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Action Programme for Reducing Administrative Burdens in the European Union

Impact Assessment

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COMMISSION STAFF WORKING DOCUMENT

Impact Assessment accompanying the « Action Programme for Reducing Administrative Burdens in the European Union »

Introduction

A main goal of the Lisbon strategy for growth and jobs is the improvement of the EU's international competitiveness. Better Regulation (BR) was identified as a key contributor towards achieving this aim. Building on earlier initiatives to improve the quality, to modernise and to simplify the stock of existing EU legislation, BR is essentially about cultivating a regulatory environment which protects the environment and supports citizens and consumers, while at the same time enabling European businesses to compete more effectively in the global economy. The reduction of the administrative burden (AB), sometimes referred to as red tape or bureaucracy costs, is one crucial component with which a more conducive environment for business can be put in place, without lowering the level of existing or the ambition of new policies in the area of environmental, consumer or health protection.

Reducing the administrative burden involves the utilisation of significant financial and human resources. When reducing the AB experience from those Member States that are more advanced in this area has shown that a concrete reduction target is useful as it provides a degree of urgency and a real target one can work towards. It also facilitates monitoring progress and ex-post evaluation. The figure proposed by the Commission is a reduction of 25% of the existing AB, to be achieved in cooperation with the Member States and the co-legislators at the EU level.

However, a target also underlines the need for establishing what the existing AB is – the so-called baseline. Hence, a baseline measurement needs to be undertaken. In addition, human resources have to be devoted to carrying out the actual reduction in the EU institutions as well as in the Member States. Experience from those countries that have already measured their AB baseline and begun to reduce the overall burden has confirmed that the resource implications are significant.

It is good practice to analyse ex-ante whether the required investment in financial and human resources is money and time well spent. This Impact Assessment (IA) addresses this issue and analyses several options that range from a *no Community level action* to options with varying degrees of Community level involvement. Cost benefit quantification is done where it is feasible and reasonable to do so. The aim of this IA is to identify the most efficient and effective way of reducing the AB, if indeed it exists. Its scope does not extend to an analysis of the implications of individual AB reduction measures. Such an analysis, if necessary, would have to be done on a case specific basis. In line with the current version of the Commission's IA guidelines the analysis presented in what follows is proportionate.

The next section lists the consultations that have been carried out as part of this IA. Section 2 presents a problem definition and discusses subsidiarity. Section 4 describes the objectives. Section 5 and 6 list the options and analyses their likely impacts. Section 7 states the monitoring and evaluation mechanisms to ensure the exercise's success and thus a return on the financial and human resources investments that need to be made.

1. CONSULTATION

The Commission adopted a Working Paper outlining its proposals in the area of a possible administrative burden reduction strategy. A consultation on this document is currently ongoing and closes on 01/01/2007. Contributions can be submitted to the following email address: entr-admin-burdens@ec.europa.eu. Consultation also takes place in the High Level Group of National Experts on Better Regulation and there was an open session in the Economic and Policy Committee in which proposals for AB reduction strategy were discussed. All of the feedback and input gathered is taken account of in developing the Commission's proposals in this area. In addition, examining the merits and potential ways of reducing the AB is of course an outcome of the Commission's constant and ongoing dialogue with all its external stakeholders.

It should be stressed that the real bulk of consultation will become necessary and take place once the baseline measurement has been carried more concrete reduction proposals are available.

2. PROBLEM DEFINITION

It is widely acknowledge that global competitive pressures are on the increase. The emergence of China and India as economic powers and their proceeding integration in the global economic system has implication for the rest of the world, including the economies of the EU. Globalisation is often associated with debates on offshoring and fears about employment implications. Persistent levels of unemployment in excess of what is deemed acceptable have added to the debate. And it is not only the emergence of China and India that necessitates improvements to our competitiveness and thus to our business regulatory environment. The EU has stopped closing the gap with the US in terms of GDP per capita and productivity. Indeed, the trend of slowly catching up that was the case for most of the post war period has reversed since the mid 1990s.

However, Globalisation is predominantly a force for good, provided economies are in a position to reap its benefits. Being and remaining competitive is crucial in today's global economy and essential for guaranteeing the viability of the preferred social models that have been adopted by Member States. Various policies are being put in place, and indeed have already been put in place, to enhance the competitiveness of the EU economies. These range from measures taken as part of the Lisbon Agenda and the Lisbon Strategy, e.g. R&D targets, improvement in the EU's human capital base, the facilitation of funding for SMEs, etc, to country specific initiatives adopted at the Member State level.

The improvement of the regulatory business environment is another way with which to improve competitiveness. Obstacles to productivity increases, especially if they take the form of preventing business from engaging its workforce in productive activities, have a detrimental effect on competitiveness. Many administrative burden requirements fulfil a very useful purpose. They are important tools that are needed by public authorities in order to successfully implement public policies and/or to gather information, for example in the areas of safety, health, and environmental protection. Thus, their (often indirect) impacts on the economy and economic welfare can be very positive.

However, it is in the nature of administrative burden requirements that their initial, direct impact on business activity is a negative one, as employees have to spend time filling in forms and the like instead of being productive in the sense of adding to a company's output. A problem for the economy arises if they are implemented inefficiently or if they have become redundant but not revoked, meaning that they unnecessarily hamper business activity. It is these requirements that the Action Programme is concerned with.

AB requirements are largely made up of information obligations (IOs). These IOs impact on business activity by requiring employees to spend time collecting and providing information to third parties or public authorities, which often means filling in forms. Employers of course pay their workers as if they were spending that time being productive in the sense of contributing to the company's output. Output is affected somewhat negatively as are profits and wages. Apart from the lower output this leads to, the reduction in profit can have implications for investment and take up of innovations. Where AB requirements result in higher market entry barriers or higher start up costs, entrepreneurial activity and levels of competition are suppressed. (Lower wage levels on the other hand impact negatively on demand.)

The response to increasing competition from low wage economies in Asia and elsewhere rests on improving productivity and high value-added production. These necessitate investment in technology and human resources, the development and the take up of innovations and fostering competition. By preventing workers from spending more time actually producing output is reduced. This means higher unit production costs. Lower profits mean less resources that are available for investments and less funding for innovative activity. Thus, reducing the AB is likely to have a positive impact on competitiveness via productivity and its underlying drivers.

That economic activity is currently held back due to the AB is a view often expressed by business leaders and those speaking on behalf of SMEs. SMEs in particular raise concerns that they are not in a position to make use of economies of scale and find it particularly difficult to deal with the negative effects of the AB (see for example *'Businesses' Views on Red Tape - Administrative and Regulatory Burdens on Small and Medium-sized Enterprises*' OECD, 2001). The Action Programme will first of all measure the baseline in the priority areas which have been selected on the basis of evidence from those Member States that have already carried out such a measurement. Depending on the outcome of the measurement and the suitability of proposals in those priority areas concrete reduction proposals will be developed.

Studies carried out by the Central Planning Bureau (CPB) of the Netherlands indicate that the administrative burden as a proportion of GDP varies from 6.8 per cent in Greece, Hungary and the Baltic States to 1.5 per cent in the UK and Sweden. And it is by all means not the case that this burden is generally lower in those countries that enjoy higher GDP levels. Moreover, for a group of countries with still relatively harmonised standards of legislation these differences raise questions about inefficiencies and implementation.

Table 1[1]

Administrative burden by Member State

	AT	BL[2]	CZ	DE	DK	ES	FI	FR	UK	GR	HU	IE	IT	NL	PL	PT	RE[2]	SK	SI	SE	EU-25
Administrative burden share in GDP (in %)[1]	4.6	2.8	3.3	3.7	1.9	4.6	1.5	3.7	1.5	6.8	6.8	2.4	4.6	3.7	5.0	4.6	6.8	4.6	4.1	1.5	3.5

[1] Based on Kox (2005): Intra-EU differences in regulation-caused administrative burden for companies. CPB Memorandum 136. CPB, The Hague.

[2] BL combines Belgium and Luxembourg; RE combines the Baltic Member States, Malta and Cyprus; EU-25 figures are GDP-weighted averages

Subsidiarity

The AB is a result of EU level and national and regional level legislation. It may be divided into the following categories:

- international obligations
- obligations that are the direct result of EC legislation
- those that are due to EC legislation but where Member States determine the final form in which they are implemented
- and those that are due to national or regional legislation.

Member States are in a position and indeed have to deal with the last category on their own. However, a significant proportion of legislation that involves reporting requirements is directly or indirectly derived from the EU level. While the reasons for this are sound and often the result of simplification itself, namely the single market which may be summarised as *one in 27 out*, any AB reduction can only be achieved if all those responsible for the existing stock of legislation and its resulting AB are involved in reducing it. This means that the EU level and Member States have to cooperate. Hence, EU level action in cooperation with the Member States is required.

3. OBJECTIVES

The main objective of reducing the AB is to aid EU competitiveness by contributing to fostering a better regulatory environment while continuing to protect citizens and the environment. This is to be achieved through a reduction of the AB by 25% by the Commission in cooperation with the Member States and the co-legislators over a period of five years. As limited resources are available with which to bring about this reduction, a further objective is to ensure efficiency and cost effectiveness.

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[1] At the time the analysis was carried out the EU comprised of 25 member states. Since 1 January 2007 Romania and Bulgaria have also joined the EU.

It has to be clear that the objective of cutting the AB does not involve reducing reporting requirements or IOs that produce useful and important information to policy makers and third parties. Rather, it is about identifying those requirements that have become obsolete and finding ways of supplying users of reporting requirements more efficiently with the information they need. In other words, getting rid of the requirement to provide information which is then not used or where there is no convincing need for it being produced as frequently as is the case now, and requirements that oblige business to report the same information several times, are targeted. Burdens may also be reduced simply by clarifying complex legislation that forces businesses to invest resources in order to understand what is required. Under this approach, the issue of benefits associated with regulatory IOs is not relevant for an exercise whose objective consists of reducing *unnecessary* administrative burdens.

In order to identify the unnecessary reporting requirements to be cut, a baseline measurement would have to be carried-out. Such an exercise is very resource intensive and comes at a considerable financial cost. In the UK the financial cost of measuring the baseline came to c. EUR 26 million, while in Denmark the cost amounted to c. EUR 6 million and in the Netherlands it was c. EUR 4 million. In addition to the financial cost there are human resource implications as officials across the Commission's services and in the Member States' administrations have to work on identifying and finding ways of reducing the AB.

Referring to the split of the AB into the four categories as described above under the heading subsidiarity and the limited resources that are available, given the costs incurred by those countries that have already carried out a baseline measurement and begun reducing their AB, it is essential that resources are targeted where they are likely to be most cost effective and produce real results. However, spending what could be a significant amount of EU taxpayers' money has to produce a significant benefit or else one might as well spend it differently. Included in spending the funds efficiently and effectively is an assessment of whether they should be spent on AB reduction in the first place, or whether they could be employed more purposefully and produce greater benefits elsewhere.

4. OPTIONS

4.1. Description

Option 1 – Baseline option

This option entails leaving things as they are. The Commission would not actively work towards reducing the AB and not spend the EUR 20 million but continue with the existing rolling simplification programme and other BR measures such as carrying out impact assessments.

Option 2 – Member States action with support from the EU when needed

This option means that Member States would carry out their own AB reduction exercises as and when they see fit, while the Commission makes a commitment to help when called upon to do so. Member States would identify AB requirements they believe could be reduced and ways of doing so. If they are the result of direct or indirect EU legislation they could present those items together with ideas for reducing them to the Commission, which would then examine them and agree or not agree to Member States' proposals.

One could envisage some coordination role for the Commission to ensure some form of loose collaboration and a timetable according to which Member States have to measure the baseline and propose AB items to be reduced.

Option 3 – Commission concentrates on the part of the AB that is a direct result of EU legislation and the part that is due to the implementation of EC legislation in selected priority areas

Regulations and Directives and their implementation in selected priority areas would be the target of the Commission's AB reduction programme. Priority areas would be identified by drawing on information available from the Dutch, Danish, UK and Czech measurements. All other items that also count towards the overall AB would be excluded. Again, this option could involve a commitment by the Commission to support reduction proposals that fall outside the targeted categories. However, the onus on identifying those other items and coming up with reduction proposals would be entirely on Member States.

Option 4 – Commission targets all AB at EU and national level

This option means that the Commission would target the whole AB of the entire Community acquis plus all national legislation. A full baseline measurement would have to be carried out and items for reduction identified and cut. Due to the shared origins of many of these requirements the Commission would have to work closely with Member States and the EU level co-legislators.

4.2. Assessment of options and likely impacts

4.2.1. Likely impacts of a 25% AB[2] reduction

It should be stressed that what is meant by an AB reduction is that unnecessary and obsolete reporting requirements are removed or made easier to comply with. This can be achieved, for example, by making better use of technology with which multiple reporting requirements might be reduced to as little as a single reporting requirement. Another way of achieving this could be by changes to the thresholds or the frequency of reporting information, particularly for cases in which information is not used and there is thus no convincing reason for their provision as frequently as currently required. Furthermore, reductions can in some cases be achieved by clarifying existing requirements and by providing guidance on them. In any case, AB reduction is aimed at reducing burdens without compromising the achievements or the objectives of the legislation.

Bearing that in mind, there now exists mounting evidence to suggest that reducing AB may lead to a significant rise in the level of GDP. Various studies using different economic models point to potential rises in the level of GDP from a 25% reduction of the AB of between 1.4% or EUR 150 bn to 1.8% of GDP.

2 There is some confusion regarding the difference between administrative burdens and administrative costs. A definition is presented in the accompanying Communication on the Action Programme. The Commission's strategy is aimed at cutting unnecessary reporting requirements that are part of the administrative burden. The original Gelauff & Lejour paper uses the terminology administrative costs, without however making an explicit distinction between administrative costs and burdens.

Gelauff and Lejour (2006)[3] calculate that a 25% reduction of administrative burdens could eventually lead to an increase in the level of GDP of up to 1.4%. They assume that the administrative burden is mainly made up of wages, which means that reducing it (the AB) would translate into an increase in labour efficiency. The impact on national GDP is determined by its initial size and by the share of labour costs in total GDP at factor costs (value added). The latter varies considerably amongst Member States, as shown in Table 2. The change in labour efficiency can be calculated as follows:

Δ eff = 0.25 * (AdmBur / GDP) / (LabCost / GDP)

where: Δ eff is the change in labour efficiency

AdmBur / GDP is the share of administrative burdens in total GDP

LabCost / GDP is the share of labour costs in total GDP

Hence, the improvement in labour efficiency differs substantially across Member States, ranging from 0.6% in Sweden and the UK to 3.5% in Hungary (see also Table 2).

Table 2
Reduction of administrative burdens and gains in labour efficiency

Member State	Administrative burdens as a share of GDP (in %)[1]	Labour costs share in value added (in %)	Increase in labour efficiency Δ eff (in %)
AT	4,6	51,3	2,2
BL[2]	2,8	66,2	1,1
CZ	3,3	50,9	1,6
DE	3,7	57,4	1,6
DK	1,9	62,5	0,8
ES	4,6	55,6	2,1
FI	1,5	53,6	0,7
FR	3,7	51,6	1,8
UK	1,5	65,0	0,6
GR	6,8	59,5	2,9
HU	6,8	48,3	3,5
IE	2,4	57,2	1,1
IT	4,6	50,4	2,3
NL	3,7	56,9	1,6
PL	5,0	52,2	2,4
PT	4,6	61,9	1,9
RE[2]	6,8	52,0	3,3
SK	4,6	44,8	2,6
SI	4,1	64,8	1,6
SE	1,5	65,2	0,6
EU-25	3,5	56,9	1,6
EU-6	2,9	59,9	1,2
EU-19	4,0	54,1	1,9

[3] Gelauff, G.M.M. and A.M. Lejour (2006). "Five Lisbon highlights: The economic impact of reaching these targets". CPB Document 104. CPB, The Hague, prepared for DG ENTR.

1 Values used in Gelauff and Lejour (2006) based on Kox (2005).

2 BL combines Belgium and Luxembourg; RE combines the Baltic Member States, Malta and Cyprus; EU-6 combines AT, CZ, DK, DE, NL, and UK, the MS who have announced economy-wide targets; EU-25, EU-19 and EU-6 figures are GDP-weighted averages.

Internal Commission calculations (2006) based on the same methodology produce a similar result and suggest that a 25% reduction across the EU-25[4] could raise GDP by 1.3% in the long run. The slightly different result to that calculated by Gelauff and Lejour is due to the implementation of the simulation. DG ENTR's internal work assumes that the burden reduction will be achieved in 20 per cent decrements over a 5-year period. At the time these calculations were done, six Member States (AT, CZ, DE, DK, NL, UK) had announced economy-wide concrete reduction targets. For this group of countries Table 2 shows lower average administrative burdens (2.9% of GDP) as for the other 19 countries (4.0%). Furthermore, the six countries have a higher average labour cost share of 60% as compared to 54% for the other countries. Consequently, the 25% reduction of the administrative burden corresponds to a lower increase in labour efficiency for the group of six (1.2%) than for the other countries (1.9%).

The results are presented in Table 3, which shows that in the medium term the gains from a 25% reduction across the EU by 2010 translate into an increase in the level of GDP by 1.3% by 2025 vis-à-vis the baseline scenario[5]. As the weighted average of the administrative burden over GDP is lower for the group of six Member States which announced a target (2.9%) than for the Member States that did not announce a target (4.0%), the additional gain in GDP is with 1.5% substantially larger for those 19 economies than for the six economies with 1.0%. The potential gains by country range even further from 0.5% to 2.6% of GDP in 2025 depending on the initial relative magnitude of the administrative burden.

Table 3

Impact of the reduction in administrative burdens (changes in % from GDP in baseline for 2025)

Member States	All EU-25 reduce	Only EU-6 reduce
EU-6	1,0	1,0
EU-19	1,5	0,0
EU-25	1,3	0,5

Note: EU-6 comprises of AT, CZ, DE, DK, NL, UK

Using the Commission calculations, if administrative burdens are gradually reduced over a given period, the initial increase in GDP will be 1.1% once the reduction has fully taken

4 At the time the analysis was carried out the EU comprised of 25 member states. Since January, 1st 2007 Romania and Bulgaria have also joined the EU.

5 Given that WorldScan is a simulation model these results have to be interpreted as mere approximations. However, as opposed to many macro(-econometric) models, the analysis using WorldScan not only allows for an inspection of macroeconomic results for the aggregate EU-25 region, but also for the inspection of more disaggregated national and sectoral effects.

place. With more labour used for productive activities, capital will have to adjust accordingly. A capital accumulation process then takes place, which adds a further 0.2% to the level of GDP. Thus, GDP will be 1.3% higher in 2016 than it would be without the 25% reduction.

It is important to stress that the predicted increases in GDP are increases in the level of GDP. This means that once the reduction is achieved, the overall GDP figure for the EU 25 will be up to 1.4% higher (using the CPB calculations) than if the reduction had not taken place. This gain is permanent insofar as if the burden remains at the lower (75%) level, GDP will remain higher. However, the reduction does not affect the growth rate of GDP, i.e. the dynamics of GDP growth.

The above mentioned calculations are the result of the use of a Computational General Equilibrium (CGE) model called World Scan. CGEs are based on economic theory which assumes a Walrasian representation of the economy. They use real economic data from a particular year (e.g. data from input-output tables) and estimate the outcome of a change in the economy by a simulation. They do not produce forecasts. Forecasts can be produced by the use of econometric models. The Commission has used the QUEST model for a forecast type analysis of a 25% reduction. These calculations confirm the results obtained from the World Scan model, suggesting that the positive impact on the level of GDP is in the range of 0.8-1.8%.

Two scenarios were used in the QUEST calculations. The model treats the amount of time spent on meeting information obligations as a fixed cost. If less time is needed for complying with reporting requirements fixed costs decrease. However, unlike the Word Scan model in which such a reduction translates into a higher marginal product of labour (MPL), in the QUEST model the MPL does not change. In the first scenario demand for labour thus declines but profits, investment and consumption increase. The net employment effect is negative but GDP increases by 0.8%. Scenario two more realistically allows for competition effects which increase the demand for labour. As profits increase from the first round effects it can be reasonably expected that more firms enter the market until pre AB reduction levels of profit are re-established. New firms entering the market demand labour which leads to a decline in unemployment and an increase in real wages. Overall, employment, wages and GDP increase, with the latter up by up to 1.8%.

Thus, the use of two models, each from a different family of economic models, both suggest that the likely impact on the level of GDP of a 25% AB reduction is significant. An increase in the overall level of GDP followed by likely employment benefits are a direct contribution to the two Lisbon priorities – growth and jobs. GDP measures the aggregate output of an economy. When analysing the likely benefits of an AB reduction the Danish Ministry of Economic and Business Affairs uses a static general equilibrium model called the Copenhagen Economics Trade Model (CETM) to calculate the likely output effects of the individual sectors. That is done by calculating *'multipliers'* by which output would increase if the AB were reduced. The multiplier is calculated as the change in output divided by the size of the administrative burden reduction. For illustrative purposes, the following table assumes a DKK 100 million reduction of the AB in each sector, with the second column stating the calculated increase in the output of each sector. The third column depicts the multiplier, obtained by dividing column 2 by column 1. Note that the multiplier can be applied to any AB reduction, e.g. if there is an AB reduction in the entire economy by DKK 2 billion, the multiplier impact on output is DKK 2.78 billion.

Table 4 Multipliers for the entire economy and individual industries.

	Administrative burden reduction	Change in value growth	**Multiplier**
	Million DKK		
The entire economy	1,000	1,390	**1.4**
Agriculture, fishing and extraction of raw materials			
- Agriculture and fishing	100	143	**1.4**
- Extraction of raw materials	100	151	**1.5**
Supply of power, gas and district heating	100	71	**0.7**
Production Industry			
- Food industry	100	125	**1.3**
- Metal and electronics industry	100	136	**1.4**
- Chemical industry	100	186	**1.9**
- Transport industry	100	440	**4.4**
- Other production industry	100	164	**1.6**
Trade	100	60	**0.6**
Transport, postal and telecommunication			
- Transport by sea	100	404	**4.0**
- Other transport, etc.	100	180	**1.8**
- Communication services	100	122	**1.2**
Financing	100	112	**1.1**
Other service industries	100	127	**1.3**

(Source: The Danish Ministry of Economic and Business Affairs, "Growth Report, 2005": Chapter 6 Growth and administrative reductions).

The difference in the multiplier effect between the various industries is due to difference in the relative importance or contribution of labour in the production process, and affected by the amount of the produce that is exported and who the buyers are. The model assumes that Danish companies are price takers in the international market. i.e. they do not influence prices. A huge proportion of the transport sector is for export, meaning that the increase in productivity translates almost fully into higher demand for its produce at given world market prices (high price elasticity of demand). Hence the relatively high multiplier of 4.4. Supply of power, gas and district heating on the other hand sells its produce on the domestic market. The increase in productivity should lead to lower prices (assuming competition works) but does not lead to a substantial increase in demand (low price elasticity of demand) - hence the relatively low multiplier of 0.7.

If the output of a particular industry is largely bought by another industry as an input, it is likely that that other industry benefits twice: once directly from higher productivity itself and secondly from lower prices as a result of productivity increase in its input industry. This also impacts on the multiplier.

4.2.2. Environmental and Social Impacts

The impacts analysed so far are mostly of an economic nature, but environmental and social impacts need to be analysed too. Their analysis however is somewhat more limited in this particular IA. On the one hand it is clear that there is no real risk of lower environmental-, consumer-, or health standards as a result of an AB reduction that targets only unnecessary reporting requirements. It was stressed above that only unnecessary or obsolete requirements would be affected and that the achievements or objectives of existing legislation or policies should not be comprised.

Once concrete proposals for reduction are discussed, any concerns regarding risks that could potentially endanger the fulfilment of the underlying legislation would have to be discussed and taken into account. This IA deals with the overall AB reduction proposal, which means that any justification regarding why, for example, reducing the frequency of a reporting requirement would not affect standards will be dealt with on an individual basis.

An additional point that should be borne in mind is that by eliminating obsolete requirements one also achieves greater clarity regarding those requirements that are not obsolete and thus fulfil a very useful purpose indeed. This should have a positive impact on compliance with environmental and social legislation.

4.2.3. Summary

Economic modelling suggests that the opportunity cost of not reducing the AB by 25% could be in the range of 1.4 -1.8% in the level of GDP. This is a significant amount which underlines the need for action, particularly as there are no environmental or social costs that would present a trade-off. Moreover, analysis carried out in Denmark was presenting for illustrative purposes, shedding some light on such a reduction could look at the sector level Not actively reducing the AB should therefore only be contemplated if the costs of doing so proved to be too significant.

5. ANALYSIS OF OPTIONS

Option 1

Leaving things as they are should not be misinterpreted as meaning that there would be no AB reduction. More and more Member States are beginning to carry out their own reduction exercises. The UK the Netherlands, Denmark and the Czech Republic are already relatively far advanced. In the case of the Netherlands and Denmark, a baseline measurement has already been carried out and the process of reducing the AB is presently ongoing. Denmark began its baseline measurement in 2004 and by 2005 the AC were lowered by 5.1% with a goal of reducing it by 25% by 2010. Seventeen Member States are currently members of the Standard Cost Model (SCM) network, thus stating an ambition to measure and to reduce the AB. In the Absence of any Commission action, it is therefore reasonable to assume that some form of AB reduction would be carried out at national level by Member States themselves.

However, the extent to which Member States can reduce their AB without EU level involvement is somewhat questionable given that a substantial part of the AB originates from EU level[6]. Indeed, the more advanced Member States in this area have called upon the Commission to take a lead for precisely this reason, stressing that only a combined effort involving all levels can lead to an efficient across the board reduction. Moreover, there would be some risk that uncoordinated action by individual Member States could increase uncertainty and intra-EU trade barriers. This risk would obviously be mitigated by the fact that Member States alone could only target the part of the AB that's derived from national and regional legislation or that which is purely due to implementation at the national level.

Hence, while the do nothing option would save the Commission in the first instance significant financial expenditure and human resources (judging from the experiences by the Member States that have already carried out their own programmes), the scope that Member States could target would be seriously limited. Hence, it is highly unlikely that it would be possible with this option to achieve a 25 %. reduction of administrative burdens across the board. It would, in other words, be reasonable to assume that *existing problems* would persist. These *existing problems* in this case are the opportunity cost of foregoing improvements in competitiveness that ideally should manifest themselves in productivity or GDP rises.

Option 2

The onus of carrying out the baseline measurement and identifying items for reduction would be on the Member States. Under this option each member state would have to conduct a baseline measurement in order to ascertain which pieces of legislation or policy areas account for the AB and what the obsolete requirements are that can be cut. Member States could then directly progress to getting rid of those IO that derive from national or regional legislation. It is likely however that in the process of doing this Member States would identify certain pieces of legislation that are partly or fully in the domain of the EU level. Member States would not be in a position to reduce the AB stemming from those pieces of legislation on their own. Unlike the do-nothing option discussed above, this option envisages a commitment by the Commission to actively engage with, and aid Member States in their undertaking. When approached by Member States with concrete reduction proposals for which the Commission's support is needed, the Commission would examine them and develop in cooperation with Member States ways of eliminating obsolete IOs.

To prevent diverging schedules and to provide for some form of coherence, a timetable could be drawn up by the Commission in consultation with the Member States. It would also make sense to have a forum in which Member States discuss their reduction proposals before approaching the Commission so as to avoid duplication and to ensure consistency. Moreover, as the SCM network already includes 17 Member States, the Commission would also propose the universal use of the SCM. Member States would however be at liberty to choose another method or to adapt it according to their specific needs.

Provided that Member States present concrete proposals that could be easily assessed by the Commission regarding their viability, this option would involve a human resource commitment, but other than that come at little or no financial cost to the Commission. Instead, the financial cost of carrying out the baseline measurement and identifying policy areas and

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6 In the Netherlands, 44% of the measured AB stems from national requirements, while this figure is 57% for Denmark.

obsolete IOs would be borne by the Member States. In contrast to the do nothing option this option would allow the benefits of an AB reduction to be reaped – at least in theory.

The risks associated with the options of not delivering the hoped for outcome may be substantial. The vast majority of the human resource and financial burden would be on the Member States. Realising that resource limitations and competing priorities are not homogenous across all Member States, one has to allow for the possibility of some Member States progressing faster than others. Already a small number of Member States have progressed much further in this area than the rest. The reality of some Member States having more limited resources at their disposal for this type of exercise, given the competing demands in other areas, means that all EU-27 would either move ahead in unison by adopting the pace of the slowest progressing link in the chain, or at different speeds. It is likely that the latter would be the case in practice as those countries that progress faster want to realise the likely significant economic benefits. This could present the Commission with the conundrum of having to deal with reduction proposals presented individually by Member States, thus negating the efficiency benefits on the part of the Commission. Due to the linkages that exist between the EU economies it furthermore means that the benefits for those progressing faster are somewhat reduced as the full EUR 150 bn can only be realised if all reduce their respective AB by 25%.

In addition, as Member States operate in relative isolation consistency issues between the different measurements might emerge and invalidate cross EU- comparability as countries adapt the SCM a bit too much or do not use it at all. It might even be rational for those Member States with less resources at their disposal to free ride as regards IOs stemming from EU legislation by only measuring the part of the AB that is due to national legislation. Given the likely homogeneity of these countries it could introduce a bias favouring those countries that measure the whole baseline.

The combined effects of countries progressing at different speeds and measuring more or less entirely on their own make it far from clear that this would actually be a cost efficient option as far as the Commission is concerned. If Member States work largely on their own and end up making AB reduction proposals individually, there would be a need for the Commission to invest significant human resources in assessing these proposals, especially if they contradict one another or if they propose different priority areas for different countries.

Another significant factor to consider is the cost to the Member States and hence to the European taxpayer. If the costs incurred by the Netherlands, Denmark and the UK give a correct indication, and there is no reason to believe they do not, then the overall cost of measuring the AB would very substantial indeed for the Member States Certainly as far as the burdens associated with EU legislation is concerned – estimated to account for about 40% of all ABs – a centralised measurement exercise would generate significant cost savings due to economies of scale and the possibility to extrapolate certain data. Moreover, this would also ensure a much higher comparability of data across Member States than possible under the other options.

The Commission has been tasked with identifying possibilities of reducing the AB by the European Council. Given the likely benefits as discussed above, the AB reduction is a cornerstone of its Better Regulation agenda. Not exploiting the scale economies set out above would clearly be inconsistent with meeting the request of the European Council.

In summary, at a first glance this option promises to be cheap as far as the Commission is concerned. However, serious problems may be foreseen which negate many of the cost and human resource benefits. Moreover, when including the likely costs incurred by Member States under this scenario, it does not come cheap at all.

Option 3

Regulations and Directives and IOs stemming from their implementation would be the target of the Commission's AB reduction programme and only in selected priority areas. The priority areas selected are identified on the basis of the data that is available to the Commission from the four Member States that have already carried out their measurements. This data suggests that a relatively small number of priority areas cover well in excess of 75% of the AB associated with Community legislation. All other items that also count towards the overall AB would be left to the Member States. The Commission would identify all IOs stemming from EU level legislation in the priority areas and measure burdens in those areas. Member States could concentrate on the part that is a result of "purely" national legislation. The Commission would work with the Member States where joint action is required, in particular with regard the national transposition and implementing measures which would be measured through the Commission led exercise in the priority areas.

The advantage of this approach is that it could focus measurement on areas where there are clear synergies and thus speedup the process significantly by reducing the time it takes to eliminate unnecessary reporting requirements. Member States would cooperate closely with the Commission especially regarding reporting requirements that result at national level from the implementation or transposition of EU level legislation. In addition, this approach would free up resources allowing Member States to concentrate on their own, national legislation.

The mapping of the pieces of legislation that produce reporting requirements would be done by the Commission, with the help of consultants and in consultation with Member States. The actual measurement would be carried out by external consultants working for the Commission on the basis of an agreed methodology drawing on the pool of experience and information available from the Member States that have already carried out their own measurements. That information should enable the Commission to identify the policy areas in which the AB plays a particular role, thus giving the Commission the opportunity not to start from the beginning and to concentrate resources on those areas that promise to deliver the most significant benefits. Nevertheless, it is estimated that this option would cost the EU budget some EUR 20 m to finance the external consultants and necessitate the involvement of a number of officials from across the Services on a part time basis for a period of time. Although it would be misleading to simply monetise these HR impacts, due to their being employed by the Commission anyway, and probably fruitless to analyse what other work they could have carried out (the opportunity cost), the fact that there is an opportunity cost to involving significant HR in AB reduction must be borne in mind.

In Denmark six to seven officials in the unit coordinating the baseline measurement and reduction exercise are employed for this task on a full time basis. In addition, one official per ministry spent half his time supporting the baseline measurement for a period of eight months. The Netherlands have estimated that across all ministries and other public administration offices (e.g. Actal) c. 60 people spent or are spending at least a part of their time working on this task. The UK has estimates that three to five officials per Department (Ministry) are engaged with this exercise on at least a part time basis. For the Commission, the human resource implications of the proposed programme, which is much more focused than the

Dutch and UK examples cited above, are estimated to be around one official per relevant Directorate-General[7] who would have to spend 5-10% of their time between May 2007 and May 2009 on this task in a coordinating role. In addition, relevant desk officers in each DG would have to spend some part of their time, possibly some 10% during a given period of time helping to identify information obligations in the legislation and evaluating reduction possibilities resulting from the programme for items that are part of the priority areas. However, it should be stressed that most of this staff is already involved in similar tasks under the on-going 2006/2009 simplification rolling programme of the Community acquis. These staff implications are estimates and may not be the same for every DG as it is likely that for some DGs the human resource implications may be more taxing than for others in light of the nature of their work and the priority areas. In addition to the human resource implications for Commission officials there will also be demands on staff in the national administrations, e.g. to ensure effective close cooperation between the Commission and Member State administrations. The experience from the UK, NL and DK may be referred to as an indication of what the human resource demands might be at the national level, bearing in mind that they are based on scale baseline measurements.

A legislative financial statement (fiche financière) for ex-ante budgetary purposes has been prepared on the above basis and attached to the Action Programme. It only covers the DG Enterprise direct resources implications as it is believed that other Commission services will only be marginally affected for the reasons explained above.

As Member States would be left with measuring and making reduction proposals for those IOs that stem from the implementation of "purely" national legislation, there is a risk that this option could lead to Member States adopting different speeds with which the assessment of this part of the AB takes place, or is reduced. If different assessment methodologies are employed for the AB that is due to "purely" national legislation, the emergence of comparability issues could be a risk. However, there clearly is less need for fully streamlining and harmonising this part of the AB measurement and reduction. It is also reasonable to assume that familiarity with the methodology used for the EU level legislation and close cooperation with the Commission on this part of the AB would provide Member States with a very good incentive to also employ the same methodology in their national AB programmes.

Option 3 should resolve issues of comparability between different measurement databases, by ensuring full harmonisation concerning EU derived legislation and the AB it produces but also regarding the measurement of the AB which results from national legislation. By mapping IO's centrally it is ensured that they are mapped using the same criteria across all Member States. Thus this approach would harmonise the way in which IOs are attributed in directives. If the mapping of implementing measures of directives would be done nationally, the result could be divergence in the way IOs are attributed (whether to EC legislation or to national transposition measures).

A great deal of information is available from the countries that have already carried out their baseline measurements. From the pilot project that drew extensively on the measurements done by Denmark, the Netherlands, the UK and the Czech Republic it is known that the Ab is largely due to a limited number of information obligations. According to the pilot project, there seems to be a relevant concentration of costs in a limited number of policy areas. In

[7] The services likely to be involved in this measurement are: SANCO, ESTAT, REGIO, ENV, EMPL, MARKT, ENTR, TREN, TAXUD, FISH, AGRI.

Denmark, the top-10 most burdensome pieces of legislation in every ministry constitute 89.2 % of the total burdens. The Dutch and UK data supports this evidence of a particularly high concentration. This means that it would be sensible, at least in a first EU-wide measurement exercise, to prioritise and consider those areas for measurement that appear, from current national measurement exercises and on the basis of other information, to be most burdensome.

Thus, the following priority areas concerning EU legislation have been identified on the basis of the findings of this pilot project completed in October 2006, stakeholder contributions to the rolling simplification programme and the results of the consultation launched by the Commission working paper adopted on 14 November:

1. Annual accounts/Company law
2. Pharmaceutical legislation
3. Working environment/employment relations
4. Fiscal law/VAT
5. Statistics
6. Agriculture and agricultural subsidises
7. Food labelling
8. Transport
9. Fisheries
10. Financial services
11. Environment
12. Cohesion policy funds[8]
13. Public procurement

Annex II of the Communication on the Action Programme which is accompanied by this IA provides specific legislation in these areas which has been selected for the measurement. Should further work point at highly burdensome pieces of legislation at EU level that have been omitted in the annexed list, these will be added to the list. The list of priority areas and specific legislation is without prejudice to subsequent actions that will be taken to reduce administrative burdens.

Hence, spending only EUR 20m by concentrating on the above mentioned priority areas, while allowing for sufficient flexibility should these areas have to be amended, for example due to any sample bias they are based on, would allow the Commission to contribute towards ensuring that the likely GDP benefits as explained above can be fully materialised at

[8] For this policy area, the measurement will be carried out beyond businesses to all beneficiaries of the legislation. It will serve as a pilot for further measurements of EC legislation on categories other than businesses

reasonable financial costs and HR implications. . However, an additional option exists, namely for the Commission to measure and to map the entire AB regardless of its origins.

Option 4

This option, unlike option 3, would not look at priority areas but cover the entire Community acquis plus all national legislation. Ideally, the Commission should map and measure all the IOs that fall into this category. However, given the expenses incurred by the UK, Denmark and the Netherlands such an exercise would amount to significantly more financial and human resource implications for the Commission's services than envisaged under the previous option.

In addition to measuring all information obligations stemming from international and EU legislation, the Commission would have to measure information obligations in all Member States. This option obviously requires enormous resources to be spent by the Commission.

The advantage would be that one would have very comparable results because all measurements would be done in the same way. At the same time there would certainly be substantial economies of scale of doing everything centrally by the Commission.

However; this exercise would first of all be very expensive. The financial costs of this option would be similar to those calculated for option 2 although some economies of scale benefits would probably result in a lower cost than the total sum that was calculated in that option. The human resource implication for the Commission would be immense, bearing in mind the opportunity cost alluded to in options 3 regarding the implications for other Commission work. Moreover, it is questionable whether the Commission is well placed to measure the part of the AB that results from national or regional legislation. Due to different legal systems and traditions across the Member States it should arguable be left to the Member States to measure that part of the AB. In addition, it is also questionable in how far the Commission can or should make reduction proposals on the part of the AB for which it has no responsibility. Such interference by the Commission in what is within the sphere of national governments also risks producing political problems.

Also, it would not be possible to focus the measurements on priority areas because there is no central evidence on where the burdens fall within national legislation, other than from some SCM-using countries. In other words, it would not be possible to select priority areas as is the case in option 3.

Strictly speaking the likely GDP benefits that were discussed above could still produce a substantial net benefit; but as cost effectiveness and efficiency are also objectives that need to be met, one must also analyse whether this is the most cost efficient way of proceeding.

When taking account of suitability of the Commission to measure the part of the AB that derives from national or regional legislation, and considering the political questions and problems this approach could lead to, there are strong grounds for dismissing this option. The marginal benefit of carrying out an across the board and full baseline measurement, if indeed such a benefit exists, cannot be justified by the costs that it would involve.

6. COMPARISON OF OPTIONS

Based on the analysis that is presented above, a number of things should be noted. First of all, not actively reducing the AB is likely to deprive the EU economy of a much needed productivity impetus. The likely benefits in terms of GDP are so significant that the baseline option should only be contemplated if the costs of reducing the AB are prohibitively huge. That however is not the case. Three further options constituting the most feasible alternative ways of reducing the AB were considered. All four options including the baseline, are likely to lead to some form of AB reduction, but only option 3 offers the best guarantee of ensuring a real and speedy reduction across the EU. It does however require a substantial financial and human resource investment by the Commission. Although the calculations on which the GDP effects are based rest on certain assumptions, the fact that different models and different types of analysis all point to significant economic gains means that the calculations would have to overstate the GDP benefits by very high multiple in order to render the necessary investment on the programme unprofitable. Moreover, the other options are likely to require resource investments that would be at least as high, if not higher, than what is proposed in option 3. Instead of the Commission bearing a huge proportion of the costs, Member States would have to carry these themselves (option 2). Option 4 on the other hand would be even more resource using and mean that the Commission engaged in an area where the value-added of EU level action is doubtful (subsidiarity), given that Member States should have a better understanding of their own national legislative requirements than the Commission. Thus, it is proposed that the Commission, the Member States and the co EU legislators proceed as envisaged in option 3.

7. MONITORING AND EVALUATION

As no exercise of this sort has ever been carried out it is essential that progress is monitored throughout so that any difficulties are picked up early on to allow for effective action to be taken. Interim targets will be set up in order to assess progress and to ensure success. To allow for an assessment of whether these targets are met periodic measurements of the AB or calculations of its reduction from the baseline will be carried out.

The Commission's large measurement exercise will commence in the spring of 2007 and conclude in the fourth quarter of 2008. The exercise will also identify possible AB reduction options and report periodically on the results. Reporting will also be carried out through the rolling simplification programme which already contains a number of important proposals to reduce administrative burdens[9], in a separate chapter. In this way, the simplification programme could contribute to the monitoring of progress on the implementation of the administrative burden reduction strategy. Member States will in the meantime engage in similar actions during this period and deliver on burden reductions by modifying national and/or regional legislation. Member States should report on their national administrative burden reduction programmes in the "Better Regulation" chapter of their progress reports in

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[9] See "First progress report on the Simplification Strategy To Improve The Regulatory Environment", Staff Working Document, October 2006. For instance in the following policy areas: Environment: review of the Integrated Pollution Prevention and Control Directive (IPPC) and other related legislation on industrial emissions with a view to improving clarity and consistency (notably in terms of reporting) and streamlining requirements; Construction products Directive, with a view to clarifying and reducing the administrative burden, in particular for SMEs, through more flexibility in the formulation and use of technical specifications, lighter certification rules, and elimination of the implementation obstacles that so far have hampered the creation of a full internal market for construction products;
Statistics: lighten statistical reporting by economic operators, possibly exempting SMEs, taking into account the outcome of the ongoing pilot project on the measurement and reduction of administrative costs and the feasibility study to analyse the workability of a collection system limited to one flow.

the context of the "Growth and Jobs" strategy. In this way, the Commission can annually report on overall progress – at Community and national level – in its Annual Progress Report (APR) on the Growth and Jobs Strategy, thereby assisting the European Council in giving further direction to this programme. As set out above, the Spring 2009 European Council will be an important mid point in the AB Action Programme and the 2008 Commission APR will, therefore, contain mid term assessment of the Programme, accompanied, where necessary, by further proposals to strengthen it.

It is expected that by March 2009 all Member States will have completed their measurement – at least in priority areas at national level and will be ready to set their own specific national targets. They will be assisted in this by the measurement which the Commission will have carried out by that time of the AB associated with Community legislation, which represents some 40% of all ABs in the Member States. For Member States this is a process that invariably must take into account different starting points as several have already carried out a baseline measurements and are advancing in their cost reduction programmes.

As long as all actors involved engage in delivering in accordance with the above timetable, then the Spring European Council of 2012 will be able to take stock of the entire strategic programme and conclude it.

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