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**Research Report**

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# Single Market Emergency Instrument: An instrument with pitfalls

Samina Sultan / Christian Rusche / Berthold Busch / Hubertus Bardt, 20.10.2022

**In reaction to recent disruptions concerning the Single Market, the European Commission proposed an Emergency Instrument to maintain the proper functioning of the Single Market and ensure the supply and distribution of goods and services. It provides for far-reaching measures. The dirigiste interventions in the market it allows, are to be critically questioned, while better coordination and exchange of information between the member states could be an added value of the SMEI.**

The Single Market is one of the most important achievements of the European Union (EU) and it contributes significantly to economic well-being (Busch/Matthes, 2020). However, due to a number of recent events the limits of the Single Market became apparent. Therefore, on 19 September 2022, the European Commission proposed a regulation for a Single Market Emergency Instrument (SMEI; European Commission, 2022). The background for the proposed instrument is the experience at the beginning of the Covid-19 pandemic, when supply chains and the whole Single Market were disrupted due to the restricted free movement of goods, services and persons. Furthermore, reduced imports from Russia due to the Russian assault on Ukraine have shown that the EU is partly dependent on supplies from third countries. According to the European Commission, the SMEI has the primary aim of keeping the Single Market functioning in times of crisis and ensuring the

supply and distribution of goods and services affected by the crisis. According to the proposal, a contingency planning framework, a vigilance mode framework and an emergency mode framework are to be established in addition to an advisory group.

### Overview of the SMEI

Contingency planning allows for preparations during non-crisis periods, such as the establishment of systems for crisis communication or for early warnings. If there is a risk of serious disruptions in the supply of strategically relevant goods and services or their supply chains, respectively, the proposal provides for the opportunity of activating a vigilance mode by the European Commission. In this mode, measures such as the monitoring of supply chains of strategically relevant goods and services and, if necessary, stock-piling of strategic reserves are possible. The final level of the SMEI crisis response structure is the emergency mode, which can be activated in the event of a serious crisis with major effects on the Single Market, such as disruptions to essential supply chains or free movement in the Single Market. The emergency mode, which can be activated by the Council, provides for far-reaching measures. For instance, in the event of crisis-related shortages, the European Commission can request companies to provide information on production capacities and possible stockpiles. It can recommend that member states modify production lines and, in exceptional circumstances,

the Commission can ask companies to give priority to the production of crisis-relevant goods and services.

## Discussion

The SMEI's aim of maintaining the Single Market even in times of crisis is very welcome, as this benefits all stakeholders and is the only way to fully exploit the EU's economic potential. This is particularly true as member states are highly integrated into the Single Market and intra-European supply chains are of great importance compared to trade relations with third countries. It is, therefore, logical that the draft regulation places an obligation on the member states to take only proportionate measures, i.e., if possible, measures that do not disrupt the functioning of the Single Market. The beginning of the Covid-19 pandemic has shown that the self-interest of the member states dominates, and decisions are made in the national interest. This could be remedied by the envisaged establishment of transparency and coordination of the SMEI. Moreover, it would also have been helpful to have plans in place in case of a crisis. The contingency planning measures envisaged by the SMEI could contribute to this.

In contrast to this the European Commission has far-reaching competencies in emergencies, that allow for dirigiste interventions in the market and thus at least partially invalidate market coordination via the Single Market. This raises the fundamental question of whether the adaptability of decentralized control processes via markets is actually insufficient in times of crisis and must be replaced or supplemented by government prescriptions. Crisis situations are characterised by severe scarcities – and the efficient handling of scarcities is precisely one of the great strengths of market prices. Thus, if a good can be produced and prices rise accordingly, the potential supplier will use this option. Government prescriptions should only be considered if there are specific obstacles to adjustment, if adjustment is not possible or the necessary price increases are not accepted. In the first case, the government's main task would be to remove existing obstacles to adjustment. If, on the other hand, no response is possible, government prescriptions will not help either. Finally, the distributional effects associated with price increases can be better compensated by direct payments than by intervening in market processes.

The Covid-19 pandemic showed that there was successful and rapid vaccine development due to private entrepreneurial decisions and initiatives supported by adequate government frameworks, such as the prioritization of vaccine projects by regulatory authorities. Direct state intervention, on the other hand, has not been crowned with success. In the case of mask production at the beginning of the Covid-19 pandemic, government purchase guarantees at attractive terms enabled production opportunities to be created and exploited. If the production of critical goods is only to be ramped up for a short period, while permanent competitiveness cannot be assumed, such price premiums are necessary and appropriate. In this case, the state, as the demand side, can provide correspondingly favorable conditions. However, this differs from administrative production instruction to privately owned enterprises.

Direct instructions to prioritize the production of certain goods can indeed have unintended consequences: Without strict self-commitment, there is a risk that these war economy structures – with private ownership but state control – will be viewed as normal policy instruments.

In addition, a crisis can also be triggered by insufficient supplies of imported goods from third countries. Where substitution of these goods within the Single Market is not possible, such as with certain raw materials, the SMEI naturally reaches its limits. This shows that the SMEI cannot completely prevent supply crises and expectations should therefore not be too high. The added value of the SMEI lies rather in the better coordination and exchange of information between the member states, especially in the strategic preparation for crises.

## Literature

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