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# IMPACT ASSESSMENT OF THE DRAFT SERVICES DIRECTIVE FOR THE INTERNAL EU MARKET

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## SUMMARY

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## SUMMARY

In the Lisbon strategy for Europe the EU leaders have formulated the strategic aim before 2010 to become “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. As one of the envisaged measures it highlighted a provision, that by the end of 2000 a strategy for removing the barriers to the free movement of trade in services among the EU Member States has to be developed.

For the implementation of this objective on 13 January 2004 the European Commission has tabled a draft of the European Parliament and Council Directive 6174/04 COMPET on the internal market services. Up until now the last work group document, which reflects the latest amendments, specifications, and negotiable issues of the last working document on the Directive developed on 15 November 2004 m. were tabled on 10 January 2005. The adoption of the Directive is scheduled for 2005 and its implementation is planned for 2008 – 2010. In Lithuania the draft Directive is widely discussed in the meetings of the Services Subgroup, formed by the Internal Market Co-ordination Department of the Ministry of Economy of the Republic of Lithuania.

The services Directive in the internal EU market seeks to develop the preconditions for the closer relations between the Member States and their residents, which would add on to the economic and social progress. With the existence of a lot of administrative barriers, legal uncertainties and trust related issues, which limit the development of the services sector in the internal market, notably this problem is the most important for small and medium sized enterprises (SME). The goal of the Directive is to determine the general regulation principles for the EU services sector, eliminate the barriers limiting the free movement of services, ensure the establishment freedom for the service providers, freedom to provide the services in other Member States and consumer right to use the services of providers from other Member States, to expand the administrative cooperation, consolidate the principle of the country of origin in the services sectors, promote the creation of the code of conduct in certain areas.

Presently there is a number of the EU legislation, regulating the activity in the service sector: especially for the regulated professions, such as postal services, television, information society, tourism and travel, and vacation industries. In this case the regulations, provided for in the Directive shall be applied supplementing other documents.

The Directive does not impose detailed requirements for the service providers or the services, but establishes the mechanism, that is going to facilitate the discriminating limitations for the service providers and consumers of other Member States.

The Directive includes and is applicable only to the service providers, established in the Member States and excludes the relations with other third countries. The Directive has a horizontal nature and covers all services, provided both for the businesses and for the end-users. The exception is made only for the industries which are regulated by special legislation. Thus financial services, telecommunication services and transport are excluded from the influence of this Directive. The Directive is not applied in the area of taxation policy, except the case when the taxes do not conform to the non discrimination principle.

It should be noted that the draft directive includes all services. Such a wide scope of the directive’s influence demands highlighting a few major aspects:

- The measures provided for in the Directive are directly influencing the service sectors, but in the present economy structure it is complicated to draw a clear line between the services and production of goods. Thus the scope of the Directive’s influence expands to the production enterprises. Such enlargement complicates the possible impact assessment of the Directive, because in the majority of cases it is difficult to draw a clear line between the services of the production enterprises and their products.

- Due to the horizontal and miscellaneous effect of the Directive when generalizing the area of its influence it is not possible to limit ourselves with just the impact on the services sectors and partially on the industry sectors (as mentioned above). Through the impact on the operators the Directive will effect the consumers as well. It is possible to say that in this field the impact of the Directive is mostly related to two aspects: protection of consumer rights and decreasing prices for the services and widening the choice (due to the increased competition and opportunities to utilize the advantages of the internal EU market). However the impact on the consumers should be included into the general impact assessment.
- The Directive mainly stipulates the issues of service provision among the EU Member States. This also broadens the scope of the impact. On the one hand the impact of the Directive on the national economy has to be analysed, especially for the operators of the services sector. The changes in the national economy occur due to increased opportunities of the foreign operators to be active in it. On the other hand the national operators get exactly the same opportunities to act in the foreign markets. Thus the occurring changes on the basis of the Directive are mutual.
- The implementation of the Directive in most cases will have a direct impact on the services sectors. Side by side to the above mentioned direct impact, the envisaged secondary impact of the Directive is worth noting. The secondary impact is considered the one which shall take place due to the implementation of the Directive in other sectors and through these sectors it shall effect the demand and other conditions in other sectors. Insurance services constitute the best instance of such impact. It is believed that thought the growth of the compulsory third party liability insurance market and the voluntary insurance of the service providers against the risks this market should grow. Meanwhile it is noted in the Directive that it excludes the financial services, such as insurance.

This study aimed at assessing the possible impact of the Directive for different services sectors of the Lithuanian economy. Due to the nature of the Directive its impact assessment includes practically all services sectors (except excluded by the Directive) and is highly complex. Due to this reason the general impact assessment on the services sector was performed, which was revealed through certain possible scenarios of the certain sector development. The *object* of the research is the consequences of the implementation of the services Directive in the context of Lithuanian economy. The specific impact highly depends on specific conditions and regulation in the specific services sector and in this case it was sought to assess the consequences in the general manner. The qualitative assessment, allowing for a more exact impact assessment on the different sectors was not performed.

For the impact implications of the Directive's provisions implementation the Directive itself was analysed in the first place. In this stage it was sought to identify the main provisions and to foresee the possible major changes. Further the research attempted to define the general importance of the services sector for the Lithuanian economy and to assess the present level of its export. The last part of the study analysed the impact of the Directive implementation in the level of the services sector. The study has focused on health protection sector with additional chapter on its impact assessment.

## **THE MAIN PROVISIONS AND IMPACT ASPECTS OF THE SERVICES DIRECTIVE FOR THE INTERNAL EU MARKET**

The Directive seeks to provide conditions for free movement of services among the Member States. Simultaneously this is the main field of influence of the Directive. As already mentioned, it is possible to point out two ways of providing services in another Member States. They include:

- Provision of services in another Member State by establishing a business (company);
- Provision of cross boarder services (temporary provision of services).

For the implementation of the above mentioned objective, the Directive aims at consolidating a few major provisions aiming at providing conditions of free trade in services among the Member States through the regulation of service provision ways. The provisions are the following:

- Consolidation of freedom of establishment for the service providers, which is implemented through the simplification of administrative measures, elimination of discriminating requirements and simplification of operation requirement schemes;
- Consolidation of free movement of services, which is implemented through application of the country of origin principle for the services;
- Consolidation of consumer right to use the services of other Member States service providers;

Next to the main provisions, mentioned above, the Directive contains a certain aggregate of measures with the specific focus on the development of cooperation among the Member States in the area of administration.

First of all the Directive determines the elimination of obstacles for service providers' establishment and operational freedoms. Such obstacles can be of two kinds:

- Creating additional costs, such as licenses, certain legal status requirements, and etc.
- Limiting competition, such as: limitations for the number of service providers in certain territories, and etc.

The implementation of this provision is important in those cases when the services are provided in another Member State by establishing a business (company).

The measures, envisaged by the directive in this area include the following:

- Elimination of the main obstacles for the freedom of establishment in the procedures and formalities (the validity of the documents of proof, issued in other Member States);
- Simplification of the services sector administration;
- Determining the principles for issuing permits and licenses;
- Banning the requirements of discriminative nature;
- Conformity of requirements, limiting the freedom of establishment taking into account the principle of proportionality;

The fundamental change effecting the business environment in this case should be related to the change of the competitive environment, reduction of establishment and operational costs and market enlargement. The majority of requirements, permits and licenses were limiting the market entrance opportunities. Therefore when analysing the impact of the Directive the obstacles of market entrance, which exist in certain economy sectors of certain countries and are presently limiting the competition, should be analysed as well. The change of the competitive environment is not one sided: when the entrance to market obstacles reduce in all Member States, on the one hand the preconditions for higher competition are created and on the other hand the opportunities are opened for expanding the services in other Member States. The changes in the competition environment cause the changes in price and broaden the user choice opportunities.

Another important provision of the Directive validates the consumer's opportunity to use the services of another Member State service provider. It is noted in the Directive that the limitations for the free movement of services may arise not just due to the obstacles for the service providers, but often due to various obstacles for the users, notably consumers. Tax allowances and financial support, which is reduced when the services are bought in another Member State, are among the few. For the implementation of this provision the Member States will have to ensure that the users are not discriminated against nationality or residential area and simultaneously ensure that the services accessibility is not limited by the discriminating requirements.

This opportunity can be implemented in a few ways when the service provider temporary travels to another Member State to provide the services, when the service is used remotely, or the user goes to another Member State for obtaining the service. Thus the validation of this opportunity should be related to the elimination of barriers limiting the freedom of establishment. But in this case the impact due to the same changes of competitive environment has to be analysed. Simultaneously this creates certain theoretical problems in the services sectors with the public share, exercised in any form of financing. Nevertheless these problems require more detailed and more specific case by case analysis. Meanwhile

consumer opportunities to use the services of other Member States service providers change the competitive environment and create more favourable conditions for the consumers.

Seeking to ensure free movement of services it is envisaged that the principle of country of origin shall be applicable with certain exceptions. The principle means that the supplier's home state requirements shall be applicable for the provider of the cross border services. The application of the principle becomes important when the services are supplied cross border without the establishment of business (company) in another Member State. The application of the principle is considered the third provision of the Directive, making an impact on the service sectors.

The main impact of the application of this principle occurs due to the different requirements in the different countries. These differences may have an impact on such business aspects, as:

- Competition distortions when the service providers from the countries, applying lower requirements get the ungrounded competitive advantage;
- Protection of user rights when due to the different requirements inadequate service is provided or the preconditions are not made for the compensation of the losses, incurred by the user;
- Ensuring that users are provided with information regarding the services and service providers.

The application of the principle is limited by a large number and variety of certain exceptions.

In this case the impact appears for such operation aspects as competitive distortions due to the different requirements, user rights protection, ensuring that users are provided with information regarding the services and service providers and unwanted services. Accordingly when assessing the impact of a certain component it should be analysed in the context of user right protection aspects and requirements, existing in certain service sectors.

These three main provisions of the Directive are more extensively analysed in the study with the indication of the main principles of their application, measures, changes, object, and problematic fields.

Besides the above mentioned provisions of the highest impact other significant provisions of the Directive are presented. Among them the centralization of information function regarding the requirements for the service providers and suppliers function is worth noting. The centralization of the function shall be performed by the principle of "single point of contact".

The implementation of such measure shall contribute to the improvement of business conditions. Presently the obtaining of the necessary licenses and permits for the business operation and especially for starting it, the access to the necessary legal information is very diffuse and requires the efforts of the businesspeople thus creating additional costs. The establishment of one contact institution providing all the necessary information and documentation is viewed as a measure that improves business conditions and reduces business establishment costs.

The Directive also focuses on the issues of promotion of various types of cooperation, the development of the codes of conduct, staff business trips, and service quality assurance. These components are not essential for the impact analysis of the Directive from the economic and sectorial point of view.

In Lithuania questions are raised regarding the impact of the Directive under assessment on staff business trips to other Member States. In this case it is worth noting that the minimum requirements of remuneration, working time, work safety, and etc. are regulated by the Directive 96/71/EC. This means that for the employees of the Lithuanian companies travelling to other Member States the legislation requirements of that country are applicable and simultaneously the minimum salary is determined. In some cases the working conditions of the staff on business trip are determined by the provisions of the collective agreements. Therefore the assessment of the staff business trip conditions requires the analysis of a certain country national legislation and the implementation of the services Directive shall have no impact on the application of the Directive 97/71/EC.

An important aspect, which indirectly concerns the market of financial services, includes the provisions of the Directive regarding professional indemnity cover and guarantees. It stipulates that the Member States shall have to ensure that the service providers, which services are directly related to the direct risk of the user or third parties must get the corresponding third party liability insurance or provide other type of appropriate guarantees. Seeking to implement this provision EU Commission may make a list of the services for which the requirements of compulsory third party liability insurance shall be applicable. Health care, tourism, sport and leisure, security, architecture, electricity and gas repair services, real estate agents' services are listed among such services. Simultaneously it is indicated in the Directive that specific requirements for the insurance amounts are not determined and there is no necessity for the legislation to stipulate the necessity of third party liability insurance or make the insurance companies to provide certain types of insurance. Presently in Lithuania there are up to ten various types of actually working compulsory third party liability insurance. Customs formalities operators, auditors, insurance brokers, travel agents, notaries, asset and business verifiers, haulage operators and carriers are included among such activities. Hopefully other Member States (especially in the old Member States) have more such areas of compulsory insurance. In this case it is possible to make an implication that the market for compulsory third party liability insurance and guarantees in Lithuania would have to grow. The impact of the Directive in this case may be twofold. On the one hand it will feature the growth of insurance services market and on the other hand the growth of operating costs for the companies for which the requirement of compulsory third party liability insurance and guarantee is imposed.

The assessment of the Directive's main provisions allows making a statement that the greatest direct impact for the operators of the services sector should be related to the elimination of the obstacles, limiting the establishment and operation freedom. The implementation of this provision, along with the validation of the consumer right to use the services of the other Member States service providers would substantially contribute to the development of the services sector and would be beneficial for the users in the sense of reduced prices and widened choice. The liberating competition would jointly cause the decrease in prices, more efficient use of the resources, employment in the services sector and growth of competitiveness.

## **THE IMPACT SCOPE OF THE DIRECTIVE ON THE LITHUANIAN ECONOMY**

Further the study attempted at assessing the possible scope of directive implementation impact on the Lithuanian economy.

According to the flow analysis of the gross national product, created added value, the number of the employed, operators' structures and direct foreign investment it is possible to say that the general importance of the services sector in Lithuanian economy is over 60%. However the application of this Directive and at the same time its impact is limited by certain exceptions, which are listed above. After excluding the above mentioned sectors the impact of the Directive in the aspect of created added value covers about 50% of the economy with internal trade constituting the greatest part in this number. Another significant field is construction, real estate, rent and other business activity.

The Directive will basically influence the international trade aspects of the services and it is intended for forming the single market within the framework of EU. The analysis of services indicators for foreign countries and for common EU countries show that despite the significance of the services on the economy, the foreign trade in services is currently less important even in within the EU than for the national economies. Within the EU zone the international trade in services makes as little as 20%<sup>1</sup>.

General indicators of the international trade show that Lithuanian indicators of the export in services are not lower than in the EU States. The export of services in 2003 was 20%, and the import was 12%.

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<sup>1</sup> Commission of the European Communities, Extended impact assessment of proposal for a directive on services in the internal market, Brussels, 13.01.2004, p.9.

However the presented indicator includes the total international trade not excluding EU internal market and trade with the third countries. Considering the fact that both services and goods are being exported into the third countries it is possible to make an assumption that part of the services export in the internal EU market is similar or a little smaller than of other EU Member States.

The impact of the Directive shall be experienced only in some sectors of the services. Correspondingly when assessing the impact certain sectors have to be excluded. In 2003 the scope of the services sectors export, getting under the influence of the Directive, was LTL 2.6 billion; that makes 45% of the services export or 9% of the general export. As far as the import is concerned the scopes reach LTL 1.9 billion (correspondingly 49% for services and 6% for the general import).

Tourism services make the most significant part among the analysed services export which make about 75% of the import and export scopes.

Namely the development of the services sector, providing with the simplified export opportunities, is one of the most important goals of the Directive. It is believed that making an assessment from the macro economical point of view the reduction of obstacles, which limit the functioning of the services market and implementation of the changes, related to the implementation of this Directive, shall promote the international trade in services. That should provide with a general positive effect. The general impact of the Directive may be analysed on the basis of the studies, performed in other countries.

The study performed by the Netherlands Bureau for Economic Policy Analysis (CPB) showed that the implementation of the Directive shall mostly effect the export of services and the growth of the direct foreign investment in the services sector. Long term (5 year) Directive implementation impact should increase the scope of trade in commercial services in the internal market by 15-35%<sup>2</sup>. Based on the present Lithuanian indicators it is possible to state that during the 5 year period the trade in services could grow to approximately LTL 400-900 million.

The study performed by the Danish company Copenhagen Economics stressed that the implementation of the Directive shall have the most significant impact on the general wealth, which is assessed on the basis of consumption growth and the growth in the value added of the services sector. The outcomes of the studies show that due to the implementation of the Directive the general wealth shall grow by 0.6% and the value added created in the services sector shall grow up to 1%. These indicators shall be different for different countries. The additional growth of Lithuanian wealth indicator should make a very insignificant part – about 0.2%<sup>3</sup>. The growth in value added in the services sector is a little higher and should reach about 1%. Based on the present indicators in Lithuania the scope of additional value added should increase by about LTL 25-30 million.

In summary it would be possible to state that the effect of the Directive covers the significant part of the Lithuanian economy. The services getting under the influence of the Directive make about 50% of all the value added, created in Lithuania. The export of services in Lithuania makes about 20% of the total value and basically doesn't differ from the average of the Member States. Only about ½ of the export of services shall be effected by the implementation of the Directive. The trade in services during the period of the Directive implementation should additionally grow by more than LTL 0.5 billion. However the quantitative assessment of the impact implications should be viewed only as an estimate because it is based on the average numbers, which, due to the different conditions and the development of the services sector in the Member States, are substantially generalized.

Side by side to the growth of the scope of trade in services another significant change is worth noting, i.e. the growth of opportunities for establishing services businesses in other Member States. This should also have an effect on the Lithuanian economy both in the areas of intensified competition and the growth of the scope of export.

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<sup>2</sup> CPB Netherlands Bureau for Economic Policy Analysis, A quantitative assessment of the EU proposal for the Internal Market for Services, 23.09.2004, p.10.

<sup>3</sup> Copenhagen Economics, Economic Assessment of the Barriers to the Internal Market of Services, 26.11.2004, pp.13-15.



Besides the above mentioned direct influence on the services sectors the impact of the Directive implementation is foreseen in other fields as well. As it is indicated in the opinion of the studies, carried out in a number of foreign countries, the increased competition and diversifying choice of services as well as accessibility shall have an impact on the growth of the number of employees in these sectors and on the improvement of efficiency indicators. The main benefit for the consumers is based on the falling prices which is a long term consequence of the intensifying competition. Therefore successful implementation of the Directive would give a complex positive impact both on the specific services sectors and on the general economic growth of the country as well as on the consumers. The negative consequences of the Directive and certain problematic areas shall not outweigh the positive impact.

## **ASSESSMENT OF THE DIRECTIVE IMPACT ON CERTAIN SECTORS OF SERVICES ECONOMY**

In the main chapter of the study it was sought to assess the Directive implementation impact on the different sectors of services. The foreseen impact on the services sectors is very different and first of all depends on certain characteristics of the sector. Also when formulating the characteristics it should be taken into view that they cover the characteristics of other Member States internal and external markets. The main characteristics, that would allow the assessment of the directive implementation impact on the services sectors are the following:

- The present internal market obstacles for entering into the market (the present regulation level). The foreseen elimination of obstacles in the Directive would increase the competition in the internal market, decrease the operational and establishment costs and that would consequently be reflected on the falling prices. The higher the number of the present obstacles the greater the impact of the Directive (except for the cases when it is up to the Member States to apply the national regulation). Such change is characteristic for the internal market players and for other market players with respect to another country.
- Barriers, existing in the markets of other Member States. The elimination or relief of these barriers open the opportunities for export development. The growth of export opportunities cause the growth of the created value added and the creation of new workplaces. Meanwhile the influence on prices might be inverted i.e. in a short run the prices might grow due to the attractiveness of the relatively high prices in other markets. The price reduction effect is expected in the long run.
- The ratio of barriers in the local and other Member States markets. If one Member State has a higher level of barriers than another Member State, the short term impact of the Directive implementation might be negative for the operators (intensifying competition, decreasing prices, and etc.) and positive for the consumers (falling prices, intensifying and widened supply). If the level of barriers in the Member States is lower, the impact on the operators shall be positive (export opportunities, higher price and created value added) and opposite effect on the consumers (in the short run the prices might rise).
- Services export opportunities. They are defined by the infrastructure, needed for the service supply and geographical limitations for providing a service. The services, which need a certain infrastructure, may be exported only in case of establishing a business (a company) in another Member State. Thus the Directive implementation impact can be experienced in the field of direct foreign investment. Some of the services might be provided temporary or remotely. In this case the impact of the Directive shall be a little smaller due to already existing the same type of services in the market and smaller risks (the development of infrastructure is related to the investment risk). The third group of services include little exportable or non exportable services. This activity is often limited by a certain geographical territory and it is often fragmented (such as repair shops and workshops, and etc.).
- The differences in the requirements imposed on the activity. In the event of the temporary cross boarder provision of services the service providers which home Member State has imposed relatively lower requirements with thus expected lower costs gain ungrounded competitive advantage against the service providers from those Member States which have higher

requirements. This way the higher requirements for the service provider in a certain country make favourable business conditions for the service providers from other Member States.

A large number of service sectors predetermined the selection of a few major groups of service in the following study. The study has made a generalized assessment of the impact on 13 sector groups. The grouping of sectors was performed on the basis of statistical Classification of Economic Activities in the European Union (NACE rev. 1.).

Further assessment was based upon the assessment of the level of barriers limiting the present establishment and operating freedom in Lithuania, which allowed preliminary determination of the intensiveness of the possible Directive implementation impact. The services sectors, analysed in the following stage were assessed according to the criteria of geographical limitation and continuous need for infrastructure. The assessment of the Directive impact on certain services sectors was performed on the comparison basis of the present level of barriers in Lithuania and other Member States and was expressed by the likely sector development scenarios.

Seeking to assess the existing level of various obstacles in Lithuania the documentation, regulating the establishment of certain activities and their operation was assessed. Such assessment allows the identification of the services sectors which have the highest regulation. Correspondingly the impact on them might be greater than on others (except the cases when the Directive foresees the exceptions and specific provisions).

In this study only the general number of various licenses, permits, and etc. regulating a certain specific activity was identified, but neither their nature nor the contents was analysed. Therefore it only partially describes the present level of barriers. In order to have a more exact analysis of possible changes in the different sectors, a detailed analysis of all the barriers is needed.

The most regulated sector in Lithuania is health care and social services. Another service sector, characterized by great number of regulating documents is trade. Among other services sectors which shall be effected by the implementation of the Directive, the real estate rent and education regulation are among the more significant ones. Meanwhile in other services areas the number of barriers is rather insignificant.

According to the number of regulating documents it is possible to state that essentially the implementation of the Directive in Lithuania is going to have an impact only on a few services sectors. The more significant changes are related to the opportunities of the Lithuanian operators of services to develop their business in other Member States. Theoretically major changes are possible in the areas of health care and social services, but for both of these areas the Directive envisages plenty of exceptions and leaves a right for the Member States to take a decision regarding the establishment and operation regulation. Greater changes in wholesale and technical consulting sectors are possible if assessed in the context of the local market.

Any essential discriminative requirements were not noticed in the documents, though some exceptional cases are possible. The implementation of the Directive is related to the greater scope of administrative work, because there will be over 150 licenses which will have to be reviewed and adjusted for the regulations of the Directive. So the total number of the documents might reach 300 – 400.

As already mentioned another important characteristic, which determines the possible implementation limits of the Directive implementation for certain services sectors, is their exporting opportunity. The assessment of real export opportunities is dependent on it.

Within the analysed context the export of services can be performed in three ways:

- The service provider can temporary provide the services in another Member State;
- A citizen of another Member State may come to Lithuania and use the services (in this case the opportunities should mostly be related to the number of tourists which is not directly influenced by the Directive);

- With the demand of continuous infrastructure the operators of the Lithuanian services industry can develop the export of services by investing into the needed infrastructure in other Member States.

Exporting possibility might be determined by two parameters:

- needed or unnecessary continuous infrastructure;
- the business is geographically limited or unlimited.

The assumption is made that the greatest impact of the Directive implementation in the international trade area occurs when the services are not geographically limited (local) and no infrastructure is needed for their provision. If the service is local, its export is possible only through the consumption of foreign citizens, which is not under the influence of the Directive, or through the investment in other countries. The need for the infrastructure in this case should also be regarded as limiting factor, because it is related to certain risks and financial resources, needed for the organization of the investment and organization of operation.

The impact of the Directive for the geographically defined service sectors shall be smaller, because these sectors basically do not participate in the international trade, except through investments. Meanwhile for the sectors, which are not geographically defined and can provide cross boarder services on a temporary basis, the impact of the Directive is considered the greatest. The investments in the provision of geographically defined services are considered more risky than in the non defined activities. Thus the services sectors can be subdivided according to the expected level of impact.

This way it is believed that the implementation of the services Directive shall have the least impact on the sectors of electricity, gas and water supply, retail, accommodation, and primary and secondary education services with the main impact source coming from the reduction of barriers that limit the establishment and business freedom.

Meanwhile wholesale, rent, education, health care and social work, and partially other business sectors are not geographically limited, which predetermines lower level of investment risks, but their development demands the continuous infrastructure. Correspondingly the implementation of the Directive for these service sectors shall have a greater impact, but their development demands continuous infrastructure. Correspondingly the implementation of the Directive shall have a greater impact on these service sectors. The assessment of the specific impact on the above mentioned service sectors needs to be estimated in relation to the impact of elimination of barriers limiting the establishment and business freedom.

Based on the assessment of the present barriers and exporting opportunities it is possible to state that the greatest impact of the implementation of the services Directive may have on such services sectors as construction, tourism services, real estate, computer related business, legal accounting and business consulting, marketing and advertising, technical consultations, personnel selection, adult education, and other business services. They are the easiest exported services and the source of impact might be both: the barriers limiting the establishment and business freedom and free movement of services.

The present level of services sector regulation and exporting opportunities only partially reveal the possible impact level of the services Directive. A very important characteristic is the comparison of the existing level of barriers in Lithuania and other Member States. It allows predicting the possible development scenarios of certain services sectors and based on the previously presented analysis, defining the more or less influenced sectors.

Seeking to analyse the differences of barrier level in Lithuanian and other Member States the data of the Danish Copenhagen Economics study were used.

The Danish specialists have developed IMRIS (Internal Market Restrictiveness Index in Services) method under the application of which the qualitative examination information was turned into quantitative indicators. Two kinds of barriers were under research. One encompasses the barriers for the

domestic companies and another group includes the barriers for the foreign companies. Later, with the application of econometric models the impact of these barriers on the prices and costs was assessed. It was performed using the database including 275000 companies from 19 Member States. The impact of the barriers was of two kinds. Some of the barriers produce additional costs for the operators and others make favourable conditions to protect them from competition. They were correspondingly named the cost creating and benefit creating barriers. When their impact on the prices and costs was assessed, this impact was recalculated into tariff equivalent. It is a certain tax equivalent allowing the comparison of different states.

The above mentioned analysis was performed in the context of four services sectors. Accounting, retail, wholesale, and information technologies sectors were selected. The accounting sector reflects the sector for which the implementation of the Directive has a great impact, because it is regulated. Meanwhile the sector of information technologies has a minimum regulation. Trade sectors were selected due to their substantial general impact.

The obtained indicators allow the evaluation of the present barrier level in various Member States and simultaneously allow the prediction of the general impact on the corresponding Lithuanian sector of services. The high indicator (both, creating costs and benefits) shows that the Member State has additional corresponding service prices and its provision is related to the higher costs.

*Table 1. The evaluation of Lithuanian tariff equivalent, present state.*

		<b>Lithuania</b>	<b>Place<sup>4</sup></b>	<b>Maximum</b>	<b>Minimum</b>	<b>Average</b>
<i>Regulated sectors (accounting)</i>						
Local	Creating costs	approximately 5,5%	12-14	15.38 (Greece)	3.39% (Czech)	9.3%
	Creating benefits	approximately 3%	9-11	8.04% (Italy)	1.37% (Czech)	5.5%
Foreign	Creating costs	approximately 6,5%	9-11	16.01% (Greece)	4.16 (Czech)	11.8%
	Creating benefits	approximately 7,5%	12-14	13.14% (Italy)	7.28% (Hungary)	11.0%
<i>Retail</i>						
Local	Creating costs	0.22%	19	2.12% (Spain)	Lithuania	-
	Creating benefits	2.35%	18	4.89% (Belgium)	2.34% (Estonia)	-
Foreign	Creating costs	0.70%	19	2.32% (Belgium)	Lithuania	-
	Creating benefits	4.86%	17	7.78% (Hungary)	4.38% (Greece)	-
<i>Wholesale</i>						
Local	Creating costs	0.60%	4	0.68% (Spain)	0.15% (Estonia)	-
	Creating benefits	1.29%	13-14	2,14% (Luxembourg)	0,93% (UK)	-
Foreign	Creating costs	1.19%	3	1.25% (Belgium)	0.27% (Holland)	-
	Creating benefits	0.82%	7-8	0.92% (Austria)	0.54% (Estonia)	-
<i>Business sectors (IT)</i>						
Local	Creating costs	0.80%	18	2.31% (Greece)	0.74% (Czech)	1.3%
	Creating benefits	0.19%	13-14	0.28% (Germany)	0.10% (Hungary and Greece)	0.2%
Foreign	Creating costs	0.65%	16	1.59% (Belgium)	0.50 (Holland)	0.7%
	Creating benefits	0.69%	15-16	1.04% (Belgium and Germany)	0.41% (Estonia)	0.9%

*Cited from:* Copenhagen Economics, Economic Assessment of the Barriers to the Internal Market of Services.

The analysis of the presented indicators allowed noticing that in most cases the new Member States are much more liberal and they have less of various barriers for the operation of the services sector. Such characteristic is applicable for Lithuania as well. This is especially characteristic for the retail sector where Lithuania is practically considered the most liberal in Europe. The situation is a little bit more

<sup>4</sup> A place between 16 or 19 countries, when 1 is considered the highest indicator and 16 or 19 are the lowest.

different in the wholesale sector. In this case Lithuanian position is not so liberal, especially as pertains to cost creating barriers.

The assessment of the barrier level differences and foreseeing the possible assessment of the Directive implementation impact it is necessary to define the impact in certain situation. The possible ways are:

- (1) cost and benefit creating barriers are relatively low;
- (2) cost and benefit creating barriers are relatively high;
- (3) cost creating barriers are low and benefit creating barriers are high;
- (4) cost creating barriers are high and benefit creating barriers are low.

Then it was possible to define a possible impact by the possible scenarios in each of the possible situations.

- (1) – Low level of both types of barriers indicates that the implementation of the Directive shall not cause relatively big changes in the local market. It is believed that the consequences in more limited markets shall be bigger. In this case the operators get an opportunity to operate more efficiently in other markets seeking higher price. Correspondingly the impact on them is positive – the created value added, profitability, and income increase. From the macro economical point of view the scope of export increases. From the point of view of the consumers this situation is not very favourable, during the short term the prices may rise and the quality of the services may worsen.
- (2) – High level of both types of barriers indicates that the companies were operating with increased costs and in certain favourable conditions. On the one hand such market is attractive for the service providers from other countries, because the price is unreasonably high. The implementation of the Directive shall reduce the costs of such market operators, but other not favourable changes are also likely - the competition, increasing due to the attractiveness of the market and the falling prices. The changes are likely not to be significant in the areas of profitability and created value added, due to the fact that the falling prices may partially be compensated by the reduction of costs. From the macro economical point of view it is likely that the large scope of the services import and foreign investment into the services sectors increase. From the point of view of consumers such situation is rather favourable, because first of all the services prices decrease, hopefully the quality increases and the supply widens.
- (3) – High level of benefit creating barriers means that the operators were operating under certain exceptional conditions which provided them with additional income. Meanwhile higher costs were not experienced, because the obstacles, creating the costs were rather low. Such situation is the least favourable for the operators, acting in certain services sector. Due to such attractiveness of the market the competition is likely to intensify. This may cause the reduction of the operators' profitability, reduction of the created added value with a possibility for a certain growth in costs. From the macro economical point of view such scenario would cause the growth of services import and the direct foreign investment. Such situation is the most favourable for the users due to the reduction in prices, widened supply and hopefully increasing quality of the services.
- (4) – The level of high cost creating barriers means additional expenses for the service providers. Meanwhile the unprotected market does not allow the increase in prices. Such scenario is very attractive for the operators. The costs decrease while the competitive environment may basically remain the same. The development of export, the growth of profitability indicators is the likely effect on the operators of such market. The macro economical indicators are unlikely to undergo a radical change, except for the growing export. As regards the consumers, the prices may fall, but they won't constitute any significant changes.

*Table 2. Generalization of the Directive implementation impact with different scenarios.*

Scenario	Impact		
	For the operators	Macro economic	For the users
(1)	Favourable for export; Increasing created added value, profitability, income.	Increasing export.	Possible growth in price (in the short run); Possible worsening of quality.
(2)	Reducing operating costs; Intensifying competition;	Increasing import; Investment stream.	Falling prices; Expanded supply; Improving quality.
(3)	Intensifying competition; Falling prices and profitability; Possible growth in costs.	Increasing import; Investment stream.	Falling prices; Expanded supply; Improving quality.
(4)	Reducing costs; Competition basically remains the same; Export development; Growth of profitability.	Export growth; Possible stream of investment.	Possible falling of the prices.

Looking from the point of view of the exporter, the most perspective choice includes the countries falling under scenarios (3) or (2) in a certain services sector.

The assessment of the Lithuanian indicators allows making a prediction that the majority of the business sectors shall develop according to scenario (1). Retail sector, characterized by a very low barrier level, should also develop under scenario (1). Wholesale sector, characterized by the barrier level creating high costs and low benefits, should fall under scenario (4). The sectors of little regulated services should develop under scenario (1).

Most of the Lithuanian services sectors should develop according to the first scenario, which is defined by the low level of barriers. This is due to the rather low regulation level in the new Member States, including Lithuania. Such scenario is favourable for the Lithuanian economy. The sectors of construction, wholesale, tourism services, technical consulting, and etc. are among the ones that are likely to experience the most positive impact regarding the implementation of the services directive. This is related to the growth of opportunities for exporting the services. The intensifying competition in the internal market is less likely due to a few reasons. This is caused by the existing low barrier level and relatively small market. From the macro economical point of view the greatest impact shall be experienced in the form of changes for services export. The changes for the consumers in Lithuania shall not be big. In some cases certain price changes are possible, but very insignificant. The greatest likely benefit for the users shall be the widening choice of services.

While assessing the Directive impact on certain economy sectors it is often thought that the effect will be the greatest in those areas that currently have the greatest regulation. Such sectors are considered the ones that are under the great influence of the state (health care, social services, and etc.). But the Directive stipulates a lot of exceptions and application conditions notably regarding these sectors. The analysis demonstrated that (only the sector of health care services was analysed) no significant changes should be expected in this area.

Summarizing the impact of the services Directive implementation on the Lithuanian economy it is possible to state that the greatest impact shall be experienced due to the improved business conditions in other Member States. This means that first of all the Directive needs to be regarded as opening the perspectives for the export of services. Due to the relatively low level of existing barriers, that limit the freedoms of establishment and operation, the business conditions for other Member States and the present market players shall improve, but this improvement is going to be relatively smaller than in many other Member States.