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**COMMISSION WORKING DOCUMENT**

**Measuring administrative costs and reducing administrative burdens  
in the European Union**

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## COMMISSION WORKING DOCUMENT

### Measuring administrative costs and reducing administrative burdens in the European Union

#### 1. INTRODUCTION

The European Commission has proposed an ambitious strategy to measure administrative costs and reduce administrative burdens in the EU, which includes the adoption of a joint EU target for reducing these burdens by 25% overall in the medium term. This underlines the Commission's commitment to Better Regulation as part of the "Growth and Jobs" strategy.

This working document accompanies the Strategic Review of Better Regulation in the EU and provides a detailed presentation of the building blocks of the EU-wide strategy for measuring administrative costs and reducing administrative burdens which are proposed in the Strategic Review. These building blocks have been formulated on the basis of the pilot study on measuring administrative burdens, which was carried out in the summer of 2006, and are summarised below hereunder<sup>1</sup>. This paper intends to initiate a wide ranging discussion with the Council, the European Parliament, the Member States and stakeholders on the best way to reduce administrative burdens in the EU. On the basis of this discussion, the Commission will present a proposal for an EU Action Programme on administrative burdens reduction in January 2007, in time for the spring 2007 European Council. This paper, therefore, constitutes the first element of the Commission's response to the June 2006 European Council Conclusions which invited the Commission to make appropriate proposals on reducing administrative burdens by early 2007.

#### 1.1. Administrative costs and the EU business environment

A large part of EC legislation has been introduced to correct market failures and ensure a level playing field at Community level. That assurance can often only be secured through obligations to provide information and report on the application of legislative norms. However some of the procedures in place have become needlessly time-consuming, excessively complicated or useless.

Unnecessary and disproportionate administrative costs severely hamper economic activity. They are also an important irritant to business activity and are often identified as a priority in consultations on simplification. The Commission is committed to reducing these unnecessary burdens to the maximum extent possible.

Administrative costs are important since businesses across the EU are required to spend considerable amounts of time filling in forms and reporting on a wide range of issues. By reducing unnecessary reporting requirements a company's employees can spend more time on core business activities which may reduce production costs and allow additional investment and innovation activities to materialise, which in turn should improve productivity and overall competitiveness.

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<sup>1</sup> "Pilot project on administrative burdens", WIFO-CEPS, October 2006.

There are presently only four Member States which have measured administrative costs. However, an assessment based on an extrapolation of Dutch data suggests that administrative costs may amount to circa 3.5% of GDP in the EU.

Administrative costs by Member State																					
	AT	BL <sup>2</sup>	CZ	DE	DK	ES	FI	FR	UK	GR	HU	IE	IT	NL	PL	PT	RE <sup>2</sup>	SK	SI	SE	EU-25
Administrative cost share in GDP (in %) <sup>1</sup>	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
<sup>1</sup> Based on Kox (2005): Intra-EU differences in regulation-caused administrative burden for companies. CPB Memorandum 136. CPB, The Hague.																					
<sup>2</sup> BL combines Belgium and Luxembourg; RE combines the Baltic Member States, Malta and Cyprus; EU-25 figures are GDP-weighted averages																					

In 2004 the CPB, the Dutch Bureau for Economic Policy Analysis estimated that reducing the administrative burden by 25% would eventually lead to an increase in EU GDP of 1.6%.

Recent work carried out by the Commission<sup>2</sup> services, building up on CPB estimates, indicates that a 25% administrative cost reduction may yield significant benefits of up to 1.5% - or some €150 billion - in the level of GDP<sup>3</sup>.

### Graph: GDP effects by 2025 of a 25% reduction in administrative costs

Table

#### Reduction of administrative cost and gains in GDP by Member State

(changes in % from GDP in baseline for 2025)

	AT	BL	CZ	DE	DK	ES	FI	FR	UK	GR	HU	IE	IT	NL	PL	PT	RE	SK	SI	SE	EU-25
Changes in GDP levels (in %)	1,8	0,9	1,3	1,3	0,7	1,7	0,6	1,4	0,5	2,4	2,6	0,8	1,7	1,3	1,9	1,7	2,6	1,9	1,4	0,5	1,3

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

Source: DG ENTR and CPB 2006

## 1.2. Defining administrative costs

Administrative costs mean the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their activities

<sup>2</sup> "EPC Better Regulation Thematic Paper", European Commission.

<sup>3</sup> It is important to bear in mind that this represents a step change in the level of GDP in the year in which it is reported. For example, if administrative burden was cut by 25% between 2007 and 2011, GDP in 2011 would be 1.5% higher than without the reduction. This gain is permanent insofar as if the administrative burden remains at the lower (75%) level, GDP will stay higher. However, it does not affect the growth rate of GDP, i.e. the dynamics of GDP growth.

(or production), either to public authorities or to private parties. They are different from compliance costs which stem from the generic requirements of the legislation, such as costs induced by the development of new products, or processes that meet new social and environmental standards. Consequently, administrative cost reduction measures are limited to streamlining information requirements and do not affect the basic design of the underlying legislation. This suggests that simplification measures to reduce administrative costs are developed more easily than measures aimed at changing the nature or the scope of the underlying legislation. Given their nature and in light of experiences in Member States which have developed administrative cost reduction programmes, these reduction measures should be relatively straightforward to decide and implement. Such measures are therefore fundamentally different from deregulation initiatives.

Administrative requirements can be further broken down into information obligations (IOs). This can best be explained as follows: a piece of legislation may contain requirements for submitting information (i.e. submitting a certificate of conformity to a public authority, on a regular basis). Each specific requirement in the legislation is defined as an IO.

*An important distinction must be made between information that would be collected by businesses even in the absence of the legislation and information that would not be collected without the legal provisions. The former are called administrative costs; the latter administrative burdens. The Commission's Better regulation strategy is aimed at measuring administrative costs and reducing administrative burdens.*

**1.3. Distribution of administrative costs in the European Union**

Only three baseline measurements carried out by Member States allow the breakdown of costs into categories A, B and C as identified below. Data from the Dutch and Danish measurements<sup>4</sup> suggest that a minor part of the cost originate from transposition and implementation measures, while substantial costs are related to national and international obligations. The UK data are not yet fully available, but will be published shortly; however, the data, shared with the Commission to facilitate the piloting, seem to underline the importance of national obligations. It is evident that a considerable amount of costs originate at national level, which calls for a strong national commitment, alongside the Commission efforts, to improve the business climate.

<b><u>The distribution of administrative costs in DK and NL</u></b>		
<b>Share of administrative costs by origin of legislation</b>	<b>DK</b>	<b>NL</b>
Category A: originates directly in international <sup>5</sup> law	28%	43%
Category B: international origin but implemented nationally	15%	13%
Category C: national origin	57%	44%

Source: Denmark and Netherlands baseline measurement

<sup>4</sup> Similar breakdowns are not available for the Czech Republic and have not yet been made public by the United Kingdom.

<sup>5</sup> Category A included both costs originating in EC legislation and in international (non-EU) legislation.

There are indeed significant differences between the Member States reviewed which are likely to be caused by differences in the measurement methodology used, but may also be due to sectoral differences in national economies, different legal traditions and different administrative cultures<sup>6</sup>. Nevertheless, this data is important since it identifies where costs originate and, therefore, also where simplification measures can be introduced. It is clear that the common EU target proposed by the Commission will require action both at EU and national level. Only a joint effort will significantly improve the business environment in the EU.

The comparison of administrative costs is also difficult because pieces of legislation vary across Member States. In order to improve comparability, it is more efficient to look at Information Obligations (IOs) rather than at entire pieces of legislation. Hence, the IOs constitute the building blocks of any administrative cost reduction programme.

In determining regulatory origin, it is essential to be able to determine precisely whether the measure is transposing an obligation set at a higher level; and whether the transposing authority has added something to that 'original' obligation (gold-plating). This is important because responsibilities need to be clearly established for political, but also for practical reasons. 'Internal' measures and 'transposing' measures require different treatments: when the authority has 'created' or added to an obligation, it is free to reduce or suppress it; when it is strictly transposing an obligation, it usually needs a collective decision to proceed.

Transposition is usually straightforward thanks to cross-references or recitals at the beginning of the act. Administrative costs stem primarily from four sources: international law, EC law, national law and sub-national (regional) law. International law always needs transposition. In order to give effect to an international treaty, signatories must ensure that its provisions are accorded the status of (domestic) law, i.e. transposed in their legal order. By contrast, part of EC law is directly applicable ('Regulations'), part needs transposition ('Directives')<sup>7</sup>. As a result, some EC and national measures are transposing international obligations (World Trade Organisation, Kyoto protocol, etc.), while some national and sub-national measures are transposing EC law.

Determining the extent of gold-plating is also fairly straightforward when the obligation set by an international treaty or an EC act is clear, precise and unconditional. The transposing authority should only be held accountable for what it adds to that obligation. Expert judgment may be required when these conditions are not met.

## **2. MEASURING ADMINISTRATIVE COSTS: EXPERIENCES TO DATE**

### **2.1. National measurements and the Standard Cost Model**

It is important to recognise the work already carried out by Member States that have pioneered measurement and to draw on the lessons learned when devising the EU Action

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<sup>6</sup> Pilot project on administrative burdens", WIFO-CEPS, October 2006.

<sup>7</sup> The distinction between Regulations and Directives however is not always a reliable basis for determining who is accountable for the level of administrative obligations. Indeed some Directives set clear, precise and unconditional information obligations. Member States have de facto no room to decide how they will transpose. Conversely some Regulations only set general obligations or let Member States set national thresholds.

Programme. Efforts to measure administrative costs by the Dutch Ministry of Finance resulted in the development, of the Standard Cost Model (SCM). The SCM was developed to provide a simplified and consistent method to measure and consequently reduce the impact of business regulations.

The main strength of the SCM is the high level of detail it provided when measuring administrative costs by, for example, assessing individual activities. The SCM's methodology makes it possible to produce standardised cost data of the resources used by businesses in order to comply with specific laws and executive orders. In practice, the SCM aims to identify the Information Obligations contained in regulations that require businesses to make information available to public authorities or third parties. It is possible – although often difficult – to subdivide these information obligations into so-called ‘data requirements’ (DRs). To fulfil the required information obligations – or rather, to produce the requested information – affected businesses normally have to carry out additional administrative activities. The costs of these additional activities may arise from the internal use of employees’ time or from the external consumption of resources (e.g., fees for external experts, outsourcing costs). In the Netherlands this methodology was used for carrying out, a full baseline measurement in 2003.

The use of the Standard Cost Model (SCM) methodology has been taken up by several countries and has also resulted in the development of a network of members (countries) who either intend to use it for measuring their administrative costs or act as observers. Seventeen<sup>8</sup> of the twenty-five EU countries are currently part of the network and four (The United Kingdom, the Netherlands, the Czech Republic and Denmark) have completed a full scale measurement of their stock of legislation and have been able to identify the origins (national or international) of their legal information requirements. Several of them have set ambitious reduction targets. Austria and Germany have recently embarked on a similar process. In other members of the SCM network that have not yet engaged in a full baseline measurement, the use of the methodology has triggered several initiatives in different policy areas. It is important to underline that while the basic approach is very similar in the Member States concerned, there are nevertheless significant differences in the precise application of the SCM between Member States which render comparisons difficult.

## **2.2. The EU model**

On 23 March 2005, the European Council requested “the Commission and the Council to consider a common methodology for measuring administrative burdens with the aim of reaching an agreement by the end of 2005”. On 16 March 2005 the Commission's Communication on Better Regulation for Growth and Jobs in the European Union included, as a companion Staff Working Paper, a detailed outline of a possible “EU Net Administrative Cost Model” based on the SCM<sup>9</sup>.

In particular, in the Staff Working Paper the Commission assessed the merits of developing a common approach for the measurement of administrative costs to redress the differences in the way the SCM is applied. The expected benefits of such a common approach are:

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<sup>8</sup> Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Ireland, Latvia, Luxembourg, the Netherlands, Poland, Sweden and the United Kingdom.

<sup>9</sup> European Commission, Staff Working Paper, Annex to the 2005 Communication on Better Regulation for Growth and Jobs in the European Union, Minimizing Administrative Costs Imposed by Legislation, Detailed Outline of a Possible EU Net Administrative Cost Model - SEC(2005) 175, 16.3.2005.

- clarify possible differences in procedures adopted at EU and Member State level;
- easier cross-country or cross-policy area comparison, benchmarking and the development of best practices;
- economies of scale in terms of data collection and validation.

The outline of an EU Net Administrative Cost Model was then amended and refined through a pilot phase carried out from April to September 2005. The pilot phase was aimed at testing ways of assessing administrative costs imposed by EC legislation, and led the Commission to present a revised methodology, also called the "EU SCM"<sup>10</sup>. The Commission listed a number of possible improvements to the EU SCM, while making clear that such optimisation was no precondition for its application. An operational manual for applying the model was included in the Impact Assessment guidelines on 15 March 2006<sup>11</sup> and translated in all EU official languages to facilitate methodological convergence. The EU SCM has been applied in a number of published or upcoming Impact Assessments<sup>12</sup>.

### 2.3. A comparison between the two models

Most of the important methodological features, proposed by the Commission, present strong similarities with the prototype SCM originally developed in the Netherlands<sup>13</sup>. For example, the Commission proposes to use the same core equation, the same relevant cost parameters (e.g. internal/external tariffs, cost of equipment and supplies) and the same formulas for expressing the frequency of administrative activities, and the same approach in the assessment of the performance of a "normally efficient entity"<sup>14</sup>.

However, the EU common methodology also exhibits a number of specificities which currently are only shared by some national SCM variants. These differences lie in the scope of those targeted by IOs (including citizens and the voluntary sector)<sup>15</sup>, in whether information provided to private parties should be included<sup>16</sup> or whether to assess substantial one off costs, and how to set an exclusion threshold for IOs<sup>17</sup>. In order to facilitate information encoding

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<sup>10</sup> See Staff Working Document, *Developing an EU common methodology for assessing administrative costs imposed by EU legislation - Report on the Pilot Phase* (April– September 2005), SEC(2005) 1329, annexed to the Communication on a "EU common methodology for assessing administrative costs imposed by legislation" - COM(2005) 518, 21.10.2005.

<sup>11</sup> See [http://ec.europa.eu/governance/impact/docs\\_en.htm](http://ec.europa.eu/governance/impact/docs_en.htm).

<sup>12</sup> See, for instance, Impact on postal services SEC(2006) 1292 accompanying COM(2006) 594.

<sup>13</sup> A fully fledged methodological analysis can be found in the Commission's Pilot project on administrative burdens", WIFO-CEPS, October 2006.

<sup>14</sup> Operational manual, *passim*.

<sup>15</sup> The EU SCM aims at assessing costs imposed by legislation on enterprises, the voluntary sector, public authorities and also citizens. The EU common methodology is similar to the current version of the Dutch SCM in this respect, but appears broader in scope than the measurements carried out in Denmark or the UK.

<sup>16</sup> The EU common methodology includes not only information obligations towards public administrations (e.g. accounting requirements), but also information obligations towards private parties, such as consumers (e.g. labelling). This feature is included in the Dutch and Danish measurement.

<sup>17</sup> In keeping with the principle of proportionate analysis, the EU methodology attaches particular importance to the definition of the most suitable thresholds to be used to identify information obligations that should be excluded from the analysis. The consultation undertaken with some member states highlighted that the only possible option would be to set thresholds expressed in number of hours, in line with the Danish SCM variant.

and retrieving, the EU SCM provides typologies of information obligations and required actions<sup>18</sup>. More importantly perhaps, its report sheet allows to link transposition measures with their original act<sup>19</sup> and accounts for gold-plating<sup>20</sup>. Finally, the EU SCM when applied for (ex ante) impact assessment follows a “net cost” approach, where net costs are the costs introduced by the proposed measure minus those eliminated by the measure at EU and/or national level. This last feature conceived for ex ante analysis is not, as such, suited for the measurement of the costs of existing legislation.

### **3. DEVELOPING AN EU WIDE MEASUREMENT OF ADMINISTRATIVE COSTS**

#### **3.1. Identifying Information Obligation (IOs)**

A key finding of the pilot project is that the identification of specific IOs must constitute the basis of the measurement programme. Even if the number of IOs is known to vary considerably across Member States<sup>21</sup>, IOs are easier to compare than entire pieces of legislation which vary across Member States. This implies a clear classification of such IOs in the basic acts and in the subsequent implementation rules, both at the EU and national levels. This is critical for the quantitative measurement, the setting up of appropriate reduction targets (global baseline, by policy areas, by Member States, by national/regional authorities) and the assignment of responsibilities, such as who should act to reduce costs.

The carrying out of an EU wide measurement includes several methodological challenges. First, the use of the methodology requires a precise mapping of all the major IOs legally required by the legislative act. Secondly, it is evident that for an EU wide measurement to take place some harmonisation and attribution of which IOs are to be measured will be required.

#### **3.2. Minimum harmonisation requirements**

As the Member States which have already completed their baseline measurements adopted slightly different variants to the original Dutch SCM, cross-country comparisons of the existing data are difficult to make, in particular when trying to aggregate results and determine the origin of the IOs.

For the EU planned measurement programme, a certain minimum level of harmonisation will be required to allow for the validation and comparison of data, to produce meaningful results at the EU level and for setting up of ad hoc reduction targets.

The results of the pilot programme suggest that the following parameters will need to be harmonised:

- the classifications by origin of IOs;
- the standardised cost ratios (overheads);

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<sup>18</sup> National SCM variants provide exemplary lists.

<sup>19</sup> If the act assessed is the transposition of an act adopted at another level, the report sheet provides the article and § of the 'original' act where each information obligation is defined.

<sup>20</sup> Percentages written in the international, EU, national and sub-national columns indicate if the transposition strictly follows the original obligation and, if not, how much costs transposition is adding.

<sup>21</sup> The UK mapped almost 20 000 obligations against 1 100 in Denmark and 3 000 in the Netherlands.

- the type of administrative activities concerned and the populations (segmentation of the number of sectors-firms) affected;
- the definition of an “efficient business”;
- the entities concerned (e.g. households, businesses, administrations, etc.).

Such methodological issues need to be agreed beforehand between the Commission and the Member States. Various options are on the table at this stage for each of these variables but it would seem appropriate to base the exercise on the definitions of the parameters provided in the EU SCM. However, it is proposed for the purposes of this first measurement exercise to limit the scope to businesses<sup>22</sup>, in line with the Growth and Job strategy since there are still a number of unresolved issues relating to the evaluation of costs imposed on other groups.

### 3.3. A proposal for the scope of the measurement exercise

Given the importance of European and national legislation for generating administrative costs and the connections between both, it is clear that measurements should cover both levels. Moreover, given the scale of the operation, it is clear that the Commission and the Member States both need to contribute to the programme. In practice there are three different possibilities as to the **scope** of the EU measurement exercise. The programme could aim at identifying IOs and measuring the administrative costs of<sup>23</sup>:

- EC regulations and directives (including IOs originating from international law),
- EC regulations, directives and the national implementing measures used to transpose the directives,
- the costs of information requirements originating from all sources of legislation.

In light of the data available for the countries that have measured costs, the last option would seem the most appropriate. For practical reasons, however, it is proposed that within this programme, only the measurements of EC regulations and directives and their national implementing measures would be carried out through the Commission co-ordinated measurement project. Meanwhile, Member States would carry out measurements of information requirements originating in national legislation only. This would ensure an efficient use of available resources.

The pilot project has also demonstrated that costs are heavily dependent on 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. The UK data, which will be published shortly by the UK Government, suggests 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

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<sup>22</sup> This does not prevent Commission initiatives aimed at reducing administrative burdens for citizens, public administrations and/or the voluntary sector.

<sup>23</sup> For further technical details see European Commission, Staff Working Paper, Annex to the 2005 Communication on Better Regulation for Growth and Jobs in the European Union, Minimizing Administrative Costs Imposed by Legislation, Detailed Outline of a Possible EU Net Administrative Cost Model - SEC(2005) 175, 16.3.2005.

exercises and on the basis of other information, to be most burdensome. National measurement exercises and other information point at the following areas as possible priorities. The list gives the relevant data from NL, DK and CZ, but also reflects the UK data, which were made available to the Commission for the piloting and will be published shortly by the UK Government (see Annex 2).

The tables in Annexes 3 and 4 are the result of the pilot project looking at cross-country data and suggest priority areas for reducing administrative burdens. The Commission will define its priority areas in the Action Programme to be published in January 2007.

It is clear that the baseline measurements should be carried out in close co-operation between Member States and the Commission. Hence, it is proposed that the Commission map Information Obligations (IOs) written in EC legislation. This mapping will be subsequently validated.

### **3.4. Organisational issues**

The Commission would like to take the above approach forward through a partnership with the Member States, supported by a services contract which will be awarded through a call for tender to be launched in January 2007. The results deriving from other initiatives, in this field, carried out by Commission services will contribute to this work. For example, the Commission intends to launch a number of studies on the measurement of administrative burdens in specific sectors. For example, as regards Council Regulation (EC) No 1782/2003 a study on the measurement of administrative burdens for farmers resulting from the 2003 CAP reform will be launched in December 2006.

The outsourced services will essentially consist of setting up and running an international team of experts that will perform the required work for the Commission and the Member States for a maximum period of up to three years.

The essential tasks of the contractor could be:

- to assist the Commission and the designated representatives of national governments in establishing baselines for a comprehensive measurement exercise, in priority areas, of administrative costs arising from national and Community legislation on the basis of the principles set out above (to be further defined in the Action Programme),
- to assist the Commission in developing a series of administrative burden reduction programmes by means of proposals for action and targets at national and Community levels on the basis of best practices and common principles (see Chapter 4).

In order to assist the Commission with monitoring the contractor's activities, control work in progress, define priorities and approve the contractor's regular reports, a Task Force could be established and composed of representatives of the Commission services and of Members of the High Level Group of national regulatory experts

The work will not cover national legislation which should be measured individually by Member States and which may cover different priority areas as appropriate to national realities.

It is also envisaged to exchange views on a regular basis with the existing SCM network and to seek their input on methodological issues that may arise. In addition, research has demonstrated that the administrative burdens stemming from applying legislation can vary considerably between Member States. Learning from successful examples is one way of reducing these burdens and the Commission will work with Member States to identify and disseminate good practices in this area.

#### **4. TARGETS FOR REDUCING ADMINISTRATIVE BURDENS**

In order to reduce administrative burdens in the EU, political commitment is needed at all levels. Reaching agreement on common reduction targets ensures political momentum and makes all actors responsible for reducing the burdens under their control. With targets, it becomes easier to monitor the whole process of administrative burden reduction. By examining actions taken by the four Member States which have already embarked on administrative costs measurement and reduction programmes, the following lessons can be drawn for the development of an EU strategy.

##### **4.1. Target setting in four Member States**

The four countries which have already started (or completed) the measurement phase and act on the basis of this measurement have similar approaches in their target setting strategies: First, all countries have set a ‘political’ overall target before getting the results (UK) or even before starting the measurement phase (NL, DK, CZ). The Netherlands and Denmark have set a reduction target of 25% of the baseline measurement (in a 5-year timeframe), while the Czech Republic has set a target of 20%<sup>24</sup>. These differences are, however not considered to be of huge significance. These general targets were set to anchor the exercise and the overall level of ambition. While the targets are necessarily somewhat crude and not based on any specific analysis, they have functioned remarkably well in providing a framework and generating the momentum necessary to push through the exercise. Secondly, specific sectoral targets (by ministries/departments) were set in the Netherlands and are being set in the UK after completion of the measurements phase. This possibility is also considered by the Czech Republic. Finally, for three Member States, the reduction targets set are net, in the sense that new administrative burdens imposed on businesses in the considered period of reduction are included in the total amount to be reduced.

##### **4.2. Lessons for developing EU targets**

As set out in the Strategic Review and illustrated above, only common targets for the Community level and Member States can generate significant results. This is why the Commission has proposed that a common reduction target should be set for all administrative burdens in the EU. The target setting should comprise three elements.

Firstly, the experience of the Member States reviewed above suggests that a general target should be set at an early stage in conjunction with the launching of a measurement exercise based on an agreed methodology. The Commission considers that the European Council should set this target in spring 2007. It is proposed that it should amount to an administrative burden reduction of 25% in the entire EU. For those parts of the measurement to be carried

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<sup>24</sup> The Czech Republic has left open the possibility of adjusting its target after completing the measurement exercise.

out by the Commission, action will be directed to burdens originating in the priority areas to be proposed in the Action Programme<sup>25</sup>. It is expected that the 25% target be achieved within 5 years. For monitoring purposes, an intermediary target of 3 years could be proposed. This timeframe is ambitious given that a measurement exercise on this scale is unprecedented and will take a considerable amount of time – presently estimated at least 1,5 year. On completion, the Commission and the Member States will need to draw up proposals, accompanied by an Impact Assessment. Finally, the changes necessary at Community level will, to a large extent, need to be decided through the Interinstitutional process. This timeframe will, therefore, require strong commitments of the EU Institutions and Member States.

Secondly, more specific partial targets will be set, by policy areas, according to the results of the baseline measurements (i.e. in the fourth quarter of 2008): higher reduction targets could be envisaged in policy areas where the administrative burdens are particularly heavy and the scope for reduction is significant.

Thirdly, in addition to the overall and the partial targets, it is proposed to start work already in the first half of next year on a limited number of administrative burden reduction proposals that are likely to generate significant benefits through minor changes in the underlying legislation. A quick harvest of these "low hanging fruits" would be tangible evidence of the commitment of the European Institutions to this agenda and would allow significant results to be achieved at an early stage. It is proposed that these low-hanging fruits be identified in the early 2007 Action Programme following consultation on this Commission working paper, while duly taking into account planned and ongoing policy review processes<sup>26</sup>.

The targets should be agreed by the European Council and the European Parliament to ensure that there is a strong and broad commitment to this agenda. Given the nature of the simplification proposals at the EU level, it is suggested that administrative burden reduction proposals should receive priority treatment in interinstitutional decision making, preferably through the fast track procedure<sup>27</sup>.

Finally, the commitment by Member States will be crucial since a considerable share of the costs originates directly from national and regional legislation, and they will have to decide on reducing these costs if the overall target is to be met.

The evidence from the four Member States that have carried out a full baseline measurements, covering both costs originating at Community and Member State level, suggests that a 25% reduction target can be met by streamlining information requirements at both levels. This is further corroborated by the more partial measurement exercises carried out by larger number of Member States in individual sectors as reviewed in Annex 1. These empirical results demonstrate the existence of significant administrative burdens that can be reduced by relying on a number of cost reduction methods set out in Chapter 5 without affecting the objectives of the underlying legislation. The Commission is, therefore, confident that a joint programme with Member States over a five year period will allow the target to be reached. It is equally

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<sup>25</sup> Other planned and ongoing review processes, including the single farm payment review, will be explicitly counted towards the 25% target.

<sup>26</sup> A "health check"-review of Council Regulation (EC) No 1782/2003 is scheduled for early 2008 which will also include proposals to simplify the scheme and thus reduce its administrative burdens.

<sup>27</sup> Interinstitutional agreement on Better Regulation, December 2003 (OJ C 321, 31.12.2003, p. 1).

clear that the ability to reach this target will stand or fall with the commitment of all EU Institutions and the Member States.

## 5. COMMON PRINCIPLES FOR REDUCING ADMINISTRATIVE BURDENS

Measuring administrative costs in the EU is not a goal in itself. The aim is to reduce red tape for businesses in Europe. Results of the pilot project indicate that costs are strongly concentrated in priority areas. It is proposed that the Commission measurement also focus on priority areas and, where possible, to identify "low hanging fruits" related to these priority areas. Regarding the question of how to reduce these burdens, the following principles could, if agreed, make a significant contribution to guiding the burden reduction process:

- Reduce the frequency of reporting requirements to the minimum levels necessary to meet the underlying objectives of the legislation (e.g. there are still many financial regulations that require monthly reporting; a reduction in the frequency could possibly be envisaged);
- Review whether the same information obligation is not requested several times through different channels and eliminate overlaps (e.g. a number of environmental information obligations are presently required by more than one piece of legislation);
- Require electronic and web-based reporting where paper based information gathering is presently required, using intelligent portals where possible (experiences in Member States demonstrate that intelligent portals covering a variety of information requirements can generate significant savings; in Norway the portal "Antinn" covers nearly all information obligations on businesses imposed by the central government<sup>28</sup>);
- Introduce thresholds for information requirements, limiting them for small and medium sized companies wherever possible, or rely on sampling (it is well known that SMEs suffer particularly strongly from administrative costs – data collection for information purposes should take this into account);
- Consider substituting information requirements on all businesses in a sector by a risk based approach – targeting information requirements on those operators that carry the highest risk (the experience of UK enforcement of legislation in a number of areas shows that this can significantly reduce costs without compromising the legislation);
- Reduce or eliminate information requirements where these relate to legislative requirements that have been dropped or modified since the information requirement was adopted (e.g. there are still information obligations in road transport dating back to the time that permits were required to carry out international transport).

<sup>28</sup>

Electronic submission:

Register of shareholders report: 62 percent in 2005, 36 percent in 2004.

VAT returns: 46 percent first period 2005.

Business tax return: Around 60 percent in 2005, around 40 percent in 2004.

It is clear that these measures should not compromise the underlying purpose of the legislation and there may well be cases where, for reasons to do with the protection of public health or the environment or the need to protect the Community's financial interests and ensuring sound financial management, relatively heavy information obligations will remain necessary.

## **6. THE NEXT STEPS**

The Commission envisages a number of steps in its Strategic Review of Better Regulation in the European Union<sup>29</sup>. These include the presentation in early 2007 of, an Action Programme to reduce administrative burdens on the basis of consultation results on this Commission working document and the Strategic Review of Better Regulation to which it is attached. This Action Programme will also contain proposals for immediately taking action as regards the "low hanging fruits".

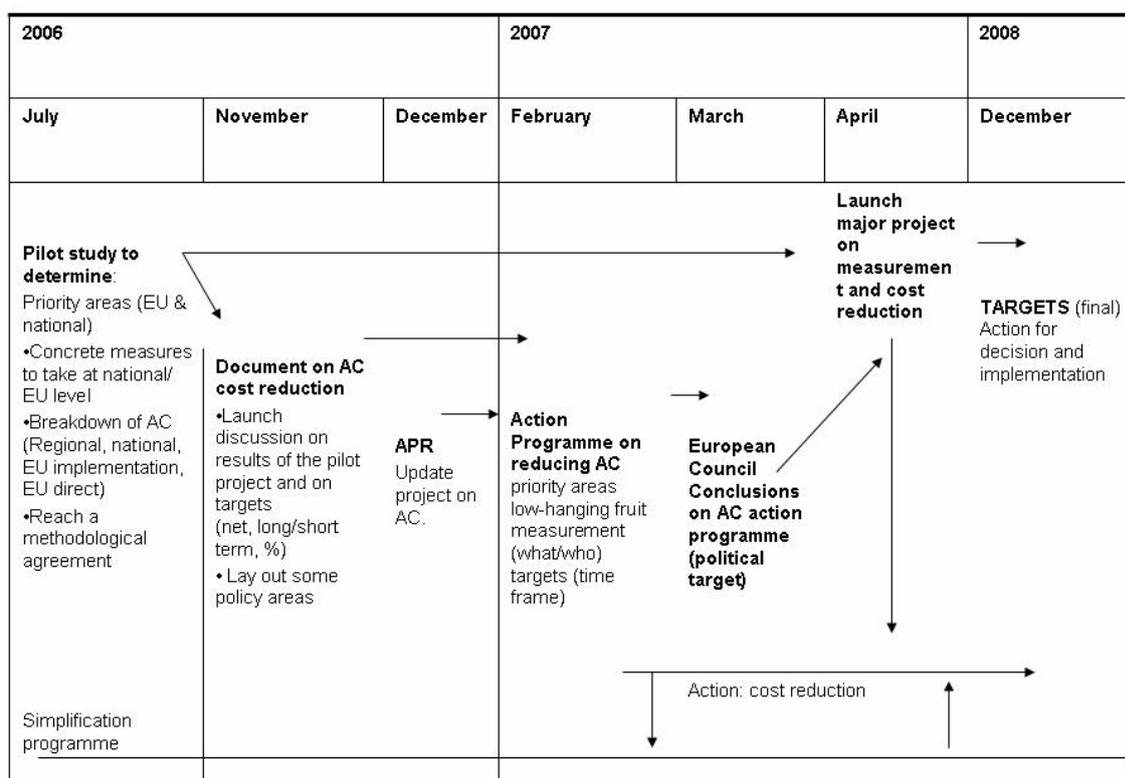
The Action Programme will contain proposals allowing the spring 2007 European Council to take the following decisions:

- Set an overall target for reducing administrative burdens in the EU
- Agree the priority areas for administrative cost measurement and burdens reduction;
- Endorse the methodology for measurement proposed in the Action Programme, and,
- Agree the list of "low hanging fruits" for immediate action.

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<sup>29</sup> COM(2006) 689, 14.11.2006.

## Programme for the reduction of administrative burdens



The Commission, the other EU Institutions and the Member States would subsequently launch the measurement programme and take action in respect of the "low hanging fruits". The large measurement programme could commence in the spring of 2007 and report in the fourth quarter of 2008. At this stage, the Commission could propose more detailed sectoral targets as well as simplification actions.

These actions could be included in the rolling simplification programme which already contains a number of important proposals to reduce administrative burdens<sup>30</sup>, 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 could in the meanwhile take similar actions during this period and to deliver on burden reductions by modifying national and/or regional legislation. Member States could report on their national administrative burden reduction programmes in the "Better Regulation" chapter of their progress reports in the context of the "Growth and Jobs" strategy. In this way, the

<sup>30</sup> 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.

Commission can annually report on progress – at Community and national level – in its Annual Progress Report, thereby assisting the European Council in giving further direction to this programme.

## 7. CONCLUSIONS

The European Commission, in its strategic review of better regulation in the EU, is proposing to cut administrative burdens in the European Union by 25%. Analysis shows that this could make a major contribution towards strengthening the business climate in Europe and generate significant economic benefits – in the order of €150 billion in absolute terms in the medium term.

This paper sets out a possible road map for achieving this objective, based on a partnership between the EU Institutions and the Member States. A common methodology for measuring costs in agreed priority areas and common principles for reducing burdens are at the heart of this approach. Progress would be monitored through agreed partial targets as well as intermediary targets.

The benefits of such an approach could be very significant, but the resources needed to undertake these efforts should not be underestimated. Strong commitments from all EU institutions and Member States will, therefore, be essential to deliver the results.

Comments and suggestions on the approach outlined in this document are eagerly sought. All interested parties are invited to contribute. On the basis of this consultation, the Commission will finalise its proposal for an Action Programme for measuring and reducing administrative burdens in the EU due to be presented in early 2007.

Please send your comments to the following e-mail address by 1 January 2007:

[entr-admin-burdens@ec.europa.eu](mailto:entr-admin-burdens@ec.europa.eu)

## ANNEX 1

Current initiatives in Member States for measuring administrative costs in selected areas

(updated at September 2006)

Country	AT	BE	CZ	DK	DE	EE	FI	FR	HU	IE	IT	LV	NL	PL	SE	UK
<b>Area</b>																
Tax																
- VAT (excl. invoicing)	P	Y	Y	Y	P	Y	P	N	Y	N	P	P	Y	Y	Y	Y
- Excise duties	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	P	Y	Y
- Other tax	P	N	Y	Y	P	N	N	N	N	N	N	N	Y	P	Y	Y
Business and economic affairs	P	Y	Y	Y	P	N	N	N	P	N	N	N	Y	P	N	Y
Statistics	P	P	Y	Y	P	Y	N	N	P	N	N	N	Y	P	P	Y
Justice	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	N	N	Y
Annual Reporting	P	P	Y	Y	P	N	N	N	N	P	P	N	Y	P	Y	Y
Financial Markets	P	N	Y	Y	P	N	N	N	N	N	N	N	Y	Y	N	Y
Environment	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	P	Y	Y
Business permits	P	P	Y	Y	P	Y	N	P	P	N	P	N	Y	P	N	Y
Social affairs	P	P	Y	Y	P	N	N	N	P	N	N	N	Y	P	N	Y
Labour Law	P	P	Y	Y	P	P	N	N	P	N	P	N	Y	P	Y	Y
Safety at work	P	P	Y	Y	P	P	N	N	P	N	P	N	Y	P	Y	Y
(Food) safety	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	P	N	Y
Interior	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	N	N	Y
Health	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	N	N	Y
Family, consumer affairs	P	P	Y	Y	P	N	N	N	P	P	N	N	Y	N	N	Y
Science, Technology, Innovation	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	N	N	Y
Culture	P	P	Y	Y	P	N	N	N	N	N	N	N	Y	N	N	Y
Transport	P	P	Y	Y	P	N	N	P	P	N	P	N	Y	Y	N	Y
Agriculture	P	P	Y	Y	P	N	N	P	P	N	N	N	Y	N	Y	Y
<b>Overall Baseline measurement</b>	P	N	Y	Y	P	N	N	N	N	N	N	N	Y	P	P	Y
Source: SCM network																
Y= Measured																
P= Planned or being measured																
N= not measured																

## ANNEX 2

### Possible priority areas of Community legislation as indicated by national measurements

No	Area	EC legislation - examples	NL	DK	CZ
1	Annual Accounts/Company Law	Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies.	The area 'private law', which includes accounting, represents 22.5% of Total administrative burdens in Cat. A and 12.8% in Cat. B in the NL.	27% of Cat. A and 12.9% of B	n.a.
		3 <sup>rd</sup> Council Directive of 9 October 1978 (78/855/EEC) and 6 <sup>th</sup> Council Directive of 17 December 1982 (82/891/EEC)			
		Council regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings			
		Second Council Directive of 13 December 1976 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent (77/91/EEC)			
2	Health Protection (including Animal Health and Zootechnics)	Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the Community code relating to medicinal products for human use	Health protection is 23.41% of Cat. A, whereas 'health care is 4.87%. In Cat. B, percentages are much lower (0.43% and 0)	Approx. 4.8% of Cat. A and 12.9% of Cat. B	12.8% of Cat. A and 21.8% of Cat. B
		Directive 2001/20/EC on the approximation of laws, regulations and administrative provisions of the Member States relating to the implementation of good clinical practice in the conduct of clinical trials on medicinal products for human use			
3	Working environment/employment relations	Council Directive 89/391/EEC of 12 June 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work	9.63% of Cat. A and 8.27% of Cat. B.	Approx. 7.9% of Cat. A and 10.6% of Cat. B	n.a.

No	Area	EC legislation - examples	NL	DK	CZ
4	Fiscal Law/VAT	Sixth Council Directive 77/388/EEC of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes - Common system of value added tax: uniform basis of assessment	19.02% of Cat A and 14.27% of Cat. B	9.7% of Cat. A and 3.7% of Cat. B (includes duties)	n.a.
5	Statistics	Council Regulation (EEC) No 3330/91 and Commission Regulation (EC) No 1901/2000 laying down certain provisions for the implementation of Council Regulation (EEC) No 3330/91	low percentages, but it was likely included in other areas, depending on the areas in which statistical have to be produced	2.6% of Cat. A (includes keeping logbooks for fisheries)	4.4% of Cat. A and 5.3% of Cat. B
6	Agriculture and Agricultural Subsidies	Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001	0.15% of Cat. A and 1.61% of Cat. B	13.2% of Cat. B (includes direct support to farmers, agricultural use of fertilizers, premium for livestock and commercial keeping of animals)	Protection of plants and plant products is 1.2% of Cat. A and 1.3% of Cat.B. Marketing of seeds and plants is 2.6% of Cat. B

No	Area	EC legislation - examples	NL	DK	CZ
7	Food Labelling	<p data-bbox="456 395 1323 571">Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97</p> <p data-bbox="456 571 1323 775">Directive 2000/13/EC of the European Parliament and of the Council of 20 March 2000 on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs. (article 3-25)</p>	n.a.	7.6% of Cat. A	<p data-bbox="1807 395 1966 815">Labelling of food is included in "production and placing on the market of food and tobacco products" and in "requirements for packaging", which jointly account for 53.9% of Cat. A Food and tobacco labelling accounts for 25% of Cat. B.</p>

No	Area	EC legislation - examples	NL	DK	CZ
8	Transport	<p>EEC Council: Regulation No 11 concerning the abolition of discrimination in transport rates and conditions, in implementation of Article 79 (3) of the Treaty establishing the European Economic Community</p> <p>Council Regulation (EEC) No 3820/85 of 20 December 1985 on the harmonization of certain social legislation relating to road transport; Council Regulation (EEC) No 3821/85 of 20 December 1985 on recording equipment in road transport; COUNCIL REGULATION (EC) No 2135/98 of 24 September 1998 amending Regulation (EEC) No 3821/85 on recording equipment in road transport and Directive 88/599/EEC concerning the application of Regulations (EEC) No 3820/84 and (EEC) No 3821/85</p> <p>Regulation No 725/2004 of 31 March 2004 on enhancing ship and port facility security</p> <p>Council Directive 94/57/EC of 22 November 1994 on common rules and standards for ship inspection and survey organizations and for the relevant activities of maritime administrations.</p> <p>Council Directive 96/26/EC of 29 April 1996 on admission to the occupation of road haulage operator and road passenger transport operator and mutual recognition of diplomas, certificates and other evidence of formal qualifications intended to facilitate for these operators the right to freedom of establishment in national and international transport operations;</p> <p>Council Directive 97/70/EC of 11 December 1997 setting up a harmonized safety regime for fishing vessels of 24 meters in length and over.</p> <p>Council Directive 96/35/EC of 3 June 1996 on the appointment and vocational qualification of safety advisers for the transport of dangerous goods by road, rail and inland waterway;</p> <p>Council Directive 80/1119/EEC of 17 November 1980 on statistical returns in respect of carriage of goods by inland waterways;</p> <p>Directive 2004/49/EC of the European Parliament and of the Council of 29 April 2004 on safety on the Community's railways and amending Council Directive 95/18/EC on the licensing of railway undertakings and Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification (Railway Safety Directive);</p>	4.71% of Cat A and 5.76% of Cat. B	n.a	n.a.

9	Fisheries legislation	<p>Directive 2000/13/EC of the European Parliament and of the Council of 20 March 2000 on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs;</p> <p>Council Regulation (EEC) No 2847/93 of 12 October 1993 establishing a control system applicable to the common fisheries policy</p> <p>Council Directive 97/70/EC of 11 December 1997 setting up a harmonized safety regime for fishing vessels of 24 meters in length and over.</p>	n.a		
				n.a	n.a

Source: Pilot project on administrative burdens

### ANNEX 3

#### Priority areas at national level

Below are tables reporting the most burdensome areas resulting from national legislation<sup>31</sup>.

Denmark Top-20 C-legislation	Costs (€)	Share of C	Share of total costs
Tax requirements for accounts	403.893.874	17,3%	9,7%
Annual accounts	257.738.456	11,0%	6,2%
Taxation	195.439.575	8,4%	4,7%
Price labelling	166.712.672	7,1%	4,0%
Self-checking in the food industry	100.016.302	4,3%	2,4%
Holidays	61.333.135	2,6%	1,5%
Income taxation etc.	60.185.549	2,6%	1,4%
Supplementary pensions	59.695.163	2,6%	1,4%
Working environment II	55.839.686	2,4%	1,3%
Legal framework between employers and employees	42.827.736	1,8%	1,0%
Invoicing of road, soil, sewer etc.	41.949.880	1,8%	1,0%
Private limited companies	40.991.726	1,8%	1,0%
Supplementary pensions II	29.738.100	1,3%	0,7%
Land register	27.548.139	1,2%	0,7%
Taxation of pensions	25.065.589	1,1%	0,6%
Sale and purchase of real-estate	24.447.172	1,0%	0,6%
Good practice for financial companies	24.324.442	1,0%	0,6%
Public limited companies	21.721.877	0,9%	0,5%
Unemployment benefits (sickness and maternity)	20.510.223	0,9%	0,5%
Land register II	17.210.322	0,7%	0,4%
<b>Total</b>	<b>1.677.189.619</b>	<b>71,8%</b>	<b>40,2%</b>

<sup>31</sup> "Pilot project on administrative burdens", WIFO-CEPS, October 2006.

#### ANNEX 4

<b>Netherlands- Administrative costs by domain</b>	<b>C</b>
Fiscal law	1984,12
Employee insurances	982,20
Health care	870,97
Private law	521,81
Spatial planning: Environmental licenses (general)	304,21
Labour relations	301,70
Working conditions	295,30
Buildings	294,53
Financial markets	211,70
Transport of goods	204,15
Social care	186,20
Medical ethics	124,66
Road traffic law	103,44
Spatial planning: Environmental licenses (sectoral)	101,13
Constitutional and administrative law	99,98
Spatial planning & urban renewal	84,65
Traffic: general	64,07
Agriculture	63,00
Water facilities/constructions	56,91
Corporations and rent law	52,79
Labour market and welfare	47,70
Competition law, ex pricing law	46,07
Seagoing	38,96
Agriculture	38,21
Spatial planning: Rest	30,29
Cluster Telecom & Post	27,67
Soil / ground	24,64
Cat c	18,14
Health protection	15,64
Energy	9,45
Waste	9,33
Inland navigation	8,52
Transportation of persons	7,85
Waste/material & products	5,99
Aviation	3,87
Statistics	3,53