

## Administrative Burden and its Evaluation in the Sphere of Food Safety

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**Abstract.** The paper presents results of studies, which aimed at establishing the research outline or theoretical framework for the evaluation and assessment of administrative burdens, particularly in the agri-food sector, caused by food safety legislation. Mainly qualitative methods are used for the studies. The results are presented in the following sections: 1) administrative burdens and their influence both on the state economy and small and medium enterprises, including enterprises of the agri-food sector; 2) assessment methods for the evaluation of administrative burdens; 3) prior legislation in the sphere of food safety from the European Union (hereinafter - the EU) point of view. The role of administrative burden is stressed and some principles of its evaluation are indicated in the research, thereto, noting the main aspects of food safety legislation under the analysis. Some proposals are set for further estimation of impact of administrative burdens caused by the food safety normative acts in Latvia.

**Key words:** administrative burdens, enterprises, food safety.

### Introduction

Many countries have already taken important steps towards improving the administrative conditions for businesses. Some results have been achieved, but the administrative burdens are still a huge obstacle to a progressive and dynamic business environment. In recent years the issue of better regulation and in particular, the issue of administrative costs on enterprises has gained increasing attention internationally, on the EU level and in the EU member states (hereinafter – the MS). In January 2007, the European Commission (hereinafter – the EC) proposed the launch of an ambitious Action Programme (Commission of the European Communities, 2007) to eliminate unnecessary administrative burdens on businesses in the EU. Later the European Council agreed that burdens arising from the EU legislation, including national rules implementing or transposing this legislation, should be reduced by 25% before 2012. The effect that is expected from a reduction on the EU as well as national levels is an increase of the GDP by 1.4% (EUR 150 billion) (Bremmer H.J. et al., 2008). The EU Better Regulation Programme consists of an Action Programme to decrease administrative burden, a simplification programme (broader than administrative burden) and impact assessments for proposed legislation. The necessity to review administrative costs caused by the legal regulations and to reduce red tape<sup>1</sup> and administrative burdens is directly related to the objective for development. In order to attain the above objective, in 2007 the EC, in cooperation with the MS, identified 13 areas in which the reduction of administrative burdens would

be a priority, including along other the regulations affected agri-food sector: agriculture, fisheries, and food safety. The measurement focuses on the most burdensome information obligations in the selected priority areas (European Commission & Enterprise and Industry, 2008).

Red tape is costly, not just in time and money spent filling out forms but also in the terms of reduced productivity and innovation in business (OECD, 2003; Hampton, P., 2005). It is particularly burdensome to smaller businesses and may even discourage people from starting up a new business. These effects are more costly on global markets, where the efficiency of the domestic regulatory and administrative environment can affect business competitiveness (OECD, 2007).

In the context of the renewed Lisbon Strategy, refocused on growth and jobs, the EC announced its intention to launch a comprehensive initiative to ensure that the regulatory framework in the EU meets the requirements of the 21<sup>st</sup> century. This initiative builds on the Commission's 2002 initiative for better regulation and reinforces the way in which better regulation contributes to achieving growth and jobs (Commission of the European Communities, 2005a). As mentioned above, in January 2007, the EC presented a programme for measuring the administrative costs arising from the EU legislation and reducing administrative burdens by 25%. In March 2007, the European Council endorsed this Action Programme for Reducing Administrative Burdens and invited the EC to launch it with the assistance of the MS.

<sup>1</sup> "Red tape" is a term for excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and hinders or prevents action or decision-making.

In this line on 19 May, 2008 the Cabinet of the Republic of Latvia (LR Ministru kabinets, 2008) adopted the national target - 25% for reduction of administrative burdens in Latvia until 2013.

The importance of burdensome procedures is indicated by the regulatory environment for businesses, which can influence how well companies cope with the crisis and are able to seize opportunities when recovery begins. The World Bank (2009) argues that where business regulation is transparent and efficient, it is easier for business to reorient them and for new companies to start up. Recognising the importance of companies – especially small and medium size enterprises – for creating jobs and revenue, some governments have included reforms of business regulation in their economic recovery plans.

The paper presents results of a project studies outline or theoretical framework to identify the administrative burdens caused by food safety legislation, and it assesses the impact of administrative burdens on Latvian agri-food sector. The whole project of evaluation of administrative burden's evaluation is carried out for the Ministry of Agriculture of the Republic of Latvia.

The research **aim** is to estimate the research outline or theoretical framework for the evaluation of administrative burdens, particularly in the agri-food sector, caused by food safety legislation.

The research **object** is administrative burdens, their importance and estimation methods.

The study includes the following **tasks**: 1) to estimate administrative burdens and their influence both on the state economy and small and medium enterprises, including enterprises of the agri-food sector; 2) to estimate aspects of evaluation and assessment methods; 3) prior legislation in the sphere of food safety from the EU point.

The principal **materials** used for the studies are as follows: different sources of literature, research papers, reports and information of the EU and Latvian institutions.

Both qualitative and quantitative research **methods** were used in this research: monographic analysis, reference, data grouping, logical and abstract constructive methods.

Only the most important research results are set out in the paper due to the limited space.

## Results and discussion

### 1. Administrative burdens and its impact

Small and medium-sized enterprises<sup>2</sup> (hereinafter SMEs) are often referred to as the backbone of the European economy, providing a significant source of jobs and economic growth (Avermaete, T. et al., 2003; Edwards, T., et al., 2005; Schmiemann, M., 2009). Thereto, small businesses are well recognised and acknowledged worldwide as vital and significant contributors to the economic development, job creation, and the general health and welfare of economies, both nationally and internationally

(Morrison, A. et al., 2003; Vickers, I. et al., 2005). SMEs grew in number and in the number of persons employed by them almost twice as fast as large enterprises in the EU. M. Schmiemann (2009) comparing data of the EU-27 argues that the value added at factor cost showed the fastest growth, being in double figures for SMEs and the faster growth of value added, compared with the growth in employment, is reflected in the growth of apparent labour productivity, by 8.1% for SMEs and 6.2% for large enterprises. Comparing the changes of the labour productivity between SMEs and large enterprises in the EU-27, the largest growth by 61.7% and 61.4% is observed in Romania and Latvia respectively (Schmiemann, 2009). SMEs contributed two thirds of the increase in value added of the non-financial business economy of the EU between 2004 and 2006. The micro-businesses are the real giants of the European economy, because the number of micro-enterprise was 91.5%; small – 7.3%; medium-sized – 1.1%; large – 0.2% in 2006 (European Commission, 2008). Moreover, SMEs account for 99.8% of all food businesses within the catering, hotel and retail sectors (Fairman, R., Yapp, Ch., 2004).

The data of OECD (2001) show how SMEs perceive national administrative and regulatory costs and accords with broadly accepted view that SMEs suffer by administrative costs more than larger enterprises (Crain, W.M., Hopkins, T.D., 2001).

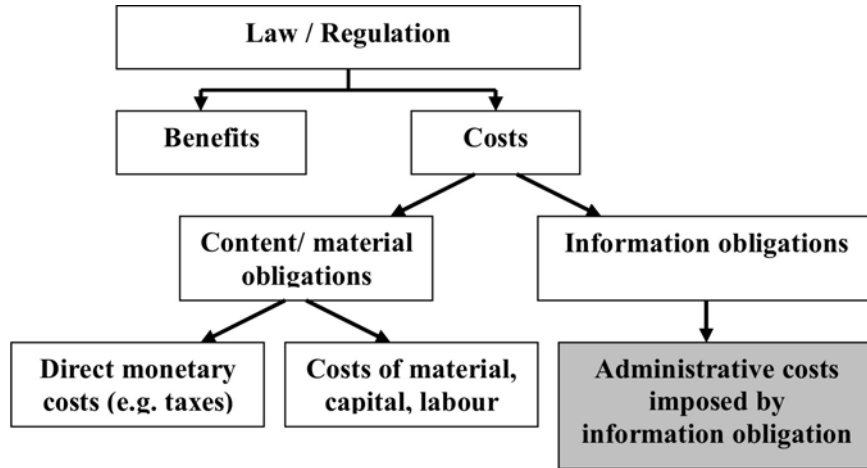
Regulations and government formalities, the so-called 'red tape', are important tools used by governments to carry out public policies in many policy areas, including safety, health, and environmental protection. However, if they are poorly designed or applied, inefficient, or outdated, they can impede innovation, entry of investment, and create unnecessary barriers to trade, investment, and economic efficiency. The result of poor regulation and formalities is that national economies become less able to grow, compete, adjust, and create jobs. Based on a survey of almost 8 000 businesses, this report assesses the quality, application and burdens of employment, environment and tax regulations and formalities. The results of OECD research are dramatic, for instance, the red tape accounts for 4% of the annual turnover of companies, while the hardest hit are the smallest companies, and these costs are growing in most countries.

Figure 1 explains the origin of administrative costs, which are caused by implementation or enforcement of the legislation.

Figure 2 illustrates different types of costs that legislation and regulations can impose on businesses. Complying with regulations usually involves costs for businesses, which can be divided into different categories.

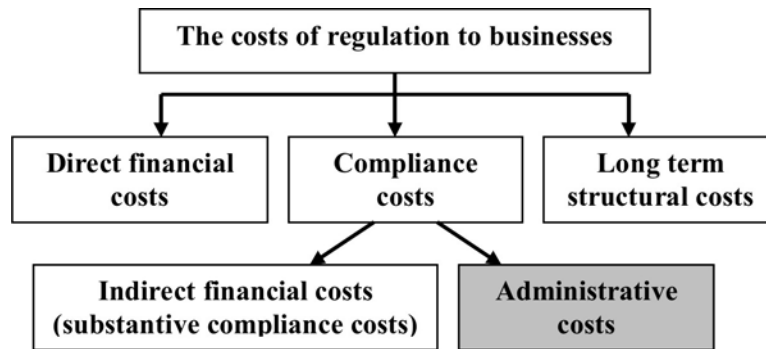
Direct financial costs are the result of a concrete and direct obligation to transfer a sum of money to the government or the competent authority. The compliance costs are all costs to businesses

<sup>2</sup> Micro sized enterprise: < 10 employees, maximum EUR 2 million annual turnover; Small sized enterprise: < 50 employees, maximum EUR 10 million annual turnover; Medium sized enterprise: < 250 employees, maximum EUR 50 million annual turnover (European Commission, 2003)



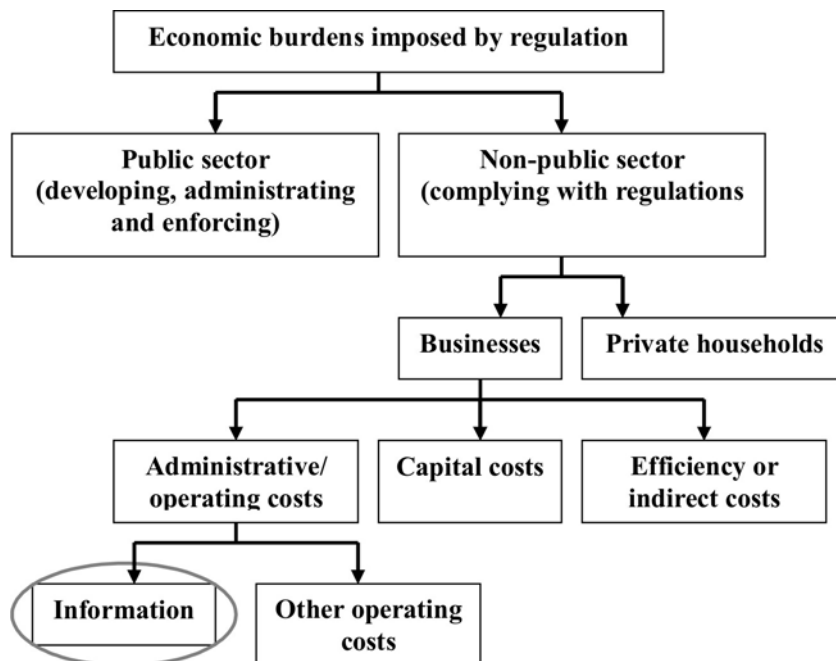
Source: adapted from Böllhoff, 2007

Figure 1. Origin of administrative costs



Source: SCM Network, 2005

Figure 2. Different costs of regulation to businesses



Source: adapted from Jacobs, 2008

Figure 3. Impact of administrative burdens on the state economy

of complying with regulation, with the exception of financial costs. These costs can be divided into 'substantive compliance costs' and 'administrative costs'. Substantive compliance costs are the costs that enterprises make in order to comply with the content obligation that legislation and regulations require of a production process or a product. Compliance costs are the costs businesses make to comply with substantive obligations due to the government legislation and regulations (Colophon Regulatory Reform Group, 2009). Administrative costs are not so visible, for instance, it is impossible to find the costs for the time used on filling in forms to get a license in a company's bookkeeping system, although, such activity has been quite costly for businesses.

While, administrative costs are defined by the EC (Commission of the European Communities, 2005a) as the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties. However, P. Hampton (2005) considers that the administrative burdens are the costs that come from enforcement activities.

The economic impact of administrative burdens and their costs more affect business environment, yet they also negatively influence all sectors of broad society as shown in Figure 3, since enterprises include part of administrative burden caused costs in the price of a product or service.

In the Netherlands alone all the paperwork companies suffer from the government costs EUR 16.4 billion a year. It corresponds to 3.6% of the Gross Domestic Product (GDP), while in Denmark the total amount of administrative burdens equals to 2.4% of GDP. Therefore it is important that the governments focus on reducing administrative costs for businesses. A number of studies have documented the success of change in the regulatory environment in Europe. B.Hagerup (2005) calculated that in Denmark recent successes have reduced the administrative costs of regulatory compliance by EUR 11 million increasing the GDP by EUR 25 million and productivity by 0.1%. In the Netherlands the results have been even more dramatic, with a 25% reduction in the red tape leading to a 1.5% increase in the GDP and a 1.7% increase in productivity.

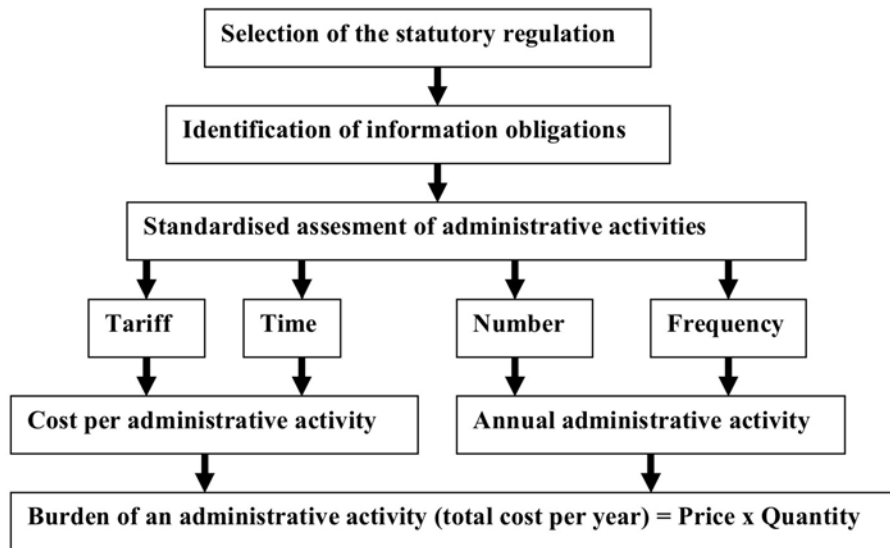
S. Djankov et al. (2003) stressed that entry regulation is extremely heavy in most countries in terms of both the time and the number of procedures that an entrepreneur must complete. Moreover, a heavier entry regulation is not associated with a superior quality of products, but rather with greater corruption and larger shadow economies. The authors argue that last but not least, heavier regulation of entry is pursued by the less democratic and less limited governments. All of these results support the public choice view that regulation of entry contributes to bureaucrats and politicians rather than consumers. Thereto, more regulation is associated with a larger shadow economy. Competition in countries with more regulation is perceived to be less intense, although this result is only statistically significant without the income control.

## 2. Aspects for evaluation methods of administrative burdens

Setting administrative objectives for the reduction of administrative burdens is directly linked with assessment of the current situation. At present, it is considered that the most complete way for "measuring" administrative burdens is the so-called Standard Cost Model (SCM), which was developed by specialists in the Netherlands, who envisaged to "measure" the costs of every information activity performed pursuant to some legal regulation (SCM Network, 2005). The EC uses the so-called EU Net Administrative Cost Model for these measurements and this model is based on the SCM (Commission of the European Communities, 2005b). The methodology of the SCM focuses on the systematic identification and measurement of levels of the red tape that relate to one particular source, which are the regulatory obligations to provide information to some part of the government and or third parties (Weijnen, T., 2007). In 2003, some European countries formed an informal network – the SCM Network – committed to using the same methodological approach when measuring administrative burdens (OECD, 2006; European Commission, 2005b). The strength of the model is not only its high level of detail in the measurement of administrative costs, but also the fact that the numbers obtained are consistent across policy areas. Moreover, the model allows governments to set numerical targets for burden reduction and to measure progress towards these targets over time (OECD, 2007).

In order to keep the EU common methodology as simple as possible and to minimise subjective judgment in the assessment, no distinction should be made between 'pure obligation' and obligation corresponding to what an entity would normally do in the absence of any legal obligation. Similarly, optional participation which could be considered as *de facto* obligatory should not be assimilated to administrative burden. The benefits of the EU SCM include: bringing clarity about possible differences in procedures followed by the EU institutions and different MS; facilitating cross-country or cross-policy area comparisons, benchmarking, and the development of best practices; offering economies of scale in terms of data collection and validation. The administrative costs are measured on the basis of the average cost of required action (Price) multiplied by the total number of actions performed per year (Quantity), where the price per activity will be generally estimated by multiplying a tariff (based on the average labour cost per hour including prorated overheads) and the time required per action, but the quantity will be calculated as the frequency of required actions multiplied by the number of entities concerned (Commission of the European Communities, 2005b).

Administrative burdens are measured through in-depth interviews with a small number of businesses within the target group of the law. They are asked to specify how much time and money they spend, performing each administrative activity that is required when fulfilling a given information obligation. In order to take into account, the



Source: adapted from Federal Statistical Office, 2006

Figure 4. Application of the cost calculation model

different impact a law may have on various types of businesses, a relevant segmentation of businesses is carried out. It may for example be relevant to distinguish between smaller and larger businesses. The overall administrative burden resulting from the existing information obligations is the sum total of the administrative costs of the individual information obligations. As a first step, regulatory acts must be classified by legislative level of origin in one of the categories that can be the subject of the SCM measurement (Figure 4).

A greater part of the burden identified was due to the complex language used in the regulation and the need for adoption. The high number of businesses affected and the need for more senior staff to spend a significant amount of time on understanding and becoming familiar with the rules meant that administrative costs were significant for businesses (Food Standards Agency, 2009).

### 3. Prior legislation in the food safety sphere

The priority 'Food Safety' is one of 13 areas of the EU legislation investigated in the framework of the Action Programme for reducing administrative burdens (High Level Group, 2009). The priority areas were selected on the basis of a 2006 pilot study and are estimated to account for a large part of administrative burdens of the EU origin. The seven legal acts chosen for the Food Safety priority area are expected to cover a big proportion of burdens imposed on businesses operating in the agri-food

sector. The scope of measurement covers the following main topics: 1) Traceability of live animals and meat products<sup>3</sup>; 2) Animal welfare<sup>4</sup>; 3) Product labelling (including price) and packaging<sup>5</sup> and Plant health; Veterinary medicine etc.

In these areas of legislation the studies of burdensome evaluation had been performed by several researchers (Kimura, A. et al.; Golan, L. et al., 2000), for instance, L. Golan et al. (2000) conclude that the costs of origin labelling exceed the benefits and the mandatory labelling would not be effective if it is not accompanied by consistent, achievable standards, testing services (or IP), certification services, and enforcement. Hampton's (2005) key recommendations on the food safety sphere are as follows: reducing inspections where risks are low, but increasing them where necessary; making much more use of advice, applying the principle of risk assessment; substantially reducing the need for form-filling and other regulatory information requirements; and applying tougher and more consistent penalties where necessary.

The IO in the North Ireland (Dowling, M. et al., 2009) relating to 'record keeping' is accounted for 83% of total administrative burden (Table 1). These are records kept by different kinds of agri-food enterprises: farms, slaughterhouses, milk processing premises, fish farms etc.

Animal welfare regulations are the least burdensome, as identified by the respondents, where 82% of them reported that keeping records, inspections, and notification of activities as being the

<sup>3</sup> Regulation (EC) No 1760/2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products; Regulation (EC) No 21/2004 establishing a system for the identification and registration of ovine and caprine animals.

<sup>4</sup> Regulation (EC) 1/2005 Protection of animals during transport and related operations.

<sup>5</sup> Directive 2000/13/EC of the European Parliament and of the Council on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs; Directive 98/6/EEC on consumer protection in the indication of the prices of products offered to consumers.

Table 1

**Administrative burden by Information Obligation (IO) type**

IO type	% of administrative burdens
Keeping records	83
Application for authorisation	12
Statutory labelling for third parties	5

Source: from Dowling et al., 2009

most burdensome activities overall (DEFRA, 2007). Besides it is stressed that the difference in responses between the EU-15 and the new MS is interesting: overall, responses from the old member states indicate higher levels of administrative burden than responses from the new MS, especially with respect to inspections and reading guidance. The examples of measures for reducing administrative burden proposed by the EC (Court of Justice, 2009) in the sphere of food safety are: abolishing authorisation procedures and simplifying labelling requirements for feed materials; simplifying ovine identification procedure; streamlining legislation on the production, marketing and use of animal by-products; simplifying general food labelling and nutritional labelling; lowering the number and length of inspections of animal transport etc.

### Conclusions

The results of study attest the role and importance of administrative burdens and their reduction in the whole state development and business environment, where Latvia and its entrepreneurs are not exemption. The costs of administrative burden significantly influence the business environment, especially for small and medium enterprises and particularly in the agri-food sector.

Providing the theoretical framework for the further research – evaluation and assessment - of administrative burdens in the field of food safety, the measurement methodology of the SCM, which is accepted on the EU and MS level, is conceived to make assessment of administrative burdens caused by food safety legislation in enterprises of the agri-food sector.

The prior legislation of food safety for assessment in Latvia is the following: Traceability of live animals and meat products; Animal welfare; Product labelling (including price) and packaging; Plant health; Veterinary medicine and similar EU origin normative acts.

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<sup>6</sup> High Level Group of Independent Stakeholders on Administrative Burdens Priority area

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