards. The Commission wants to address this by revising the related regulation and by expanding its mandate through the Omnibus regulation.
6. ***Fragmented rules on packaging, labelling and waste***
   This describes the lack of common rules as well as gold-plating practices of member states for packaging, labelling and waste. The Commission wants to address this via further harmonisation of rules, including in a future Circular Economy Act.
7. ***Outdated harmonised product rules and lack of product compliance***
   This describes both a need to update the product rules framework and risks arising from the lack of product compliance from extra-EU e-commerce imports. The Commission seeks to address these by updating the new legislative framework for product rules, and by introducing a market surveillance authority to coordinate customs and market-surveillance procedures.
8. ***Restrictive and diverging national services regulation***
   This describes the high barriers to trade in regulated services. The Commission wants to address these via a new initiative to facilitate their cross-border provision (with potential harmonisation of authorisation and certification schemes), and by issuing guidance and recommendations to member states.
9. ***Burdensome procedures for temporary posting of workers***
   This describes the need to manage the risks associated with posting of workers and barriers posed by administrative procedures. To address these, the Commission proposes to strengthen social security coordination and the mandate of the European Labour Authority, as well as the use of ESSPASS and digital tools to reduce administrative burdens.
10. ***Territorial supply constraints***
    This describes the practice by which manufacturers limit the wholesale of certain products across borders in order to differentiate markets by price and quality. The Commission wants to limit this practice by *"developing tools"* against it.

For some of the Terrible 10, however, the Commission's identifies actions that show meaningful ambition: for item 3, the Commission proposes a 28th regime to facilitate easier businesses establishment; for item 4, it wants to facilitate the recognition of professional licenses through digital means and by establishing common training frameworks; for item 6, it wants to harmonise labelling rules and establish digital product passports; and item 9 proposes digital means to reduce the bureaucratic burden for posted workers.

Hence, while not all of the Terrible 10 offer major initiatives to reduce barriers to the single market, the overall package includes important measures that could meaningfully improve the situation. Some of these measures are already being developed (eg ESSPASS as a tool to facilitate posting of workers), while others (such as the 28th regime) are ambitious new policy endeavours.

4.2 Boosting European services markets

The second chapter of the Commission strategy rightfully emphasises the services sector, which features generally much higher barriers and more potential than the goods sector. However, it is also an area on which the strategy is both ambitious and falls short.

In a number of cases, this section of the strategy addresses important and well-known barriers that are significant hurdles for the sector in question. The proposed Construction Services Act could – depending on its specification – invigorate a sector that faces substantial barriers. Similarly, the telecommunications sector is often highlighted as having significant potential (Letta, 2024; Draghi, 2024). A lot will depend on the outlines of the proposed Digital Network Act, and a simple weakening of national merger rules could even undermine competition within the single market. However, if it were to lead to meaningful progress on the integration of the telecommunications market in the EU, this would be a significant step.

This chapter also includes a number of smaller initiatives that could bring significant progress for the relevant areas. This includes a proposed revision of the framework for cross-border postal and parcel services, integrating rail ticketing and cross-border car rentals and facilitation measures for industry-related services. It also includes some vague commitments on housing supply. However, it is not clear what could be achieved here beyond facilitating the construction markets (which in itself could help reduce construction costs).

The big omission from the strategy is any specific measures related to business services and regulated professions. While the strategy rightfully highlights these as a priority area, it fails to propose meaningful action. Together with the proposals in the Terrible 10 chapter, the attention given to the sector is welcome, but the policy initiatives are insufficiently defined. The Commission wants to issue guidance and recommendations to member states, expand automatic recognition of professional qualifications through common training frameworks, and launch an otherwise unspecified initiative to *"facilitate the provision of pan-EU services"* by tackling certification and authorisation obstacles. Neither of these initiatives has a clear scope in terms of sectoral coverage, and they lack other detail that would lend confidence that there are specific policy actions on the horizon. Given the scale of the challenge in this area, much more, both in terms of proposals for concrete action and more importantly strategy, is needed to make significant progress in this area.

4.3 SMEs

The next chapter of the Commission strategy focuses on improving the single market for SMEs. As with the Terrible 10, the SME chapter includes a number of measures that are aimed at reducing bureaucratic burdens on companies, rather than reducing the barriers to cross-border trade. There is also a promise to focus more on SME interests when drafting legislation. This includes the introduction of a new small mid-cap category, which would allow their exemption from certain regulatory burdens in EU legislation. Among the measures in this chapter, only the 'SME-ID' would have direct cross-border trade benefits.

4.4 Digitalisation

This chapter includes a number of initiatives that aim to deploy digitalisation to reduce the bureaucratic burden associated with cross-border trade. While these are generally 'facilitative' in nature, they could bring significant alleviation when it comes to certain burdens on businesses and consumers. In this chapter, the Commission states its ambition to use digital information systems and the Internal Market Information (IMI) system in particular to facilitate inter-governmental data exchange and thus reduce compliance costs for businesses. It also wants to promote e-invoicing standards by making e-invoicing compulsory for procurement.

Digital wallets, both for businesses and EU residents, are meant to significantly decrease the burden of providing certifications as well as their validation. The idea behind them is to replace often paper-based documents and credentials with digital certificates stored in interoperable wallets that allow easy access to e-government. Applications could then be used for validation, significantly reducing the risk of fraud. This could be potentially a significant step forward in areas where lack of trust between government institutions leads to high compliance costs. For instance, a digital version of the A1 paper to prove social security payments could make retrieval and checking of this document much easier for posted workers. Similarly, Digital Product Passports could make disclosure of product specifications easier, including proofs of certification necessary for cross-border trade.

4.5 Enforcement

The last chapter of the Commission strategy focuses on enforcement. As discussed in Section 2, enforcement can be a significant driver of market integration in areas where common regulatory frameworks exist already but are unevenly implemented or applied across member states. Ensuring that agreed rules are applied uniformly is essential to preserve the integrity and credibility of the single market.

The Commission's proposed strategy rightly acknowledges the persistent enforcement gap in the single market and sets out a series of initiatives to address it. It recognises that effective, proactive and faster enforcement is essential for competitiveness and cohesion, echoing concerns raised by Letta (2024), Draghi (2024) and ECA (2024). The emphasis on shared responsibility between the

Commission and national governments is particularly welcome, as is the ambition to make enforcement more strategic and systematic. Among the proposed actions, the introduction of an Annual Single Market Enforcement Agenda stands out as a way to prioritise high-impact areas for strategic enforcement. Strengthening platforms such as SMET and SOLVIT, more follow-up on unresolved barriers and appointing single market sherpas in member states to bolster national compliance capacity are also steps in the right direction, addressing some of the institutional and administrative weaknesses identified in recent audits.

Despite its ambition, the strategy leaves unanswered important questions about how institutional and structural bottlenecks will be overcome to deliver on its enforcement goals. In a response to ECA (2024), the Commission (2024b) accepted nine out of ten of the recommendations, but it is unclear how and when this will translate into action. While it rightly calls for more systematic use of infringement procedures and better national ownership, the strategy does not address the procedural issues identified by ECA (2024). The success of reinforced platforms such as SMET and SOLVIT, as well as the role of the proposed single market sherpas, will ultimately depend on sustained political will and sufficient investment at both EU and national levels. Moreover, the strategy does not fully take up the more far-reaching institutional reforms proposed by Letta (2024), such as establishment of a specialised enforcement body, introduction of binding minimum investigation criteria or strengthening of the deterrent effect of sanctions. Without clearer commitments on these structural issues, there is a risk that the strategy's promising initiatives may fall short of bridging the gap between enforcement rhetoric and reality.

5 Conclusion

The single market remains the EU's most powerful economic asset but progress towards deeper integration continues to face challenges and significant barriers continue to exist. We have distinguished between harmonisation – the scope and ambition of EU-level legislation – and compliance – the degree to which member states implement and adhere to that legislation. Combining these distinctions yields a simple taxonomy of single market barriers, each calling for a different policy response.

First, there are policy areas in which EU-level harmonising legislation exists but is not complied with. As we showed, despite efforts by EU institutions, compliance outcomes could be better. Improving compliance relies on many things, but will require in particular strengthened enforcement. Patterns in infringement procedures seem to suggest a weakening in formal enforcement activity by the Commission. This likely reflects deeper institutional and organisational weaknesses. Strengthening enforcement will require better planning, monitoring within the Commission, sharper and more dissuasive tools and potentially new institutional arrangements to detect, address and deter serious breaches more quickly and credibly. Whether the new strategy can fully deliver on strengthening enforcement remains uncertain. Although it does not directly address the concerns raised by ECA

(2024), it heads in the right direction but stops short of committing to the deeper institutional reforms and stronger deterrence measures recommended by Letta (2024).

Second, there are policy areas in which a medium to high degree of harmonisation has already been achieved, but remaining gaps still allow diverging national rules to impede trade across borders. This includes certain goods sectors and some horizontal barriers, such as consumer protection. In these cases, there should be a concerted effort to achieve 'maximum' harmonisation, including by replacing mutual recognition of national standards and certification with common EU-wide standards, and by moving from directives to regulations. Gold-plating and other types of fragmentation should no longer be considered acceptable in these areas.

Third, there are policy areas with only very limited degrees of harmonisation. In some of these areas, there might be enough consensus and momentum to justify a push towards a common market framework (eg for telecommunications), while in others the most promising avenue will be necessarily incremental through gradual harmonisation (this will include most regulated professions). Developing common training and licensing schemes can help in this process and it will be important to limit other practices that impede their trade, such as restrictions on ownership. As Véron (2025) argued for capital markets, integration of supervision can be a driver for further integration even if a common rulebook is not yet fully established.

Lastly, some domains, such as labour and tax policy, are harder to address because of longstanding political and institutional constraints rooted in diverging national interests, social models or the division of competences between the EU and member states. Where a legal basis for harmonisation exists, progress is constrained mainly by politics, making sweeping regulation unlikely. Here, incremental coordination, facilitation tools, and voluntary convergence offer more realistic paths. In areas where the EU lacks competence, integration can only advance through voluntary alignment, intergovernmental agreements or coalitions of the willing. In both cases, the Commission can support progress by providing technical expertise, promoting best practices and fostering cooperation, helping to reduce fragmentation even where regulation is not feasible.

The single market remains the foundation of Europe's economic strength, but unlocking its full potential requires renewed commitment to both regulation and the strengthening of compliance. The Commission's strategy is a welcome step, but to deliver on its promise it needs to match ambition with political realism, focusing its efforts where progress is most feasible and laying the groundwork for longer-term reforms elsewhere.

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