



UNION EUROPEENNE DE L'ARTISANAT ET DES PETITES ET MOYENNES ENTREPRISES
EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE
EUROPEAN ASSOCIATION OF CRAFT, SMALL AND MEDIUM-SIZED ENTERPRISES
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UEAPME's contribution to the public consultation on

THE FUTURE OF THE INTERNAL MARKET

PART I - THE INTERNAL MARKET TODAY: ACHIEVEMENTS AND CHALLENGES

1) Do you agree with the preliminary analysis of the current situation of the internal market and the challenges it is facing? If not, what is your analysis?

UEAPME warmly welcomes the consultation document on the future of the internal market which aims at developing the EU's internal market. UEAPME agrees with the first analysis of the Commission of the current situation. A lot has indeed achieved since 1985.

Nevertheless the Internal Market is not yet a reality for SMEs. They are (still) the most vulnerable group of enterprises and suffer most from the still existing barriers and impediments.

They are still not in a position from which they can compete on a level playing field with big enterprises within a global economy. We welcomed therefore the objective of reducing unjustified obstacles in the member states by means of the Services Directive.

In addition, European SMEs are of the opinion that their particularities are and were not taken into account until today. Indeed, the real "think small first" approach is not a reality yet.

2) In which ways have you benefited from the opportunities offered by the Internal Market? Where, in your view, does it function well? Where do you see shortcomings?

Cross border movements are now undoubtedly simpler, faster and cheaper than in 1985. Especially the abolishing of customs controls has made it easier and cheaper for SMEs to do business in the internal market. CE marks, the New Approach Directives and the harmonisation of legislation have been a great asset for working in the internal market. The Euro makes it easier to compare prices.

Enlargement has offered new possibilities for outsourcing and offshore investment to face the competition of emerging countries.

In the past decade, we have seen a clear evolution in the mindset of SMEs. They realise that their perceived home market has broadened and includes also the neighbouring countries and even the EU15, but less EU25.

Shortcomings:

- Fiscal (VAT regulation, complicated cross border VAT procedures and differences in fiscal systems); lack of harmonisation of and too complex taxation systems;
- Non-harmonised regulation in different kind of sectors (eg environment); gold plating by the Member States.
- Different market requirements;
- Problems with labour and social legislation;
- Transeuropean payments;
- Getting the right kind of staff;
- Unsatisfactory conflict solution (SMEs face difficulties going to court in other member states)
- Trans-national innovation is an important issue. We note an important deficiency in innovation and investments in R&D in Europe compared to the US. Moreover the transfer of know-how from research institutes, universities ... to businesses and especially SMEs is not sufficient. Europe misses opportunities for development. Regarding the promotion of Research & Development & Innovation we consider it essential to reduce unnecessary administrative and regulative obstacles. In areas where market failure is likely (e.g. funding requirements of SMEs, promotion of innovations which are not directly market relevant, promotion of process innovations) it is necessary to provide sufficient incentives (e.g. state aid) in order to create a positive added value.
- Public procurement
- Administrative burdens (statistical information, slowness...)
- Closed markets, especially in the insurance sector;
- Difficult access to cost effective cross border contracts and contract enforcement;
- Cross border patenting and patent enforcement (still no patent litigation system for SMEs)
- Regarding environmental issues one of the weaknesses in the internal market lies in the **waste management policy**: four types of products that later turn into waste floods (packaging, waste electrical and electronic equipment, end-of-life vehicles, and also batteries) are regulated in EU directives for waste management.

In the 25 member states, these regulations require 100 systems for collecting and recycling of this type of waste. 100 systems, which hamper cross-border trade in goods, because: Both new and imported products have to be registered with the respective national collection systems and advance payments for their collection and recycling have to be made. From the point of view of the economy the polluter-pays-principle is carried to the (administrative) extremes by virtually creating a new type of customs duty which impedes the internal market.

- In the field of **energy policy affairs** the EU-Institutions and the member states are trying hard to push forward the internal market and a liberalization of the energy markets, but the results are scarce till now.

PART II -PRIORITIES FOR FUTURE INTERNAL MARKET POLICY

3) Do you agree with this choice of priorities? Are there others in your view?

All of the mentioned points are important and are key for an effective internal market.

The initiative of the European Commission as well as of Commissioner Verheugen **to cut red tape within the “Acquis Communautaire”** is an absolute **priority** as well as the **“better regulation”** initiative. The **‘think small first’ approach** should be the guiding principle when reviewing the existing legislation and conceiving new one. **This means that legislation should take into account the particularities of SMEs, especially the micro- and small enterprises. SMEs should be the rule, not the exemption.**

Especially SMEs mention complicated and costly regulations as major obstacles for the creation, the continuation and the growth of businesses. In a competitive Europe the simplest possible shaping of regulations as well as their uniform and fair implementation within the enlarged EU are indispensable in order to have standardized framework conditions for entrepreneurs in the internal market. Too much time has been lost already. Indeed, the European Charter for Small Enterprises, endorsed in 2000 already stated, **« Small enterprises are the first to suffer if weighed down with excessive bureaucracy. And they are the first to flourish from initiatives to cut red tape »**

To be able to determine which regulation is needed and how it could be best implemented, a thorough understanding of the still existing gaps in the regulations is necessary . Impact of any new regulation should be thoroughly checked. Key element in this evaluation should also be the administrative burden and effects on SMEs, especially micro and small enterprises, through specific impact assessments. Regulations which express a business hostile attitude are to be avoided by all means.

Furthermore, proposals on **consumer protection measures** have to be scrutinized from the angle of a “business friendly environment”. In the case of legal measures in the consumer protection field the majority of consumers as well as the fundamental principles of private law (e.g. pacta sunt servanda) have to be considered better. The concession of rights of withdrawal or cancellation is sometimes taking place too frivolously, as the current proposal for a consumer credit directive shows. The possibility to withdraw from a validly concluded contract without any reason burdens the business life and with it entrepreneurial action. They almost tempt the consumer to conclude contracts without due consideration. Rights of withdrawal should only be granted in cases with a special justification (eg. taking by surprise at the doorstep) is present. The concession of withdrawal rights should be dealt with reluctance and sense of proportion.

Communication with / information to SMEs is of the utmost importance and often proves difficulties; also on national level. EU campaigns are sometimes costly and not effective. Therefor UEAPME welcomes the White paper on Communication.

VAT harmonisation, harmonising and simplifying taxation systems is very important to boost the internal market.

A dynamic **energy market** which offers at the same time security of supply does not exist at the moment (see above).

4) Internal market policy fosters economic reforms to which citizens and businesses then have to adjust. Do you think sufficient account is taken of the costs of making these adjustments? Why (not)?

Do you think flanking measures are needed to accompany market opening? If so, what kind?

The adaptability of SMEs is tremendous (as we have seen after 1993 and with the introduction of the euro) and they will make the necessary adjustments if these are clearly connected to an economy-friendly policy. Most important is investing in efficient and timely communication to explain the necessity and background of the adjustment – this can best be done via the representative business organisations, which are close to the SMEs and via the networks (EIC) where they are imbedded in these organisations.

The costs of excessive regulations in the internal market amount to 4-6 % of the EU's GDP. Therefore, a reduction of the bureaucratic requirements at all levels is a priority, for instance by reverting to market mechanisms, voluntary approaches or self commitments of the economy as well as reducing excessive statistic requirements (INTRASTAT, EXTRASTAT reports, the new waste statistic regulation). High extra-costs arise from the adjustment of services - in particular - to different specifications and control, certification or authorization procedures.

With a better and faster economic legislation the necessary framework conditions for an increase in the European competitiveness could be created. In some areas the duration of procedures (the final adoption of a legal act takes three years on average) conflicts with a rapid reaction on technical progress and a change in market conditions.

Even with fast-track legislation procedures, broad and timely consultations should be guaranteed. In areas without a need of rapid regulation comprehensive negotiations are desirable.

A faster consolidation of economic legislation (no more than approximately 40 % of the community legislation are consolidated) would enable a better understanding and application of the Acquis Communautaire (e.g. directive on dangerous substances).

Apart from the creation of an optimal, competitive environment one's attention should be turned to a quick, unbureaucratic and effective removal of barriers to the internal market. Available instruments, in particular infringement procedures, and their application satisfy the mentioned requirements only to a limited extent. Acceleration, red-tape-cutting and an increase in transparency of the procedures – from the filing of an internal market complaint until a judgment by the ECJ – seems necessary. Here we think in particular of a Europe-wide network as well as an upgrading of other mechanisms for the elimination of internal market barriers. SOLVIT for example could be strengthened by cutting one stage in the procedure: in the case of an unsuccessful SOLVIT-complaint which is nevertheless justified according to the Commissions opinion a formal request for information (the second stage of infringement proceedings) of the Commission would be superfluous.

Also the information procedure in the area of standards and technical rules and regulations according to the directive 98/34/EC could be strengthened in this respect: a detailed statement of the Commission in the framework of this procedure could replace a formal request for information and thus result in a speeding up of the procedures.

1. ENSURING THAT INTERNAL MARKET POLICIES EFFECTIVELY FACILITATE MARKET ENTRY AND FOSTER INNOVATION

5) In your experience, does the internal market offer sufficient opportunities for businesses? Why (not)?

Where do you see barriers?

Barriers:

- Normalisation, product safety: in practice still problematic for many products (cosmetics, medicine, “new approach” products....) problems of differences in classification/interpretation because of differences in (cultural, historical, regulatory) background in the different Member States
- services in general; a lot has to be expected from the new service directive, which UEAPME fully support, to remove unnecessary bureaucratic obstacles;
- VAT: current system still creates many problems for entrepreneurs working EU-wide;
- Labour and social laws;
- Recognition of qualifications;
- Late payments;
- Costs for patents;
- Environmental legislation;
- CE-marking.

6) Do you consider that the internal market is 'innovation-friendly'? Why (not)?

Where, in your view, are the main barriers to innovation?

Which steps should be taken in order to ensure that the internal market is more innovation-friendly?

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- Innovation can/may clash with requirements concerning normalisation/safety rules.
- No community patent – getting a patent is very expensive for an SME. Competitors out of Europe have a more easy access to patent protection. An agreement should be reached on this issue as soon as possible. Judges need to be better trained in the field of patents. Absence of a patent litigation insurance for SMEs.
- Difficult for SMEs to attract highly qualified persons.
- Lack of resources by SME 's (financial, staff).
- Missing link between research institutes, universities, ... and SMEs. There should be made more investments in bringing research and business together. More emphasis should be put on demand driven research what should stimulate the research institute to focus more on their relations with business.
- There is a big gap between innovation and application. The relationship between universities, research institutes and SMEs should be strengthened. They should be rewarded for working with SMEs. ‘Handling costs’ of SME applications are considered too costly: government intervention is needed.
- In terms of legal certainty, the possibilities of “Golden Plating” by member states should be strongly restricted, as an entrepreneur can not know which regulations he faces in a neighbour country.
- Dominance of big companies in respect of R & D support (e.g. Aerospace and pharmaceuticals)

7) Do you consider that the current IPR regimes foster growth and innovation?

In your experience, where is more focus or action needed?

- *Need for a Community Patent* to simplify patenting and administration of patent rights. This should be made cheaper for the SMEs. The costs are now unnecessary high by the compulsory use of different languages.
- *Implementation of a low cost patent litigation insurance scheme for SMEs to give SMEs access to justice.*
- *Absence of an intellectual property culture amongst SMEs, due to a lack of awareness*
- *Reduction of patent cost for SMEs.*

8) In your experience, do Member State authorities apply procurement rules in a way that gives businesses sufficient opportunity for market entry?

For SMEs it remains difficult to participate in public procurement. Some tenders allow technically only one contractor to participate. Governments still prefer to deal with companies from their own country. There are differences in conditions and terms in the different member states and in practice there are hidden barriers that protect big business and national champions in some markets. These need to be addressed especially in the area of subcontracting. Possible solutions can be found in cutting the general offer in different lots.

If 99,6 % of all European enterprises is not able to participate in public procurement, it may be clear that one should think about measures, which guarantee their participation.

In cross-boarder procurement procedures, problems regularly arise for tenderers, particularly concerning the proof of suitability, due to the fact that there is no mutual recognition of craft allowances, commercial register confirmations, confirmation of social insurance funds, tax authorities etc. This is the result of different legislation among EU- countries, which result in different procedures and thus different confirmations.

The time limits in procurement procedures are usually too short for the tenderers to get the certificates required. Sometimes even certificates are required which are not known to the procedure in the home country.

A contact point in the European Commission, which settles such cases in a current process (which means usually within two weeks for suitability proofs) would be beneficial for the facilitation of the transnational procurements.

In addition, support for specific training for SMEs on European procurement should be foreseen.

9) Do you think that public authorities are sufficiently aware of the opportunities the EU public procurement framework offers for fostering innovation?

If not, how could they be made better aware of it?

No, they are not. Improvement must start with procurement practice. People working for public procurement authorities must be trained appropriately, in order to get sufficient knowledge about relevant procurement markets, their products and providers within the EU.

10) In your experience, are there any significant problems with the internal market preventing the development of the private equity and venture capital market on a cross-border basis?

If so, what are they?

We see some problems that are created by the EC itself (preventing support in another country) Europe lacks a common fund structure. Different company law systems and fund structures with various tax implications at national level constitute barriers for the creation of a truly European venture capital market. Due to this fragmentation, big venture capital companies with more advantageous cost/capital ratios (e.g. US companies) have a competitive advantage.

Furthermore, EU-companies encounter problems with taxation policies. Cross-border investments leading to the permanent establishment of a branch may trigger the liability to pay taxes in the host country. Additionally, double taxation may be imposed on revenues from selling funds. State aid provisions must not impede the elimination of this problem.

11) Do you think that voluntary standards for services would be beneficial?

If so, in which sectors should they be introduced?

Standards are no guarantee for quality at European or at international level without taking account of the economic needs and could constitute additional burdens for SMEs. Standards are useful when legal regulations stipulate specified services, where interfaces have to be clarified or where a sector intends to define certain supra-regional terms or services.

In this context it is of crucial importance that the adoption of these standards remains voluntary and to involve the concerned sector associations. The involvement of sector associations at national and European level guarantees that the agreed standards satisfy the needs of the whole sector and are not postulated by market dominating companies only.

The service provider's competitive edge is to offer services distinct from his competitors' services. In **the consulting sector**, for example, the advantage for customers consists in the existence of a wide diversity of opinions and techniques they can choose from to fit their specific demand. This diversity must not be hindered by the development of standards. Particularly the consulting sector is a sector where approaches and basic principles change continuously. It should be up to the market to decide on the most appropriate solutions.

Basically it can be assumed that a responsible citizen or entrepreneur is in the position to adequately assess a service offer.

Standard setting in the **tourism sector**, particularly in the accommodation and restaurant sector, is to be judged critically.

The usefulness of standard setting always has to be proved carefully, especially in the tourism sector. The reasons for the scepticism of standard setting in the tourism sector are obvious: Particularly the great variety in tourism and therefore the variety of high quality services play a

key role for the customers. The different cultural, geographical and climatic environment triggers different customer expectations, which have to be addressed individually (for example the classification of hotels).

UEAPME support also accompanying provisions to the Services Directive in areas such as the creation of European minimum standards for professional training and further education and qualification for some professions, particularly in the crafts sector

2. STEPPING UP EFFORTS TO ENSURE A HIGH-QUALITY FRAMEWORK

12) What are your views on how we carry out consultations on internal market policy?

For instance, what are your views on the consultation process, and on the relevance and presentation of issues in our consultation documents?

It may be clear that the consultation of SMEs by the European Commission has improved dramatically during the last years.

Nevertheless UEAPME is worried about the increased use of direct consultation through Internet. More and more the consultation of the intermediary organisations is neglected. It has to be stressed that the opinion of the representative business organisations is more than a simple sum of all the opinions from single enterprises; they are the result of a democratic consultation and decision-making process. Representative organisations are the intermediaries between enterprises and the European Institutions and their role is not simply to register or collect the opinion of their member's, but to find a **COMMON** position that reflects the opinion of the different countries or economic sectors. Moreover regulations based on collectively agreed opinions will be more easily respected. Direct consultation through Internet can only be an additional way in some specific areas. So far the results of Internet consultations lack representativity, and are frequently biased. This is even recognized by the European Commission (Green paper on transparency). Currently there are no criteria on how to evaluate and give a weight to the different responses. Small enterprises and SME-sectors risk to be excluded also due to the fact that the documents are not always available in all languages. The minimum consultation time should be extended to 12 weeks. Neither from the quantitative nor from the qualitative point of view are online consultations in any way representative. Consultation of the representative European business organisations should have the preference over direct consultation! We refer to our upcoming position paper on the green paper on transparency for a more detailed opinion.

The consultation documents provide a very useful synthesis, also already highlighting those points on which the EU is seeking input. An ex-ante consultation of all relevant stakeholders at an early stage as well as transparent procedures for the consultation process itself increase the acceptance and consequently the implementation of new legislation.

Reinforcement of the situation of national and European business federations will automatically entail a better representation of business interests.

13) What are your views on the way we carry out impact assessments on internal market policies?

In your experience, are we using the right policy instruments to achieve the objectives?

UEAPME fully supports the Commission's efforts to improve impact assessments, notably the development of techniques to measure administrative costs.

Unfortunately, the Commission tends to pay lip service. In reality, cost/benefit analysis and impact assessments for business prior to legislative proposals are not properly conducted. Consequently, the quality of proposals suffers.

Basically, any proposal should be evaluated in co-operation with representative European associations and undergo a socio-economic evaluation with a main focus on subsidiarity and cost/benefit analysis. To be imperatively included are compliance costs, not only reflecting additional bureaucracy and additional training of staff, but also containing the costs of a slowed down or changed product or service marketing. An important role should be attributed to the national government so that they can screen the new proposals to their existing regulation and the impact on the business world.

We refer also to UEAPME's position paper on business impact assessments (February 2002) (Summary: **General Reflections on Business Impact Analysis system**. In general the Business Impact Studies are not adapted to produce data on the impact on small and micro enterprises. They tend to take into account only the impact data on large companies. Moreover, we think that a BIA needs to be widely advertised to the SMEs and that data collection for SMEs is currently totally inadequate. The SME associations do not have the financial, personnel and organizational resources to collect data on future legislation impact. The SME part of the data collection should be totally financed by the legislators (out of taxes) and proposed that BIA studies for the SME segment of the economy include, among others, large statistical samples of SMEs (in the several thousand for EU); Participation of SME associations in the preparation of the SME questionnaires; SME questionnaires should always contain a succinct explanation of the nature and anticipated impacts of the future legislation; The language of the questionnaires should be the national language of the country and it should be in everyday language form as opposed to academic or specialist jargon; Questionnaires should be filled out by professional and specialised interviewers, not directly by the small companies.)

14) What are your views on evaluations conducted for internal market policies and the follow-up given to them?

15) Do you think that Member States should be encouraged to carry out national screening exercises (of existing and new rules and administrative procedures) and if so how?

Yes, Member states should be encouraged to carry out national screening exercises of existing new rules and administrative procedures.

These should take into account:

- Already existing legislation;
- Administrative and cost effects on SMEs;
- (Dis) advantages SMEs will face in the internal market according to this new regulation;
- Difficulty of application and necessary time frame for implementation in a cost-friendly way by SMEs;
- Time to get the public service ready to implement the measures;
- Necessity for information campaigns (together with business organizations).

Business organisations should also be involved in the screening exercise.

Member States should also report back on how their implementation of directives and EU policy has helped realise the great political visions of our time such as:

- Competitiveness in the global market
- Energy security
- Environmental security
- Reduction in red tape

3. ENSURING THAT INTERNAL MARKET RULES ARE CORRECTLY IMPLEMENTED AND APPLIED IN MEMBER STATES

16) In which fields do you see the greatest need to step up cooperation between Member State authorities in order to make the internal market work?

Our member organisations are daily confronted with the delays and costs caused by small, practical obstacles due to lack of harmonisation or different interpretations of internal market rules, this on fiscal matters, normalisation, regulatory matters, qualifications... Lack of information on the requirements imposed by other member states is part of the problem. Transparency is desperately needed.

17) What is your assessment of the role and work of supervisory or regulatory authorities in Member States?

Should similar systems of supervision be extended to other internal market fields?

Although the completed and ongoing privatisations in utility industries (e.g. gas, electricity, railway service) require appropriate provisions and independent market regulators, it has to be stressed that SMEs have not spectacularly benefited through lower costs since the creation of the regulatory authorities; these authorities are an important additional cost which is accounted in the price consumers and businesses have to pay.

18) What is your view on current mechanisms for enforcing internal market rules at the national level?

The role of notification procedures for provisions concerning the internal market should be reinforced. For those cases where national implementation of EU-legislation contains provisions being adverse to internal market rules, more efficient enforcement instruments than those being currently in use are needed in order to avoid lengthy ECJ-procedures.

What should be improved?

- The timely implementation of directives.
- Gold plating by the Member States should be avoided.

19) What is your experience (if any) of the Commission's infringement policy in the field of the internal market?

Which type of infringement cases should we handle as a priority?

The role of the Commission as „guardian of the treaties” is of crucial importance to encourage Member States to comply with internal market rules. In this respect, the Commission is doing a

good job. Businesses facing barriers to the internal market are somewhat reluctant to see concrete benefits from launching lengthy infringement procedures, which, as a consequence, also deteriorates the willingness of businesses to provide information on internal market infringements.

Therefore SOLVIT offers a lot of advantages through the simplicity of the system and the high efficiency, in those cases that are eligible for handling through SOLVIT and it is very useful; it should be promoted and more widely used. However, many cases do not fall under SOLVIT's strict requirements

Less red tape, an acceleration and increased transparency for the handling of internal market barriers is required. It might be useful to elaborate basic criteria to prioritise infringement cases according to their representative nature. This prioritisation should in no case slow down the handling of cases not fulfilling these criteria, though. On the opposite, an obligation for the Commission to pass on allowable appeals to the ECJ within the period of for example one year should be considered. This maximum period should be shorter for cases of paramount importance for the internal market.

20) Do you agree with the need to step up coordination and responsibility in Member States for managing the internal market?

Yes.

What (further) assistance could the Commission give in this respect?

4. RESPONDING EFFECTIVELY TO THE INCREASINGLY GLOBAL ENVIRONMENT

21) In your experience, does internal market regulation take sufficient account of the bigger picture of international competitiveness?

If not, in which areas do you see problems and what could be done?

Any EU provisions entailing burdens for businesses in general and not occurring in third countries basically constitute a competitive disadvantage. These disadvantages might be outweighed by benefits for the economy as a whole. However, some actors still have to bear the costs.

Concerning **waste management policy**, the EU, theoretically, should try to convince third countries to establish those waste collection systems as well. If this is not feasible or not reasonable (in this case probably both), the EU should alleviate the raised issue by harmonizing provisions in the following waste management policy problem areas (cp. above: waste streams packing, electric appliance, scrape cars and batteries):

- EU-wide definition for waste stream relevant products like packing, electric appliance, cars and batteries
- EU-wide uniform registration (a single registration in the EU should be sufficient to operate in any Member State)
- EU-wide uniform notification requirements for waste legislation
- EU-wide uniform waste categorization

Although the EU participates in the global dialogues, there is insufficient stress on SME type issues. This is especially important when it comes to the implementation of global policies. Some examples follow:-

- Overstressing of agriculture in the GATT / WTO talks
- Acceptance of US diktats in areas such as the Banking “Know Your Customer” that impose additional regulatory costs on SMEs
- Costs and burdens imposed by accepting the non SME friendly International Accounting Standards

22) On which regulatory issues and with which countries and regions should the EU strive for more international regulatory convergence or equivalence?

How should this be achieved?

By contrast, where do you think differing rules and standards should coexist?

In specific areas of local cultural or product identity – especially in regional food products and artisan handicrafts and heritage works.

23) Where should the EU engage more strongly in either intergovernmental or nongovernmental standard-setting organisations?

5. ENSURING THAT CITIZENS AND BUSINESSES ARE WELL INFORMED ABOUT THE OPPORTUNITIES OFFERED BY THE INTERNAL MARKET AND ENCOURAGED TO MAKE THE MOST OF THEM

24) In your experience, do Member States and the EU institutions do enough to promote the opportunities presented by the internal market?

Which concrete actions would you suggest for improving the situation?

As many interested parties as possible should be involved in this. Not only the Member States and the EU are actors but representative business organisations and networks such as the Euro Info Centres should be optimally involved, as they have already proved a great knowledge/understanding of the important (and sometimes difficult to reach) target group of SME's, but also have a longstanding experience and engagement in the promotion of the internal market.

The information put online by the EU institutions is extensive, but partly confusing.

Brussels, June 2006.