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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Action Programme for Reducing Administrative Burdens in the European Union

Summary of the Impact Assessment

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

Executive Summary

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. 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. This Impact Assessment accompanies the Communication from the Commission on the *Action Programme for Reducing Administrative Burdens in the European Union*. The aim of this IA is to identify the most efficient and effective way of reducing the AB. 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.

The response to increasing competition from low wage economies in Asia and elsewhere rests on boosting competitiveness and productivity and high value-added production. The improvement of the business regulatory environment is one way in which competitiveness can be improved. Many administrative burden requirements fulfil a very useful role and are needed by public authorities in order to successfully implement public policies and/or to gather information.

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.

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% in Greece, Hungary and the Baltic States to 1.5% 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.

The existing administrative burden is a result of EU level and national and regional level legislation, and as such something that needs to be dealt with at least in part and where possible at the Community level.

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 by 2012. As limited resources are available with which to bring about this reduction (EUR 20m), a further objective is to ensure efficiency and cost effectiveness.

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.

The IA provides evidence based on experience from Member States that have already carried out their own measurement exercises (Denmark, the Netherlands, the UK and the Czech Republic) and economic modelling which suggests that the likely gains from an Administrative Burden reduction by 25% can be substantial in terms of GDP and employment. 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% to 1.8% of GDP. Where employment effects have been considered there is an indication that the impact on employment will be positive as long as one allows for increases in competition.

Gelauff and Lejour (2006)¹ 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 and thus productivity. Internal Commission calculations based on the same methodology and the same model, namely the general equilibrium model WORLDSCAN, but with some changes made to the underlying assumptions produce a similar result. A further econometrics based model called QUEST suggests that GDP can increase by up to 1.8%. This model also takes account of employment effects, predicting that there would be a positive impact on employment if one allowed for new firms entering the market due to higher profits. Furthermore, sector specific analysis on the likely economic impacts from Denmark also points to significant benefits.

As the reduction will be aimed at unnecessary reporting requirements there are no expected negative impacts in the environmental or social sphere. Indeed, clarifying requirements might even produce benefits through increased compliance. In addition, as further IA work will have to be carried out on concrete reduction proposals once these exist any unlikely negative impacts would be identified then.

The IA looks at four options and provides a detailed analysis of their positive and negative implications. Option 1 (the baseline option) entails leaving things as they are. Option 2 considers action by Member States only with the Commission making a commitment to helping Member States when called upon to do so. The third option envisages the Commission targeting the part of the administrative burden which at least in part originates from the Community level and in selected priority areas. The last option looks at the Commission targeting the whole administrative burden, regardless of whether it originates at the EU, from international obligations or at national/regional level.

All four options would lead to a reduction of the administrative burden but it was found that option 3 would guarantee a real and speedy measurable reduction across the EU. The baseline option envisaged some form of administrative burden reduction as more and more Member States embark upon their own national measurement and reduction programmes. This reduction however would be hampered by the fact that EU level involvement is crucial for ensuring optimal results given that a part of the burden stems from Community legislation.

¹ 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 by DG ENTR.

This option would of course save the Commission the EUR 20m it is going to spend on the exercise. However, in light of the likely positive benefits mentioned above this investment would be fully justified. Option 2 would again lead to resource savings for the Commission but there are concerns about comparability if every Member State embarked upon their own measurement more or less in isolation and how to ensure effective and efficient EU level involvement for Community legislation. In addition, it is likely that this option would not save any resources when aggregating the resource implication for all the Member States. Option 4 on the other hand would be hugely costly to the Commission, which in addition to that is not even the best placed to measure and map the part of the administrative burden which has its origins in national or regional legislation. A targeted approach based on certain priority areas would not be possible with the marginal benefit of measuring the whole administrative burden highly questionable.

Under Option 3 Regulations and Directives and information obligations (IOs) stemming from their implementation are 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 available data 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. The Commission will identify all IOs stemming from EU level legislation in the priority areas and measure burdens in these areas. Member States can concentrate on the part that is a result of "purely" national legislation. The Commission will work with the Member States where joint action is required, in particular with regard the national transposition and implementing measures which will be measured through the Commission led exercise in the priority areas.

The advantage of this approach is that it centralises measurement in areas where there are clear synergies thus potentially speeding up the process significantly and reducing the time it takes to eliminate unnecessary reporting requirements. 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 can be done by the Commission, with the help of consultants and in consultation with Member States. The actual measurement will 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 enables 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.

This option also resolves 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 the IO's centrally it is ensured that they are mapped using the same criteria for all Member States. It will also harmonise the way in which IOs are attributed in directives. If the mapping were to be done nationally for the implementing measures of directives, then there might be divergence in the way an IOs is attributed (whether to EC legislation or to the national transposition measure).

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 costs are 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 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 priority areas (see Annex II) 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.

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. 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. Reporting will also be carried out through the rolling simplification programme which already contains a number of important proposals to reduce administrative burdens, in a separate chapter.

As long as all actors involved engage in delivering, meaning the EU level institutions and the Member States, the Spring European Council of 2012 will be able to take stock and conclude this exercise