

DIRECTIVE ON SERVICES: THE IMPACT ON LITHUANIAN MARKET

Algis Junevičius

Živilė Žižytė

Kaunas University of Technology

Institute of Europe

Abstract

The free movement of people, goods and services inside the European Union (EU) is one of the main benefits for citizens and businesses people in the EU, which provides wider ranges and price competition. Services encompass 70 percents of GNP and employment in the EU member states. Unfortunately, different countries have different regulation systems, which make legal and administrative barriers for service providers. Such situation blocks the free ways of providing cross-border services and increasing cross-border competition in service markets. The Directive on Services 2006/123/EC is a part of the economic reform process launched by the Lisbon European Council (the Lisbon Agenda) with a perspective of making the European Union the most competitive and dynamic knowledge-based economy in the world by the year 2010. The objective of the Directive is to provide the necessary legal framework that will eliminate the barriers to the freedom of establishment for service providers and the free movement of services between the EU member states, giving both, the providers and the recipients of services, the legal certainty they need to exercise these two fundamental freedoms enshrined in the Treaty. This article aims to identify the Services Directive's impact on Lithuanian service market.

Keywords

Services, free movement of services, competition, directive, Lithuanian service market, export of services, import of services, foreign trade.

Introduction

Free movement of services is as important as the free movement of goods, capital or people in the European Internal Market. Services are everywhere, accounting for between 60 and 70 percents of economic activities in the European Union and a similar proportion of overall employment. However, despite the progress in some specific service sectors, the overall Internal Market for services is not yet working as well as it should be. Although, free movement of services is one of the main objectives for European Union, but the contemporary situation in the Internal Market does not reveal real freedom.¹

Different countries have different regulation systems, which make legal and administrative barriers for service providers. Any individual or legal person, who wants to establish or provide services across the border, encounters some barriers (such as administrative procedures, licensing regimes and other kind of discrimination). Such situation blocks the free ways of providing cross-border services and increasing cross-border competition in service

markets. One of the objectives European Union reveals is to create the strong relationship between EU member states in order to reach economic and social progress. In this case, it is very important to eliminate all the barriers for free movement of services. Directive on Services and its use in practice is one of the methods how to eliminate those barriers in the Internal Market for services.

Research problem: on the 12th of December, 2006 by the European Parliament and the Council, the new Directive on Services was adopted as the Directive 2006/123/EC. All EU member states must adopt the new Directive up to the year 2010 by removing legal and administrative barriers to the development of service activities between EU member states. Following the process of EU economic development and essential role of Directive on Services the demand appears to analyse the Directive and its impact to Lithuanian service market.

Object of this article is Directive on Services.

Aim of this article – to analyse Directive on Services and identify the Directive's impact on Lithuanian service market.

Tasks of this article:

- to study Directive on Services;

¹ A Single Market for Services. The EU single market. On line: http://ec.europa.eu/internal_market/top_layer/index_19_en.htm

- to analyse Lithuanian service market;
- to identify the Directive's impact on Lithuanian service market.

Research methods: analysis of primary and secondary literature.

Directive on Services

The Directive on Services in the internal market (commonly referred to as the **Bolkestein Directive**) is an initiative of the European Commission which aims to create a single market for services within the European Union. The former European Commissioner for the Internal Market, Frits Bolkestein, has drafted the leadership and his name is popularly referred to this directive. In January 2004 the European Commission introduced a Directive's proposal for the European Parliament and the European Council concerning Services in the Internal Market. It was called "the draft of Directive on Services". This Directive was a major tool, embodying the efforts of the EU Commission in the process of accomplishing the Lisbon Agenda, which intends to make the Europe "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". The proposed Directive intended to create a general legal framework in order to eliminate barriers to the freedom of establishment for service providers and the free movement of services between the Member States. The draft Directive on Services had been heavily criticised from different sides but the Directive was adopted on the 12th of December, 2006 by the European Parliament and the Council, as the Directive 2006/123/EC.

The objective of the Directive on Services is to achieve a genuine Internal Market in services by removing legal and administrative barriers to the development of service activities between EU member states.

The object of the Directive on Services is all services, which can be supplied whether for provider, manufacturer or consumer, however, except those services, which are regulated by specific legislation (financial services, telecommunications, transport, etc) (see Table 1).

Table 1 Directive on Services application. (Made by authors)

The draft Directive on Services 6174/04 COMPET.	The Directive on Services 2006/123/EC
Not applicable for: <ul style="list-style-type: none"> • Financial services; • Telecommunications; • Transport services. 	Not applicable for: <ul style="list-style-type: none"> • Financial services (banking, credit, insurance and reinsurance, professional or individual pensions, shares, investments, funds, payments); • Telecommunications; • Transport services; • Port services; • Services provided by temporary employment agencies; • Healthcare services; • Audiovisual services; • Gaming activities; • Certain social services (related to social housing, childcare and aid for people in need); • Private security services; • Cases of tax discrimination.

There are two ways how to provide a service abroad. First, when service supplier goes to other country to establish he's own business. That means he is going to stay, work in foreign country and compete with local businessmen. Second, when service supplier goes to provide service to other country and comes back (movement of services). In one or other way, service suppliers meet a lot of legal and administrative barriers. The Directive provides the necessary legal framework that will eliminate the barriers to the freedom of establishment for service providers and the free movement of services between the EU member states.

Barriers to the freedom of establishment will be eliminated through:

1. Administrative simplification measures in EU member states, to make it easier for a service provider in one member state to become established in another member state;
2. Certain principles which authorization schemes must respect, i.e. they must not discriminate the service provider on grounds of nationality, the authorization schemes should be objectively justified (they must be in the public interest) and the objectives

cannot be attained by means of a less restricted measure;

3. The prohibition of particularly restrictive legal requirements;
4. The obligation to assess further certain other legal requirements.²

In order to eliminate barriers to the free movement of services the proposal provides:

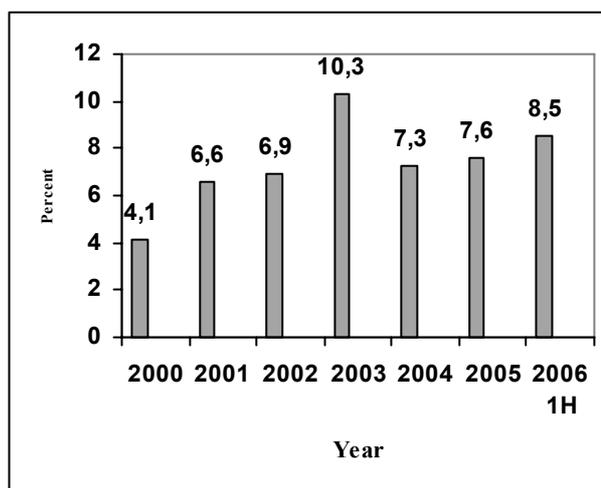
1. The free movement of services under which EU member states would respect the right of service providers to provide services in a EU member states other than that in which they are established;
2. The right of recipients, including consumers, to avail the services of other Member States. Irish consumers will benefit from more suppliers offering an increased competition which is spread in different sectors of the economy;
3. Rights for recipients who obtain services from a provider established in another Member State, including information on services and their providers.²

The proposal aims to establish mutual trust between Member States through:

1. Mutual assistance between national authorities with a view to effective supervision of service providers and the services they provide; this is known as an administrative co-operation;
2. Harmonization of some legislation e.g. professional insurance, dispute settlement, exchange of information, etc;
3. Measures for promoting the quality of services;
4. Encouraging the drawing up of codes of conduct, in particular for certain services such as the regulated professions and estate agents.²

Lithuanian service market

Calculation of gross domestic product (GDP) growth, a key indicator of economic development, has been revised this year. Previously, changes in GDP were measured at prices of 2000, while now they are calculated on the basis of average prices in the preceding year. According to the DnB Nord Bank survey, Lithuanian gross domestic product is annually growing. The biggest growth rate of 10,3 percent per year was experienced in 2003, while the growth of real GDP in the first half of 2006 was 8,5 percent (see Diagram 1).



Source: DnB Nord Bank

Diagram 1 Real Gross Domestic Product (GDP) annual changes, percent

As for GDP by kind of economic sectors, the biggest growth rate of 56,7 % in 2005 and 57,5% in 2006 was experienced in service sector. While in industry it was 25,1% in 2005 and 24,9% in 2006. The GDP in construction was 8,5% (2005) and 9,8% (2006). In the same way, in agriculture, forestry and fishing sector GDP was 9,7% in 2005 and 7,8% in 2006 (see Diagram 2).

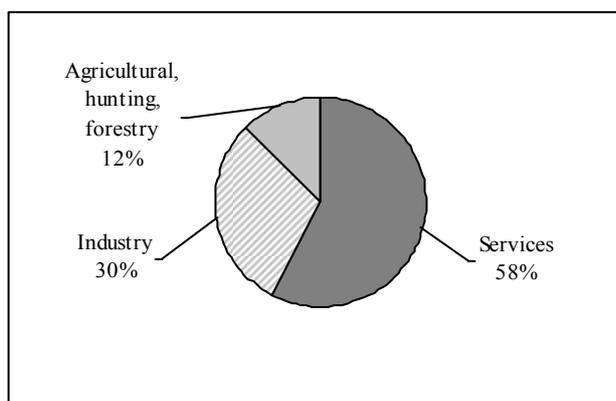
² Services Directive: final text. Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market. On line: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0123:EN:NOT>



Source: DnB Nord Bank

Diagram 2 Structure of GDP by kind of economic sectors, percent

Lithuania made tremendous progress reducing unemployment over the past four years. As the number of employed people grows, so does the employment rate. The highest number of persons employed was in service sector 58 percent. In industry 30 percent and in agricultural, hunting, forestry sector 12 percent (see Figure 3).



Source: Statistical Department³

Diagram 3 Persons employed in economic sectors in 2006, percent

Analysis, made by DnB Nord Bank, of foreign direct investment (FDI) flows in Lithuania, shows that the biggest share of FDI in the first half of 2006 was also in service sector.³

After everything that has been said, we can state that service sector is very important for Lithuanian economic development. It attracts foreign investments, creates more jobs and high growth of gross domestic product. In this case it is very important

to identify the Directive's impact to Lithuanian service market.

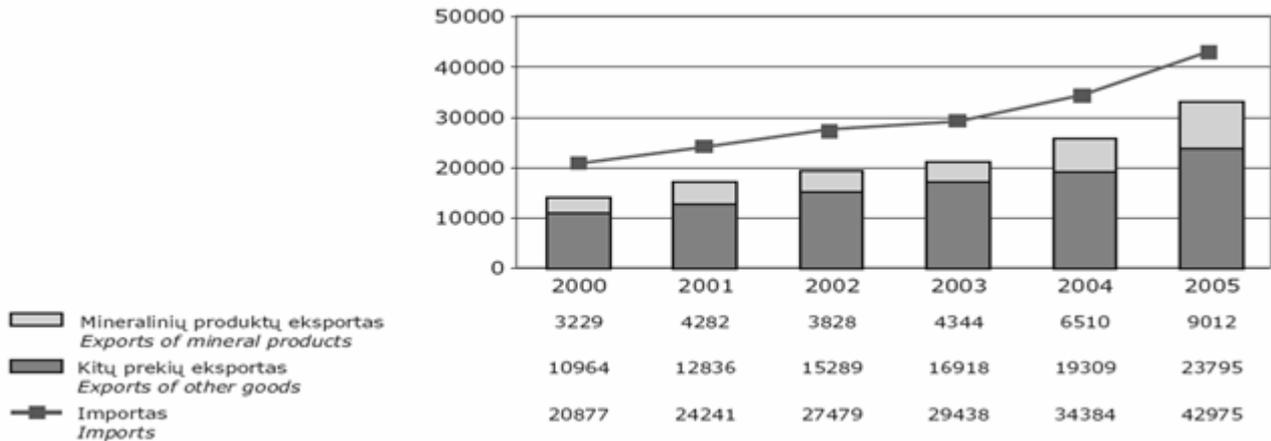
The Directive's impact to Lithuanian service market

In this part of article we will try to identify the Directive's impact to Lithuanian service market through export and import of services.

According to the DnB Nord Bank Lithuanian economic survey of 2006, Lithuania's integration into the EU induced acceleration of foreign trade growth. Improvements in export conditions gave a strong momentum for exports of goods which, according to the estimates of Statistics Lithuania, were 32.8 billion Litas (at FOB prices) last year and exceeded the indicator of 2004 by 27.1%. It was the fastest growth in the last five years (see Diagram 4).⁴

³ Statistical Department of Republic of Lithuania. On line: <http://www.stat.gov.lt/lt/>

⁴ The Survey of Lithuanian Economy 2006. DnB Nord Bank. On line: <http://www.dnbnord.lt/en/about/reviews/>

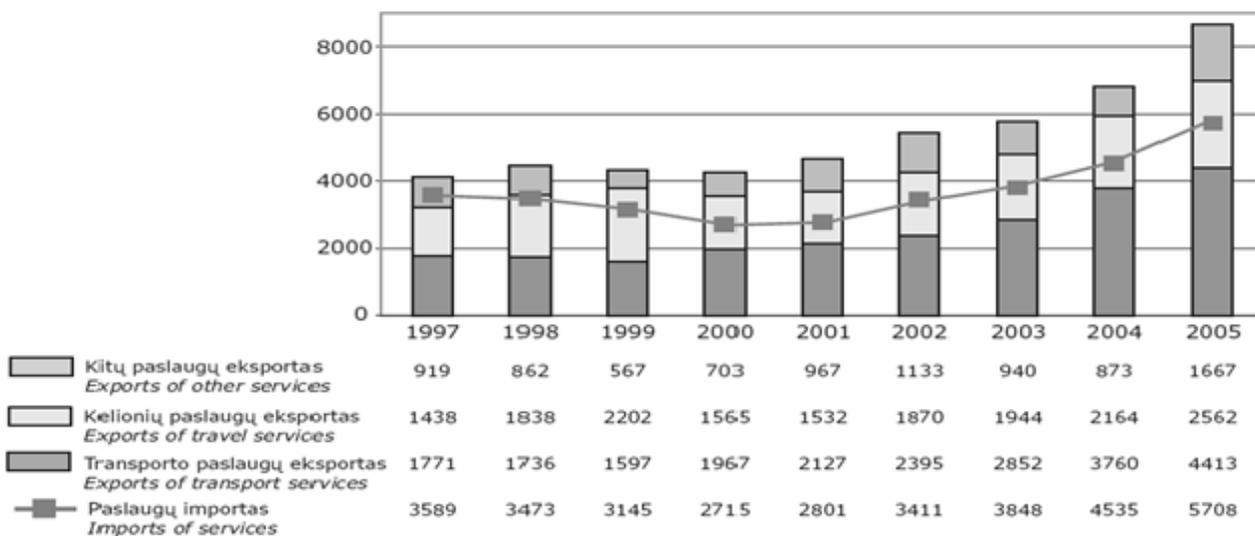


Source: DnB Nord Bank

Diagram 4 Exports and imports of goods, LTL Mio

The national balance of payments for 2005 published by the Bank of Lithuania shows that exports of services grew by the same margin as exports of goods (27.1%) to 8.4 billion Litass, while imports grew 25.9% to 5.7 billion Litass, thus significantly improving the balance of services. More than half of the exports of services comprised transport services. The volume of such services rendered to foreigners in 2005 grew 17.4% compared with 2004 (see Diagram 5), while their imports jumped 35.2% and the balance

reached 1.9 billion Litass remaining at the similar level as in 2004. A large share of foreign trade surplus (505 million Litass) fell on travel. Exports of travel services grew 18.4% in 2005 to 1.5 billion Litass, while imports grew 16.8% compared with 2004. As Lithuanian retail chains continued penetrating the neighbouring markets, the fastest growth in 2005 was recorded by exports of *commercial intermediation and trade-related services* which leaped 7.4 times to 746 million Litass.⁵



Source: DnB Nord Bank

Diagram 5 Exports and imports of services, LTL Mio

According to Bank of Lithuania in Q4 2006, the growth in the export of services continued to be significantly weaker than the growth in the import of services, and the positive trade surplus of services contracted by 16.2 million Litass. In 2006, the export of services made up 9.94 billion Litass (an increase of 15% year on year) and the import of services made up 6.96 billion Litass (an increase of 21.8%). The positive trade surplus of services made up 2.98 billion Litass in

2006, increasing by just 54 million Litass year on year (see Table 2).

Like in previous years, changes in the export and import of services were mainly brought about by transport and travel services. Transport services accounted for 53.6 per cent and 43.7 per cent of the total export and import of services. Export and import of these services expanded almost to the same extent in 2006 compared to 2005, whereas the positive trade

surplus of services increased by 375.8 million Litass. Export and import of road services and other auxiliary transport services were characterised by the strongest growth among all types of transport services. The surplus in the balance of road transport services accounted for 57.8 per cent of the total positive trade surplus of services and for three quarters of the total trade surplus of transport services.

In conclusion, according to statistic the growth in the export of services continued to be significantly weaker than the growth in the import of services in 2006. It comes to reason, that Lithuanian service suppliers still meets some barriers for free movement

of services. But the situation is in progress as the statistic shows that more than half of the exports of services comprised transport services and travel. The adoption of The Directive on Services will remove legal and administrative barriers to the development of service activities between EU member states. So we can state, that the Directive on Services will have a positive impact to Lithuanian service market by creating possibilities not only for transport services and travel but for other kind of services exports as well. Lithuanian service suppliers will have more possibilities to establish or provide services across the border.

Table 2 Development of export and import of main types of services and contributions
2006, year on year, % (Bank of Lithuania)

	Export		Import	
	change	contributions	change	contributions
Total services	15.0	15.0	21.8	21.8
Transport services	20.8	10.6	21.8	9.5
Travel services	11.0	3.3	20.6	7.5
Other services	5.8	1.1	23.9	4.8
Total transport services	20.8	20.8	21.8	21.8
Sea transport	-6.2	-0.9	19.9	4.8
Air transport	-23.3	-1.3	9.4	0,5
Railway transport	-8.7	-1.7	24.1	2.6
Road transport	47.2	20.0	46.3	13.1
Pipeline transport	-38.2	-0.7	-24.9	-4.6
Other transport services	35.6	5.4	41.7	5.4

Conclusions

1. Services encompass 70 percents of GNP and employment in the EU member states. Free movement of services is one of the main objectives for European Union. Although the contemporary situation in the Internal Market doesn't reveal to freedom establish or provide services. Different countries have different regulation systems, which make legal and administrative barriers for service providers. In this case, it is very important to eliminate all the barriers for free movement of services. Directive on Services and its use in practice is one of the methods how to eliminate those barriers in the Internal Market for services.
2. On the 12th of December, 2006 by the European Parliament and the Council, the new Directive on Services was adopted as the Directive 2006/123/EC. The objective of the Directive on Services is to achieve a genuine Internal Market in services by removing legal and administrative barriers to the development of service activities between EU member states. The object of the Directive on Services is all services, which

can be supplied whether for provider, manufacturer or consumer, however, except those services, which are regulated by specific legislation (financial services, telecommunications, transport, etc). All EU member states must adopt the new Directive up to the year 2010 by removing legal and administrative barriers to the freedom of establishment and to the free movement of services. The Directive will guarantee service providers more legal certainty if they want to exercise two fundamental freedoms (freedom of establishment and freedom to provide services) enshrined in the EC Treaty.

3. As expected, Lithuania's integration into the EU induced acceleration of foreign trade growth. Service sector is very important for Lithuanian economic development. It attracts foreign investments, creates more jobs (58 percent of persons worked in 2006) and high growth of gross domestic product. As for GDP by kind of economic sectors, the biggest growth rate of 56,7 % in 2005 and 57,5% in 2006 was experienced in service sector. According to statistic the growth in the export of services (15%) continued to be

significantly weaker than the growth in the import of services (21,8%) in 2006. But the situation is in progress as the statistic shows that more than half of the exports of services comprised transport services and travel. Good export indicators in 2005 and at the beginning of 2006 suggest that competitiveness of Lithuanian companies is improving and give hope for rapid economic development in the next few years.

4. 4. The Directive on Services will have a positive impact to Lithuanian service market by creating possibilities not only for transport services and travel services export but for other kind of services export as well. Lithuanian service suppliers will have more possibilities to establish or provide services across the border. Besides, it will have positive affect by creating more job places in service sector. Of course, high competition will influence better quality and good price of services for customers.

References

Services Directive: final text. Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal

market. On line: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0123:EN:NOT>

A Single Market for Services. The European Union single market. On line: http://ec.europa.eu/internal_market/top_layer/index_19_en.htm

Free movement of services. Ministry of Economy the Republic of Lithuania. On line: http://www.ukmin.lt/lt/es_vidaus_rinkas/paslaugos/

Internal Market and Services Directorate General. On line: http://ec.europa.eu/dgs/internal_market/index_en.htm

Statistical Department of Republic of Lithuania. On line: <http://www.stat.gov.lt/lt/>

The Survey of Lithuanian Economy 2006. DnB Nord Bank. On line: <http://www.dnb nord.lt/en/about/reviews/>

Review of the Balance of Payments of the Republic of Lithuania in Q4 and 2006. Bank of Lithuania. On line: <http://www.lb.lt/news/pg.dll?f=1&did=1551&lng=EN>