

Summary: Intervention & Options

Department /Agency:
BERR

Title:
Impact Assessment of Implementation of Mutual Recognition Regulation

Stage: Consultation

Version: Consultation

Date: October 2008

Related Publications:

Available to view or download at:

<http://www.berr.gov.uk>

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What is the problem under consideration? Why is government intervention necessary?

Barriers to the movement of non-harmonised goods within the EU-27 still exist as a result of country-specific national technical rules. There is an administration burden placed on firms wishing to market and sell their goods in the UK, especially on firms exporting to the UK, who are required to research the various UK technical requirements that exist. This burden, in terms of time and resources, creates a barrier to trade as the cost of having to research the technical requirements can be too burdensome (especially on SMEs). There is also legal uncertainty concerning the mutual recognition rights of firms. Government intervention is necessary to remove these barriers to intra-EU trade, by reducing the time spent by firms on research, and to realise the benefits associated with increased trade.

What are the policy objectives and the intended effects?

The policy objectives are to increase the volume of intra-EU trade of non-harmonised goods by reducing the administrative burden on firms exporting to the UK and clarifying the legal rights of firms (as well as providing a structure in which firms can stand up for their rights).

The Mutual Recognition Regulation requires Member States to provide free information on national technical rules that exist in their territory, and sets out a fair and transparent procedure to follow when enforcing those rules and taking products off the market. This should make it easier for firms to market and sell their goods in the UK, especially for exporters to the UK. Greater competition and lower production costs would result in lower prices for consumers, bringing about an increase in higher real wages and welfare. Higher levels of competition should also bring about an increase in the productivity of firms and an increase in the range and quality of goods available for consumers. (UK exporters will also benefit from the implementation of the Mutual Recognition Regulation in other Member States, as this will make it easier for UK firms to market and sell their goods in other Member States.)

What policy options have been considered? Please justify any preferred option.

- **Establish a Product Contact Point to provide information, and amend existing enforcement procedures as appropriate where this is necessary (or desirable) in order to comply with the Regulation;** this will ensure compliance with the UK's Community law obligations, and deliver expected benefits to business and consumers.
 1. Develop an adapted website
 2. Develop a micro-site
 3. Do nothing; use what is currently available
- **No action;** this is likely to result in infraction proceedings against the UK.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The European Commission is required to review the application of the Regulation by May 2012.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

.....Date:

Summary: Analysis & Evidence

Policy Option:	Description: Product Contact Point – Adapt Business Link website
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Cost of setting up UK PCP on Business Link website and maintaining level of content.		
	One-off (Transition) Yrs			
	£ 100,000 – 200,000		10	
	Average Annual Cost (excluding one-off)			
	£ 18,678 – 22,829	10	Total Cost (PV)	£ 250,776 – 416,504
Other key non-monetised costs by 'main affected groups' Reputation risk and risk of infraction proceedings against the UK of not implementing the PCP.				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'		
	One-off Yrs			
	£			
	Average Annual Benefit (excluding one-off)			
	£		Total Benefit (PV)	£
Other key non-monetised benefits by 'main affected groups' Reduction in administration burden on firms operating in the UK and greater legal certainty, encouraging firms to stand up for their mutual recognition rights. Positive welfare effects of higher competition; lower prices for consumers, increased product range and increased productivity.				

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?		UK	
On what date will the policy be implemented?		May 2009	
Which organisation(s) will enforce the policy?			
What is the total annual cost of enforcement for these organisations?		£	
Does enforcement comply with Hampton principles?		Yes/No	
Will implementation go beyond minimum EU requirements?		Yes/No	
What is the value of the proposed offsetting measure per year?		£	
What is the value of changes in greenhouse gas emissions?		£	
Will the proposal have a significant impact on competition?		Yes	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£

Key: Annual costs and benefits: Constant Prices

Summary: Analysis & Evidence

Policy Option:

Description: Product Contact Point – Adapt

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Cost of setting up UK PCP on BSI website and maintaining level of content.
	One-off (Transition)	Yrs	
	£ 135,000 – 275,000	10	
	Average Annual Cost (excluding one-off)		
	£ 18,678 – 22,829	10	Total Cost (PV) £ 295,776 – 471,504
Other key non-monetised costs by 'main affected groups' Reputation risk and risk of infraction proceedings against the UK of not implementing the PCP.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
	£		Total Benefit (PV) £
Other key non-monetised benefits by 'main affected groups' Reduction in administration burden on firms operating in the UK and greater legal certainty, encouraging firms to stand up for their mutual recognition rights. Positive welfare effects of higher competition; lower prices for consumers, increased product range and increased productivity.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	May 2009
Which organisation(s) will enforce the policy?	
What is the total annual cost of enforcement for these organisations?	£
Does enforcement comply with Hampton principles?	Yes/No
Will implementation go beyond minimum EU requirements?	Yes/No
What is the value of the proposed offsetting measure per year?	£
What is the value of changes in greenhouse gas emissions?	£
Will the proposal have a significant impact on competition?	Yes
Annual cost (£-£) per organisation (excluding one-off)	Micro Small Medium Large
Are any of these organisations exempt?	Yes/No Yes/No N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£

Key: Annual costs and benefits: Constant Prices

Summary: Analysis & Evidence

Policy Option:

Description: Product Contact Point – Micro-

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Cost of setting up UK PCP on newly created micro-site and maintaining level of content.
	One-off (Transition)	Yrs	
	£ 495,000 – 1,210,000	10	
	Average Annual Cost (excluding one-off)		
	£ 108,678 -132,829	10	Total Cost (PV) £ 1,430,467 – 2,353,349
Other key non-monetised costs by 'main affected groups' Reputation risk and risk of infraction proceedings against the UK of not implementing the PCP.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Reduction in administration burden on firms operating in the UK and greater legal certainty, encouraging firms to stand up for their mutual recognition rights. Positive welfare effects of higher competition; lower prices for consumers, increased product range and increased productivity.
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
	£		Total Benefit (PV) £

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	May 2009
Which organisation(s) will enforce the policy?	
What is the total annual cost of enforcement for these organisations?	£
Does enforcement comply with Hampton principles?	Yes/No
Will implementation go beyond minimum EU requirements?	Yes/No
What is the value of the proposed offsetting measure per year?	£
What is the value of changes in greenhouse gas emissions?	£
Will the proposal have a significant impact on competition?	Yes
Annual cost (£-£) per organisation (excluding one-off)	Micro Small Medium Large
Are any of these organisations exempt?	Yes/No Yes/No N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background

Moving towards a Single Market has been instrumental in helping delivering jobs and growth across Europe over the last 20 years but progress still needs to be made to achieve a more complete Single Market. One of the areas where improvements can be made is in the market of non-harmonised goods – that is, those goods that are not covered by common European legislation. Copenhagen Economics (2007)¹ estimates that of the value of goods traded in the EU, 21% are non-harmonised. There are economic benefits that can be realised in opening trade in these goods, which will help move towards a more integrated common market.

The Mutual Recognition Principle should facilitate intra-EU trade in non-harmonised goods. The principle states that a Member State may not prohibit the sale on its territory of products lawfully marketed in another Member State unless the prohibition is justified on one of the grounds set out in Article 30 of the Treaty or on the basis of other overriding reasons of public interest (such as consumer protection) which are proportionate to the aim pursued. The principle applies both when the imported product is:

- subject to regulation in the exporting Member State, with which it complies
- lawfully marketed in the exporting Member State in the sense that there is no law prohibiting its marketing there

In theory mutual recognition allows the free trade of non-harmonised goods within the EU as there is no need for an exporting firm to ensure that the requirements of the product that it is selling meet the rules specified in the importing country. When the Mutual Recognition Principle is applied, the importing country 'recognises' the regulatory regime of the exporting country; the recognition is essentially 'mutual'. The underlying theme to mutual recognition is that the objectives of different set of national rules are the same; to protect consumers from harmful products. However, it is recognised that different Member States can legitimately legislate for different levels of, for example, consumer or environmental protection in non-harmonised areas where they pursue these objectives in a proportionate manner.

The main advantage of the Mutual Recognition Principle is that it removes the need to harmonise all national technical rules. Harmonisation can be a very time-consuming process and is of limited value when only a few Member States wish to regulate a particular product, or when the volume of sales of that product means that the costs of harmonisation outweigh the benefits.

The European Commission also states other advantages, including that mutual recognition instils confidence in other Member States as trust underlies the principle. If a good is legally sold in one market, it requires another Member State to accept that that good is safe to be sold in its own market

Rationale for government intervention

The underlying problem is that in practice the implementation of the Mutual Recognition Principle is not sufficiently strong. There is a gap between the principle itself and its actual implementation. The main problems of implementing the principle in practice are:

¹ Copenhagen Economics (2007), *The Internal Market for Goods; The Unrealised Potential*

- Information problems for manufacturers: the would-be exporter has to choose between (i) conforming to the importing Member State's rules (and possibly having to adapt their product to do so); (ii) ignoring the importing Member State as a market; (iii) relying on Mutual Recognition and being prepared to fight the enforcement authorities of the importing Member State in court if necessary in cases where they use national technical rules to exclude products which are lawfully marketed in another Member State without proper justification. But the manufacturer cannot currently make this choice on an informed basis.
- Lack of awareness from firms and national authorities about the existence of the Mutual Recognition Principle
- Legal uncertainty about the scope of the Mutual Recognition Principle; for example, there is uncertainty as to which product categories mutual recognition applies
- Risk for enterprises that products will not get access (or will be withdrawn) from the market of destination
- Absence of dialogue between authorities in different Member States

Both Copenhagen Economics and the European Commission have identified the lack of applying the Mutual Recognition Principle as an issue, and have presented various EU-based statistics that support the need for government intervention. Some include:

- In 2005, the EU Commission brought 335 cases against Member States for infringement of EU legislation; 43% of these were due to incorrect application of the Mutual Recognition Principle, which was the biggest cause²
- Almost 500 new national technical requirements were notified in 2006, the most being from Germany, Netherlands, Sweden and France.
- 80% of companies surveyed still found barriers to free movement within the EU; for products, 41% of companies related these to differing national specifications and 34% related them to unusual testing, certification or approval procedures.³
- 35% of enterprises reported problems with mutual recognition. About 50% of enterprises who reported problems decided to adapt their products to the rules of the Member State of destination, even though mutual recognition could have been applied.

Government intervention is required to correct this information-based market failure. This in theory will then allow the benefits of increased trade to the UK to be realised, as a result of addressing this trade barrier for both UK and non-UK firms operating in the UK. Policies at the EU level help achieve positive externalities. In the example of mutual recognition, if all countries are legally bound to address the issue, it means that UK firms can also further benefit from other Member States addressing their own need for government intervention. This will open up EU markets making it easier for UK firms to operate in these markets, bringing benefits to both UK firms and consumers.

By reducing the administration burden placed on firms and improving the legal certainty on mutual recognition, an increase in intra-EU trade in non-harmonised goods is expected. The European Commission presents different scenarios that show the amount by which trade in goods covered by mutual recognition would increase as a result of improvements in the Mutual Recognition Principle. Assuming the pessimistic scenario of a 10% increase in mutual recognition trade, it can be shown that this would lead to an increase of 0.18% in EU GDP (see Annex A for details). This incorporates benefits to the UK such as:

- Higher competition
- Lower costs
- Greater consumer choice

² Copenhagen Economics (2007), based on European Commission (2005), '23rd Annual Report on Monitoring the Application of Community Law'

³ European Commission, based on the Single Market Scoreboard (October 1998)

The benefits that result from more open markets are very difficult to quantify; economic theory states what the effects are as a result of higher levels of competition. However it is not possible to precisely estimate these and so no attempts are made here to account for these. But these non-quantifiable benefits should not be ignored as in practice the benefits to the UK of government intervention are likely to be greater than those presented here. Analysis from the European Commission's competitiveness report⁴ showed that one percent increase in openness of an economy results in 0.6% increase in labour productivity the following year, and similarly work by the Organisation for Economic Co-operation and Development (OECD)⁵ suggests that a 10 percentage point increase in trade openness translates into increase of around 4% in per capita income. A further study by the European Commission⁶ showed that EU GDP in 2006 was 2.2% higher than it would have been without the Single Market, representing an average increase in welfare of €518 per head.

Proposals

The European Commission's Goods Package, published in the Official Journal on 13 August 2008⁷, consists of 3 legal instruments to make the single market work more efficiently (the other two are concerned with trade in goods which are subject to harmonised legislation). These deal with the problems outlined by the European Commission, which offers an explanation as to why the Mutual Recognition Principle has not in practice been successful to date.

- Clarify the procedure regarding national technical rules where mutual recognition is not being applied
- Transfer "burden of proof" from the firm to administrative bodies, who can better enforce the application of the Mutual Recognition Principle
- Establish Product Contact Points to clearly identify which goods are non-harmonised, and are subject to national technical rules

If the Mutual Recognition Principle held in practice, the system would be efficient as it would avoid the need for a product to meet the product specifications set out in each Member State. As long as a product is legally marketed in one Member State, the exporting firm knows that that good can be exported and sold in another Member State. In practice, this is unlikely to hold as exporting firms tend not to be able to rely on this principle so instead a tool is required that enables exporters to find out easily what national rules apply in the country that they are exporting to.

Any policy proposals should be aimed at specifically addressing the problems that are currently affecting the implementation of the Mutual Recognition Principle. These have been principally identified as:

- Difficulties in accessing relevant information regarding national technical rules
- Uncertainty about the legal procedure (specifically the roles of enforcement authorities) if a product is deemed not to satisfy the legal requirements that are outlined

These proposals would result in the principle itself being applied and encourage importers and/or exporters to stand up for their mutual recognition rights by providing a structure in which they can do so and highlighting that those rights may be engaged. This would make it easier for firms to engage in the trade of non-harmonised goods and giving them a better opportunity to understand and assert their rights under to mutual recognition.

⁴ European Commission (2007), '*Raising productivity growth: key messages from the European Competitiveness Report 2007*', SEC (2007) 1444

⁵ OECD (2007), '*OECD Employment Outlook – 2007 Edition*'

⁶ European Commission (2007), '*The single market: review of achievements*', SEC (2007) 1521

⁷ European Parliament and the Council of the European Union, August 2008, "Laying down procedures relating to the application of certain national technical rules to products lawfully marketed in another Member State"

The European Commission identified several policy options available that could improve the functioning of the Mutual Recognition Principle, which include:

- A website with a list of products (or aspects of products) to which mutual recognition applies
- Conferences and seminars organised in the Member States that are aimed at both enterprises and competent authorities
- Publications explaining mutual recognition for specific categories of products
- Organisation of dialogue between national authorities through existing committees that could specifically look into the application of mutual recognition

For example, a website-based tool could meet these requirements. Setting up a website that lists all national technical rules to which mutual recognition applies would address the information-based problem. Firms would be able to easily obtain information on which products are subject to national technical requirements and what the requirements specifically state. The website could also provide other relevant information that would be of relevance, such as contact details of the relevant regulatory body. There would also be scope to address the second limitation of legal uncertainty, as the product contact point could provide clear information as to what the regulation process is and outline who is responsible for what. It also makes it easier for economic operators to challenge enforcement decisions that may be contrary to the European Commission Treaty. (It should be noted that recital 30 of the Regulation states that Member States are encouraged to make their information available through a website, which is why the option of establishing an online UK Product Contact Point is being pursued.)

Options for implementation

The aim of this regulation is to strengthen the functioning of the internal market by improving the free movement of goods. This is of importance in terms of the agenda for promoting growth, competitiveness and employment.

The costs and benefits that are presented here are based on establishing a product contact point for the UK, which is designed to improve the free movement of goods. Annex A outlines the associated costs and benefits of establishing a product contact point with two sets of costs presented; these represent the costs associated with setting them up using different models.

As an aside, it should be noted that in practice there will be costs associated with the enforcement aspect of this regulation. Where the procedures of market surveillance authorities do not align precisely with those set out in the Regulation (in terms of notifying economic operators, justifying their decision and reporting action taken) they will need amending, which could imply an initial cost for new guidance and training and/or ongoing costs where these procedures are more rigorous than at present.

However, these costs are not presented due to their marginal nature and the lack of information available on enforcement procedures. The options for implementation of the enforcement procedures are also limited, in that *not* modifying the procedures will mean that the UK has not implemented the Regulation and risks action from the Commission or affected businesses. Decisions on modifying procedures will need to be taken on a case-by-case basis and will need to ensure correct application of the Regulation while imposing the least possible burden on surveillance authorities.

It is important to note that none of the scenarios for implementation will carry any additional costs for UK business.

Product Contact Points

In the absence of the Mutual Recognition Principle being fully enforced, one of the economic costs associated with the presence of national technical rules is the administrative burden placed on firms. If a firm wishes to export its products to another Member State, it must research the requirements that are specific to that country. This can be a time consuming process that requires a significant amount of resources, as the necessary information is not always readily available and can be costly (both financially and in terms of time). Since overcoming these costs are often independent of firm size, small- and medium-sized enterprises are particularly affected. This administrative burden can be measured in terms of time spent, which can be valued. The aim of any form of government intervention is to reduce this burden on firms that are operating in the UK, which can be measured as the benefit of that policy.

One issue for firms wishing to export to the UK is that there is currently not a central list of products available for which UK-based national technical requirements apply. Obtaining the information on these rules requires researching a wide range of sources, and can prove to be both costly and time consuming. The aim of the Product Contact Point (PCP) is to facilitate market entrance for firms wishing to export to the UK by providing information on these technical rules from a central source that is free of charge. In particular, a UK PCP should provide:

- Information on the technical rules which apply to a specific product within the UK, that is free of charge
- Contact details for the authority responsible for the implementation of the technical rule
- The remedies available to firms should a dispute occur between the authority and firm
- Information should be provided within 15 working days (in practice, website delivery should be able to provide the information much sooner)

The PCP should be designed so that firms can access this information in a transparent and correct manner, preventing the delays and costs that result from national technical rules, and hence facilitate the entry of firms into the UK market.

It has been proposed to establish the PCP as a website that would contain a comprehensive list of products to which technical rules apply as well as contact details on various responsible authorities. This would reduce the legal uncertainty surrounding which products are covered by mutual recognition in the UK, so in theory reducing the costs to firms. In theory, this should reduce the administrative burden (and hence lower that barrier to trade) that is currently placed on firms exporting to the UK in terms of time, resources and cost.

To illustrate how the UK PCP would work, a hypothetical example is presented. On the basis of consumer safety, there could be a rule that bicycle helmets sold in the UK would have to be of a minimum thickness. The UK PCP would specify what exactly this minimum requirement would be, with information would be made available on the website, which would be both free and easy to access. This would address the information problem that currently exists at no substantial administration cost. Exporters of bicycle helmets based in other Member States could then make an informed decision on whether to adapt their products to comply with this specific UK requirement, or to rely on mutual recognition of technical rules applicable to bicycle helmets under their own domestic law, in either case in theory increasing the trade of bicycle helmets in the UK.

The main benefits for UK firms will arise from other Member States establishing PCPs. The principal benefits of PCPs are realised by firms exporting to the country where that PCP is established. These benefits are not estimated here, as these benefits are not realised from setting up a UK PCP. There are also secondary effects that would benefit UK firms, as a more open UK market would likely lead to increases in productivity as firms react to higher levels of

competition. There are also benefits to UK consumers that are not possible to estimate that arise from higher levels of competition in the UK (lower product prices and greater choice).

Options

The following options have been considered as possible ways of delivering information to firms regarding national technical rules:

1. Develop an adapted website
2. Develop a micro-site
3. Do nothing; use what is currently available

Setting up a PCP for the UK will result in initial costs (both implementation and operating), the size of which depends on the extent to which the UK does not yet provide for easily available administrative information on national technical rules and on the implementation of mutual recognition, as well as on the volume of information to be provided by the PCP.

In January 2004, the European Commission proposed a directive to liberalise trade in services in the EU-27. The aim was to promote the free movement of services by removing trade barriers that hindered service providers to establish themselves in other Member States. This included the requirement of Member States to create a 'point of single contact', which would provide a service for any businesses that wanted to set up in the UK.

Detica was commissioned to evaluate the costs of implementing a point of single contact as well as estimating the resultant benefits to businesses. This study can be used as a basis for estimating the costs and benefits of setting up a PCP, for which there are many similarities with the 'point of information' model. The model presented in the Detica study forms the basis of the costs and benefits estimates presented here, although where appropriate alternative estimates have been presented. When applicable, the reasoning for using different estimates to the Detica study has been outlined. Where possible, a range of values have also been provided based on a rule of a 10% margin of error. This helps address the fact that there is a high level of uncertainty with these cost estimates.

Option 1: Develop an adapted website

Some of the information that would be required for an efficient UK PCP to be set up is already available from other websites. The problem with the current set-up of these websites is that the information is not fit for the requirements of a PCP. The purpose of the adapted website is to change the current functionality of the current website so that it better matches the requirements of a PCP, enabling it to be built on existing services. These changes would include reformatting information currently available, and possibly even collecting further information.

The size of these costs depends on the extent to which the various websites currently provide the necessary information. The more information that is currently provided, the lower the cost will be. Of the websites that are currently available which provide relevant PCP-based information, it is felt that the most suitable websites are Business Link and British Standards Institute (BSI), where Business Link is likely to contain more of the relevant information required for the PCP. This is why it is assumed that adapting the Business Link website is likely to be less costly than adapting the BSI website.

(i) Business Link

Implementation costs

The implementation costs are estimated between £100,000 and £200,000. These can be broken down into 2 cost categories.

- Repositioning for an international audience (£50,000 - £100,000)
- Changes to existing service (£50,000 - £100,000)

Repositioning

The budget is aimed to include a detailed review of the host site, with the aim of identifying any changes to existing content and additional content necessary. The estimate of £50,000 - £100,000 covers the necessary review and implementation of minor changes, and is based on experience with similar projects.

Changes to existing service

The budget is aimed to improve the way users from the EU are directed to the UK PCP and its service. The £50,000 - £100,000 budget would be used to carry out the review into typical user journeys that are relevant to an EU business wishing to establish in the UK, and is based on experience with similar Detica projects.

Email and telephone support

The above costs have not accounted for any operating costs in terms of email and telephone support. Providing such support for a UK PCP is not a legal requirement, and there are other reasons that may support the case for such provisions not being made.

- If the PCP is designed and implemented as required (and planned), it should mean that it is not likely that there will be many mutual recognition-related questions that cannot be answered through the website itself
- There is no evidence of a need for a significant support function, given that SOLVIT currently is the nearest thing to such a helpline and receives almost no goods-related enquiries

The proposal presented here is for the UK PCP *not* to have an email and telephone support function (although estimates of these costs are provided separately at the end of this impact assessment for completeness). However to ensure that the above reasons for not providing such support are still valid, it is recommended that a part-time administrator (0.5) is employed to ensure that the PCP is maintained so that the information held on the PCP is up-to-date meaning that users of the UK PCP should be able to extract all relevant information. It is also advised that SOLVIT is promoted through the PCP, providing good contact details for policy leads on individual regulations, and monitoring the situation to see whether a need can be identified over time.

The discounted total costs presented below are based on the implementation costs outlined above and employing a part-time administrator (0.5). A full-time administrator is assumed to earn £41,507 per annum.

Estimates of the total costs have been produced based on 10% margin of errors on both types of costs; implementation and operation. The lower bound is estimated on both costs being 10% lower; the upper bound is estimated on both costs being 10% higher.

- Based on this information, if the implementation cost is £100,000 it is estimated that the net present value cost of this option over 10 years is **between £250,776 and £306,504**.
- Based on this information, if the implementation cost is £200,000 it is estimated that the net present value cost of this option over 10 years is **between £340,776 and £416,504**.

Table 1: Adapted Business Link website estimated total costs (10 year horizon)

Scenario	Total Cost: Implementation (a)	Total Cost: Implementation (b)
<i>Baseline</i>	£278,640	£378,640
<i>Implementation (-10%)</i>	£268,640	£358,640
<i>Implementation (+10%)</i>	£288,640	£398,640
<i>Operation (-10%)</i>	£260,776	£360,776
<i>Operation (+10%)</i>	£296,504	£396,504
<i>Lower bound</i>	£250,776	£340,776
<i>Upper bound</i>	£306,504	£416,504

Implementation (a): £100,000

Implementation (b): £200,000

The total costs are presented in net present value terms over a 10 year horizon.

Transformational Government

Another consideration that has not yet been taken into account is the Transformational Government programme, which is of relevance if providing a website-based PCP. One element of this programme (outlined in the Varney Review of Service Transformation⁸) is to make businesslink.gov.uk the primary channel for online government guidance for business, with government departments converging content from their existing web channels by 2011. Where new government web channels aimed at businesses (such as the PCP) are to be created, these should be provided through businesslink.gov.uk unless there are compelling reasons to use an alternative.

There are additional benefits from locating the PCP within Business Link because of the Transformational Government programme. As the main web site which business will go to for information from the Government, the site will have high traffic levels and will be heavily advertised, thus making it more likely that businesses seeking information on mutual recognition and UK technical rules will encounter the PCP.

(ii) BSI

Implementation costs

The implementation costs are estimated between £150,000 and £250,000. Since the Business Link website is a closer fit to what a UK PCP would need to deliver, the estimated implementation costs for the BSI are modelled as being greater. These can be broken down into 2 cost categories.

- Repositioning for an international audience (£75,000 - £125,000)
- Changes to existing service (£75,000 - £125,000)

⁸ HM Treasury (2006), 'Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer'

Email and telephone support

As with the Business Link option, it is recommended that a part-time administrator (0.5) is employed to ensure that the PCP is maintained so that the information held on the PCP is up-to-date meaning that users of the UK PCP should be able to extract all relevant information. It is also advised that SOLVIT is promoted through the PCP, providing good contact details for policy leads on individual regulations, and monitoring the situation to see whether a need can be identified over time.

The discounted total costs presented below are based on the implementation costs outlined above and employing a part-time administrator (0.5). A full-time administrator is assumed to earn £41,507 per annum.

Estimates of the total costs have been produced based on 10% margin of errors on both types of costs; implementation and operation. The lower bound is estimated on both costs being 10% lower; the upper bound is estimated on both costs being 10% higher.

- Based on this information, if the implementation cost is £150,000 it is estimated that the net present value cost of this option over 10 years is **between £295,776 and £361,504**.
- Based on this information, if the implementation cost is £250,000 it is estimated that the net present value cost of this option over 10 years is **between £385,776 and £471,504**.

Table 2: Adapted BSI website estimated total costs (10 year horizon)

Scenario	Total Cost: Implementation (a)	Total Cost: Implementation (b)
<i>Baseline</i>	£328,640	£428,640
<i>Implementation (-10%)</i>	£313,640	£403,640
<i>Implementation (+10%)</i>	£343,640	£453,640
<i>Operation (-10%)</i>	£310,776	£410,776
<i>Operation (+10%)</i>	£346,504	£446,504
<i>Lower bound</i>	£295,776	£385,776
<i>Upper bound</i>	£361,504	£471,504

Implementation (a): £150,000

Implementation (b): £250,000

The total costs are presented in net present value terms over a 10 year horizon.

It should be noted that in both versions of the adapted website model, there may be the need to market the PCP. Firms exporting to the UK, at which the PCP is primarily aimed, may not be aware of UK service providers such as Business Link or BSI. To avoid the risk of non-awareness, it may be necessary to market the PCP which would come at a cost. This is not accounted for though in these cost estimates.

Option 2: Develop a micro-site

Some of the information required for establishing a UK PCP can currently be obtained from current website providers, although the information is not necessarily readily available in that it cannot be accessed from one central base. Instead the information is available from various websites. The concept of a micro-site would be to set up a website, which essentially serves as a portal. This would pool together all the relevant information available but provide links to these from one page. This should make the information more user-friendly in terms of accessibility and hence reduces the burden on firms in terms of both time and resources.

One issue that may need to be taken into consideration with the policy option is marketing. The advantages of adapting a current website are that it is cheaper to build a website of existing services, and the fact that users are already familiar with that service provider. If a micro-site is to be developed, it is possible that the PCP would have to be marketed so that users are familiar with this new service. This represents both a potential cost and risk that should be considered, although it is not directly quantified here.

Implementation costs

The implementation costs are estimated at £1.05 million. These can be broken down into 2 cost categories.

- Technical delivery (£500,000 - £1 million)
- Changes to existing service (£50,000 - £100,000)

Technical delivery

The actual cost for technical delivery will depend on the amount of new and repackaged content that is contained in the micro-site. It is estimated that this could cost between a few hundred thousand pounds and £1 million.

Changes to existing service

As with the option of an adapted site, the budget is aimed to improve the way users from the EU are directed to the UK PCP and its service. The £50,000 - £100,000 budget would be used to carry out the review into typical user journeys that are relevant to an EU business wishing to establish in the UK, and is based on experience with similar projects.

Email and telephone support

The operating costs can be broken down into 2 cost categories.

- Staff (part-time administrator)
- Technical delivery (£100,000)

It is assumed that the staff requirements would not vary according to the host website of the PCP. It is assumed that the less relevant PCP-related information that is currently provided on the host website, the higher the cost will be. This is reflected in the assumptions made concerning the implementation costs (namely that they are assumed to be higher for BSI and the micro-site).

However, the email and telephone support costs would be independent of the host website. This is because it is assumed the support costs would depend on what content was included in the UK PCP. Regardless of the host website, the final UK PCP is assumed to be the same (in terms of the final output) – this is why it is assumed that a part-time administrator would be needed to maintain the PCP. The different implementation costs reflect any differences in where the host websites currently are.

- Based on this information, if the implementation cost is £550,000 it is estimated that the net present value cost of this option over 10 years is **between £1,430,467 and £1,748,349**.
- Based on this information, if the implementation cost is £1,100,000 it is estimated that the net present value cost of this option over 10 years is **between £1,925,467 and £2,353,349**.

Table 3: Micro-site estimated total costs (10 year horizon)

Scenario	Total Cost (a)	Total Cost (b)
<i>Baseline</i>	£1,589,408	£2,139,408
<i>Implementation (-10%)</i>	£1,534,408	£2,029,408
<i>Implementation (+10%)</i>	£1,644,408	£2,249,408
<i>Operation (-10%)</i>	£1,693,349	£2,035,467
<i>Operation (+10%)</i>	£1,693,349	£2,243,349
<i>Lower bound</i>	£1,430,467	£1,925,467
<i>Upper bound</i>	£1,748,349	£2,353,349

Implementation (a): Technical = £500,000; Changes to existing service = £50,000

Implementation (b): Technical = £1,000,000; Changes to existing service = £100,000

Option 3: Do nothing

Under this option, there would be no government action taken to develop a UK PCP. It is likely that Business Link is the closest approximation to a PCP and would be referred to as the source of information where firms can access what they need with regards to national technical rules. However, the information is not complete and is not currently presented in a way which meets the requirement of the Regulation. This would therefore not be a perfect substitute for a PCP and firms would still incur the administration burden. There would also be infraction costs for not meeting the necessary requirements.

Cost: Cost of infraction for not complying

Benefit: Zero

Benefits

The establishment of a UK PCP would reduce the effect of this trade barrier affecting goods covered by mutual recognition, although estimating the resultant benefits is difficult. The European Commission attempts to estimate the macroeconomic benefits by modelling this increase in trade, and then its impact on EU GDP. (The European Commission also presents the likely economic benefits that will arise from an increase in competition, such as the impact on prices and productivity, but no quantifiable estimates are presented. Assuming that establishing a PCP would increase trade of such goods by 10% (the most pessimistic of the scenarios presented), the European Commission estimate that there would be an increase of 0.18% in EU GDP over a 20 to 25 year period. This is on the basis that all Member States implement their own PCP. This is the source of the main benefits for UK firms.

The principal benefits of PCPs are realised by firms exporting to the country where that PCP is established. These benefits are not estimated here, as these benefits are not realised from setting up a UK PCP. Also these benefits are less straightforward to accurately estimate as they would vary by each export market. For example, the amount of time saved for UK exporters would depend on what is currently available in each other Member State regarding their national rules, which is likely to differ across different countries. If this is assumed, it would then also be necessary to take into consideration the distribution of UK exporters to the EU. Although not presented here, these benefits to UK exporters should be made aware of.

The methodology used to quantify the benefits of implementing a UK Point of Single Contact in the Services Directive is modelled by estimating the reduction in administration burden for firms wishing to sell in the UK market. It is assumed that firms exporting to the UK will benefit more than domestic firms as the time saved for these exporters will be greater (there is a greater burden on the resources of UK importers with regards to researching the different technical rules that apply to the UK).

For the Point of Single Contact, the quantifiable benefits are based on the reduction in the administrative burden on firms wishing to legally market and sell their product in the UK. This is measured by estimating the total time saved by firms seeking to establish or operate in the UK. In theory a similar approach could be used to estimate the benefits of implementing a UK PCP; the reduced burden would instead arise from firms being able to research more in a more direct manner the products that are subject to UK national rules, what the exact rules are and the procedure that needs to be followed for that product to be marketed and sold in the UK.

The estimation methodology is based on 3 parameters:

- The number of firms affected
- The time saving per firm if the PCP is implemented
- The hourly rate to value that time saving

Whereas it is possible to approximate the last 2 parameters, it is not straightforward to estimate the number of firms that would be affected by a UK PCP. Due to the nature of the goods that are affected by UK national rules (see list at the end of the Annex) it is not possible to obtain accurate, relevant estimates of the number of firms in the EU that trade in these goods. Either the information available is limited (due to the specificity of the products affected) or it just does not exist. Work is currently ongoing to see whether a proxy can be made so that the benefits of implementing a UK PCP can be quantified but it is not yet possible to present these.

It should be noted that the above approach to estimating the benefits associated with the UK PCP only are based only on the reduction in administrative burden that the UK PCP brings. There are also the further macroeconomic benefits that are brought about to the UK as a result of an increase in competition, which have not been quantified here.

Higher competition

The removal of trade barriers make it easier for non-UK firms to enter the UK market, increasing the level of competition in the UK. A higher level of competition means that incumbent firms have less market power, and so are in a position where they cannot set their own prices as freely as before. Another implication of higher levels of competition is that productivity of firms tends to be higher as there are more incentives to invest and innovate from the threat of competition.

Lower costs

One negative effect from this barrier to trade arises from administrative costs incurred by firms who have to use further resources to overcome such barriers. To adhere to national technical rules, firms have to first research the requirements that are set out in that country, which

requires time and resources. There is also the potential cost of modifying their product so that it meets the requirements set out in the UK. If these barriers are removed, firms are in a position where they can divert resources away from overcoming them and use them in a more efficient way.

Greater consumer choice

Consumers are affected by higher competition and a reduction in production costs. If firms are now able to enter the UK market because of lower barriers, then consumers are positively affected by the fact that there are more goods to choose from as there are more goods being imported into the UK, which may also be of a higher quality. The price of goods are also likely to decrease as not only are the incumbent firms not able to set their own prices in the presence of more competitors, but it is also possible that firms pass on the reduction in production costs to consumers through lower prices.

This means that the benefits to the UK as a result of implementing a UK PCP are likely to be higher than what the proposed model would produce in theory. Although economic theory allows us to model the resultant macroeconomic benefits following an increase in competition, in practice these are very difficult to quantify. These should not be ignored though.

Provision of email and telephone support

Estimates of the additional costs that would be incurred if an email and telephone support function was built into the UK PCP are provided here. It is assumed that the staff requirements would not vary according to the host website of the PCP. The less relevant PCP-related information that is currently provided on the host website, the higher the cost will be. This is reflected in the assumptions made concerning the implementation costs (namely that they are assumed to be higher for BSI and the developed micro-site).

However, the email and telephone support costs would be independent of the host website. This is because it is assumed the support costs would depend on what content was included in the UK PCP. Regardless of the host website, the final UK PCP is assumed to be the same (in terms of the final output). The different implementation costs reflect any differences in where the host websites currently are.

The email and telephone support costs are based on the assumption that the support requirement would mean employing one professional (£55,463 per annum) and one administrator (£41,507 per annum) to cover both the email and telephone support. However, it should be noted the costs presented below are the *additional* costs of having a support function. Since the first set of cost estimates are based on employing a part-time administrator to maintain the content of the PCP, the below staff costs are based on employing one professional and a further part-time administrator (0.5). The additional staff cost would be £76,216 per annum, which when discounted over a 10 year period totals £656,048 (which would be the same for all 3 options).

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes/No	Yes/No
Small Firms Impact Test	Yes/No	Yes/No
Legal Aid	Yes/No	Yes/No
Sustainable Development	Yes/No	Yes/No
Carbon Assessment	Yes/No	Yes/No
Other Environment	Yes/No	Yes/No
Health Impact Assessment	Yes/No	Yes/No
Race Equality	Yes/No	Yes/No
Disability Equality	Yes/No	Yes/No
Gender Equality	Yes/No	Yes/No
Human Rights	Yes/No	Yes/No
Rural Proofing	Yes/No	Yes/No

Competition Assessment

Establishing a UK PCP should have the effect of increasing competitive pressures in the UK. The aim of the PCP is to promote the application of the Mutual Recognition Principle and encourage importers and/or exporters to stand up for their mutual recognition rights by providing a structure in which they can do so and highlighting that those rights may be engaged. This would make it easier for firms to engage in the trade of non-harmonised goods and giving them a better opportunity to understand and assert their rights under mutual recognition. The removal of trade barriers will make it easier for other EU-based firms to enter the UK market, increasing the level of competition in the UK.

A higher level of competition means that incumbent firms have less market power, and so are not in a position where they can set their own prices as freely as before. Another implication of higher levels of competition is that productivity of firms tends to be higher as there are more incentives to invest and innovate from the threat of competition.

A UK PCP should increase intra-EU trade of non-harmonised goods, which has the further effect of leading to an increase in GDP. Based on Eurostat data and work carried out by Frankel and Rose, it can be shown that an increase of 10% in intra-EU trade of non-harmonised goods would lead to an increase of 0.18% in EU GDP (and this if the pessimistic scenario of a 10% increase in trade in non-harmonised goods is assumed).

There are other estimated macroeconomic benefits from implementing a UK PCP, which arise from the UK being more open. The European Commission's competitiveness report showed that a one percent increase in openness of an economy results in 0.6% increase in labour productivity the following year, and similarly work by OECD suggests that a 10 percentage point increase in trade openness translates into increase of around 4% in per capita income. A further study by the European Commission showed that EU GDP in 2006 was 2.2% higher than it would have been without the Single Market, representing an average increase in welfare of €518 per head.

Small Firms Impact Test

There is also reason to believe that SMEs are likely to benefit more from having a UK PCP established. This is because the administrative costs involved in dealing with national rules place a much greater burden on the resources of smaller firms than they do for larger firms; the costs of overcoming these barriers are often independent of firm size. SMEs comprise a large component of both the EU and UK market; for example, in terms of number of enterprises, SMEs make up 99.8% of the UK economy.

The absence of mutual recognition means that larger firms have a competitive advantage. Not only are larger firms more equipped to deal with this administrative burden, there is also a tendency for larger firms to prefer to design their products with the strictest set of national rules in mind. Conversely smaller firms often develop their products domestically first, giving less consideration to the possibility of exporting their product. This means that they are more reliant on mutual recognition being applied than larger firms, who develop their products with the possibility of an export market already being considered. This is why the creation of a UK PCP will benefit both EU and UK SMEs. UK SMEs will also benefit from PCPs being implemented in other countries.

Racial Equality Test

The UK PCP will be available for all users to access, with the information being provided free of charge. Due to the widespread access of the PCP, the benefits are available to all who make use of the PCP (namely, firms that trade in non-harmonised goods). This should not vary with race.

At this stage of implementation, no racial equality issues have become evident, which should mean that different racial groups are not less able to access the UK PCP than others.

Disability Equality Test

The UK PCP will be available for all users to access, with the information being provided free of charge. Due to the widespread access of the PCP, the benefits are available to all who make use of the PCP (namely, firms that trade in non-harmonised goods). At this stage of implementation, no disability equality issues have become evident.

Gender Equality Test

The UK PCP will be available for all users to access, with the information being provided free of charge. Due to the widespread access of the PCP, the benefits are available to all who make use of the PCP (namely, firms that trade in non-harmonised goods). This should not vary with gender.

At this stage of implementation, no gender equality issues have become evident, which should mean that there is no disparity between genders with regards to accessing the UK PCP (and hence realising the benefits).

Annex A: Macroeconomic benefits

The main macroeconomic benefit of addressing these information-based barriers to trade is the increase in intra-EU trade of non-harmonised goods, as a result of policy intervention making it easier for firms to sell the product in an export market. The resultant increase in the trade of goods covered by mutual recognition has the further effect of leading to an increase in GDP, which represents the main macroeconomic impact of government intervention. This impact will depend on two main factors:

- The volume of trade covered by mutual recognition as a percentage of GDP
- The percentage by which that trade is expected to increase as a result to improvements in mutual recognition (that is, the effect of government intervention)

Eurostat data implies that intra-EU trade covered by mutual recognition as a proportion of EU GDP is 5.4%. Frankel and Rose (2000⁹) estimate that every one percent increase in trade relative to GDP raises income per capita by $\frac{1}{3}$ of a percent over 20 years.

The European Commission presents different scenarios that show the amount by which trade in goods covered by mutual recognition would increase as a result of improvements in the Mutual Recognition Principle. Assuming the pessimistic scenario of a 10% increase in mutual recognition trade, it can be shown that this would lead to an increase of 0.18% in EU GDP. This incorporates benefits to the UK such as:

Higher competition

Government intervention would make it easier for EU-based firms to enter the UK market because of the reduction in administration burden facing firms and greater legal certainty. This would increase the level of competition in the UK meaning that incumbent firms would have less market power, and so are not in a position where they can set their own prices as freely as before. Another implication of higher levels of competition is that firm productivity tends to increase in response to there being more competitors; there are more incentives for firms to invest and innovate.

Lower costs

Currently the administrative costs incurred by firms who wish to operate in the UK means that further resources have to be used. To adhere to national technical rules, firms have to first research the requirements that are set out in that country, which requires time and resources. There is also the potential cost of adapting/modifying their product so that it meets the specific requirements set out in the UK. If these barriers are removed, firms are in a position where they can divert resources away from overcoming them and use them in a more efficient way that can benefit both firms and consumers. The prices of final goods are likely to decrease as a result of firms passing on the reduction in production costs to consumers through lower prices. (Prices are also likely to decrease due to higher levels of competition meaning incumbent firms are not in as strong a position to set their own prices.)

Greater consumer choice

Consumers are positively affected by higher competition and a reduction in production costs. If firms are now able to enter the UK market because of lower barriers, then consumers are positively affected by the fact that a wider range of goods are being imported into the UK, which may also be of a higher quality.

⁹ Frankel and Rose (2000) 'Estimating the Effect of Currency Unions on Trade and Output'