

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **D**
BUDGETARY AFFAIRS

Budgets

Budgetary Control



The Cost of Non-Agencies with Relevance to the Internal Market

Executive summary

STUDY



EXECUTIVE SUMMARY

1. STUDY OBJECTIVES, AND SCOPE

The purpose of this analytical study for the European Parliament was to produce an assessment of the 'cost of non-agencies', i.e. the savings to Member States from the existence of the EU's decentralised agencies as opposed to a situation where the tasks carried out by the agencies are undertaken at the national level instead. This involved estimating the quantifiable budgetary and administrative savings resulting from the transfer of tasks from the national to the EU level. A broader assessment of EU added value was also required.

According to the terms of reference, for each selected agency, the study was to:

Analyse the impact on the EU budget and national budgets of the creation of the EU agencies and addressing their respective tasks at the European level rather than alternative solutions at the national level, and assess what synergies and economies in budgetary and administrative terms have been achieved.

As well as comparing the costs and benefits of the tasks being carried out by the EU agencies and individual Member States, the study should also allow a comparison to be made against the EU Member States as a whole.

The study should also establish whether the benefits from harmonised and increased standards across EU 28 Member States can be quantitatively or qualitatively assessed, and establish whether the value added is recognised by national authorities, concerned third parties and internationally.

More generally, this study was designed to help ensure that decisions on the resourcing of the decentralised agencies take into account the wider picture, i.e. the costs and benefits to Member States derived from undertaking tasks at the EU level. The results will inform discussions at the Interinstitutional Working Group on agencies' resources (IIWG).

The study examines seven partially or fully self-financed EU agencies that have key roles in the Internal Market. The seven agencies were: the European Union Intellectual Property Office (EUIPO), European Aviation Safety Agency (EASA), European Medicines Agency (EMA), European Chemicals Agency (ECHA), European Banking Authority (EBA), European Securities and Markets Authority (ESMA), and the European Insurance & Occupational Pensions Authority (EIOPA).

2. CONTEXT

The backdrop to this study is the decision, reflecting constraints on the EU budget generally, to curb the financial and human resources committed to the EU agencies. Communication COM(2013) 519 final stipulated that there should be a yearly 1% reduction over a period of five years for all decentralised agencies taken together (equivalent to a net reduction is a reduction of 276 posts on the 6,050 posts authorised in 2013).¹ To meet the needs for additional human resources in certain agencies, the Commission also proposed to create a 'redemption pool' by applying an annual 1% levy on the posts of all agencies² that would then be allocated to

¹ Communication COM(2013) 519 final on 'Programming of human and financial resources for decentralised agencies 2014-2020', 10 July 2013.

² Amongst the agencies covered by this study, the EBA, ESMA and EIOPA were defined as 'start-up' agencies; the REACH and CLP element of ECHA was classified as a 'cruising agency', with Biocides as "start-up" between 2014-15 and "new tasks" from 2017-2020, and PIC as "start-up" | 2014-15 and subsequently as "new tasks"; while EASA, EMA and the EUIPO were termed 'new tasks' agencies.

'start-up phase' agencies and 'new tasks' agencies. In budgetary terms, and as a result of the changes in staffing levels, the

Communication foresees a relatively modest increase in the EU budget contribution to the agencies, from EUR 758 in 2014 to EUR 821 in 2020.

3. SCENARIOS

To help assess what would happen if the EU agencies ceased to exist, we developed a number of scenarios:

- **Scenario 0** ('the status quo') - i.e. current set-up which serves as a basis for comparison with the other scenarios and enables the additional costs (and any savings arising) from 'non-agencies' to be estimated.
- **Scenario 1** ('best case') – where tasks undertaken by the EU agencies are taken on by Member States, either using existing structures and/or developing new ones. Under this scenario the EU regulatory framework and mutual recognition (where relevant) would remain in place and it would not be necessary for alternative structures to be replicated across all 28 Member States.
- **Scenarios 2** ('worst case') – i.e. a situation where the EU regulatory framework does not remain in place or remains in place but mutual recognition is eroded. In this scenario, more Member States would have to set up their own structures in place of the European agencies and companies using their services might have to apply to have their products and services registered separately in a larger number of countries than would be the case in Scenario 1.

There is of course a link between Scenarios 1 and 2, i.e. a situation could be envisaged where in the case of Scenario 1, the transfer of EU agency responsibilities to the Member States leads to differing interpretations of the EU regulatory framework, incoherent implementation and supervisory practices and/or its only partial enforcement, thereby undermining mutual recognition, where applicable. In this situation notwithstanding the existence of a common EU regulatory framework, Scenario 2 could come about.

4. KEY FINDINGS

In relation to the three objectives of this analytical study, the overall conclusions are summarised below:

The key objective of this study was to estimate the impact on the EU budget and national budgets of the creation of the EU agencies and addressing their respective tasks at the European level rather than alternative solutions at the national level. **The research suggests that it is considerably less costly to carry out the tasks assigned to the agencies at the EU level than it would be if these tasks were undertaken by the EU28 Member States.**

In 2015, the cost of operating the seven agencies was a combined EUR 1,025 million. However, the cost to the EU's budget was much lower than this (EUR 78 million) because most of the revenue (some 93%) required to cover the cost of operating the seven agencies came from fees and charges. These were paid for by public and private sector organisations in the Member States. The extent of dependence on EU funding varies with the three financial supervision agencies (EBA, ESMA, EIOPA) being more dependent on grants and the other four agencies (EUIPO, EASA, EMA and ECHA) being less dependent. Two agencies (the EUIPO and EMA) do not rely on funding from the EU budget at all.

According to our best estimates, if the Member States took over the functions of the seven agencies, the additional costs to national authorities would be around EUR 150 million to EUR 200 million (p.a. based on 2015 data). There would be no net saving therefore from a reduction in EU funding to the agencies but rather a net increase of around EUR 72-122 million p.a. (EUR 150-200 less EUR 78 million). This additional cost would arise from the need to either expand existing national agencies or to create new entities to take on the tasks previously carried out by the EU agencies. The financial implications would not of course be the same across the EU Member States. For example, some Member States might decide, because of a lack of capacity or lower demand from companies, to rely on the services provided by agencies located in other countries.

However, the most significant potential impacts arising from a 'non-agencies' situation would be on companies seeking to trade across the EU28 Member States in the Single Market and on the stability of Europe's financial system.

If the seven EU agencies' tasks were transferred to the Member States but the EU regulatory frameworks remained in place, the effects on companies seeking to register or certify a product or service would probably be quite modest (the ending of a common EU-wide system of fees and charges could in some cases lead to increased costs). However, the most significant financial implications would arise in what we have described as a Scenario 2 situation, i.e. where a lack of EU-level enforcement and monitoring by the agencies leads to the EU regulatory framework being interpreted differently across the Member States or only being partially applied. Under these circumstances, mutual recognition would be eroded resulting in the possibility that companies would have to seek certification or registration of products and services in up to 28 different countries. In reality, national entities in a small group of Member States with the necessary capacity and expertise might take over the tasks currently undertaken by the agencies on behalf of a wider group of countries. Nevertheless, even in this situation, the costs would be considerable.

Although it is extremely difficult to estimate, our analysis suggests that the additional costs to European companies of Scenario 2 situation could be as high as EUR 1 billion depending the extent to which it would be necessary to register products and services separately in different Member States (this would depend on the extent of mutual recognition but also on how extensively companies trade across the EU). Moreover, there would also be 'hidden' costs, i.e. the internal costs to companies of having to carry out multiple certification and registration requirements, and of possibly having to adapt goods and services to different national standards. The additional Scenario 2 costs in the case of financial supervision agencies are unquantifiable but lie in helping to maintain the stability of the EU's financial sector and financial markets. There are also other costs of 'non-agencies' (efficient functioning of the Single Market, the role of the agencies in international cooperation, etc) which can only be assessed qualitatively.

Some Member States would also be adversely affected by the closure of EU agencies located in their countries. In total, some 3,500 jobs in the seven agencies could be either lost or transferred from the host countries to other locations (e.g. Brussels). In addition to the direct job losses, there could also be significant indirect employment effects. For example, each of the agencies hosts meetings and other events attracting considerable numbers of visitors to the cities where they are located throughout the year. Although not possible to quantify, the indirect jobs supported by this agency-related business in the hospitality sector (hotels, restaurants, local transport, etc) and other parts of the local economies is likely to be quite significant.

The net position at the EU level would be broadly neutral with some locations (e.g. Brussels) benefiting from the employment opportunities transferred from the locations where the

agencies are presently located. Similarly, if the EU agencies ceased to exist, some new job opportunities could be created in the entities in the same countries that would be created or expanded to replace them. However, for some of the current locations (particularly the smaller cities), the effect of the 'non-agencies' scenario would not be mitigated by these compensating factors.

Under Scenarios 1 and 2, there could be an annual overall saving of EUR 78 million (2015) to the EU budget subsidy to the seven agencies. However, because the EU subsidy helps to cover the cost of providing EU policymakers with the information needed to take decisions and to monitor the enforcement of regulations, it is likely that this activity would be transferred to the European Commission if the agencies ceased to exist with little or no net saving. But the capacity of the Commission to take on the full range of agency functions could be quite limited. With the Commission affected by the same budgetary constraints as the agencies, there would be little or no scope to recruit new staff. Instead, the most likely course of action is that there would be a transfer of some of the personnel from the agencies. The Commission would probably also have to take over some other activities, for example the representative functions at an international level for the issues currently handled by the seven agencies, and there would be some additional costs of doing this.

In addition to the direct costs to national authorities and companies there would be other effects arising from the 'cost of non-agencies'. First and foremost the seven agencies have an important role in helping to ensure the efficient functioning of the Single Market and without them this would be more difficult with consequent wider negative effects. Secondly, a centralised repository of expertise and knowledge in relation to seven key sectors of the European economy would be dispersed and more costly to retrieve if the agencies ceased to exist. Thirdly, the seven agencies have an important role in coordinating the EU's position internationally on issues relating to their areas of responsibility and this would be more difficult without them.

It should be stressed that it is difficult to quantify costs of the scenarios examined in this study precisely because there are many 'unknowns'. The 'costs of non-agencies' should therefore be treated with caution and regarded as 'best estimates' only.

In relation to the third study objective, establishing whether the value added is recognised by national authorities, concerned third parties and internationally, the research feedback – as highlighted throughout this report – strongly confirms that added value is widely recognized.

Finally, a matter of interest for possible future research on the 'Cost of non-agencies' stems from the pattern observed with regard to establishing of agencies, when the political will leading to creation of an agency is triggered by a crisis or by an incident (for example, crises led to establishing European Food Safety Authority and an incident led to setting up European Maritime Safety Agency. Arguably, the creation of the agencies prevented or mitigated further incidents and crises. Assessing the long- term savings resulting from such crisis prevention or mitigation could be a topic of a future study.