

Economic consequences of EU legislation

EU legislation serves many different and important purposes – protecting the environment, improving working conditions and consumer rights, advancing the green transition – and the list goes on. With the potential to harmonize and simplify across 27 legislative frameworks, common EU-rules are furthermore vital to strengthen the Single Market and thereby boost innovation and productivity.

However, EU rules can sometimes create unnecessary complexity and bureaucracy for the private sector and national administrations. As pointed out in the Draghi report, the regulatory burden on European companies is high and continues to grow. The stock of legislation remains large and new legislation in the EU is growing faster than in other comparable economies¹.

Simplification is one of the main priorities of both the Strategic Agenda 2024-2029 and the Budapest declaration on the new European competitiveness deal, in which EU leaders called for a ‘simplification revolution’. Sharing this priority, the President of the European Commission has made simplification a top priority and tasked each Commissioner with reducing administrative burdens and simplifying implementation, under the coordination of Valdis Dombrovskis, the first-ever Commissioner for Implementation and Simplification.

The Commission has launched a set of new tools² – including implementation dialogues, reality checks, stress-tests, reinforced SME and competitiveness checks – to address the simplification agenda. These new initiatives are treated as a priority within the Competitiveness Council. The Commission has also set out a target of reducing administrative burdens for businesses by at least 25% (35% for SMEs) by 2029, equivalent to EUR 37.5 bn. This has so far materialized into six omnibus packages and other simplification proposals. These initiatives contribute to reducing additional burdens from new EU legislation not yet entered into force burdens from EU-regulation already in place.

To complement these important efforts to simplify and reduce the costs of *the stock* of legislation, European legislators must also take a **forward-looking approach** and monitor *the flow* of new legislation and its costs affecting businesses and public authorities.

However, today it is difficult for policymakers to obtain even a rough horizontal overview of the total costs, burdens and benefits stemming from new EU legislation in the pipeline. There are various reasons for that. As pointed out by the Draghi report, EU decisions are typically made issue-by-issue in different sub-committees, with little coordination across policy areas. Moreover, there is a potential to improve the EU-framework to analyse the costs and benefits of new laws.³

As a result, some proposals are negotiated and adopted without a clear and accurate assessment of cost and burdens. Around 70 per cent of proposals under negotiation in the Council are

¹ Draghi report, pp. 68-69

² A simpler and faster Europe: Communication on implementation and simplification, European Commission 2024-2029,

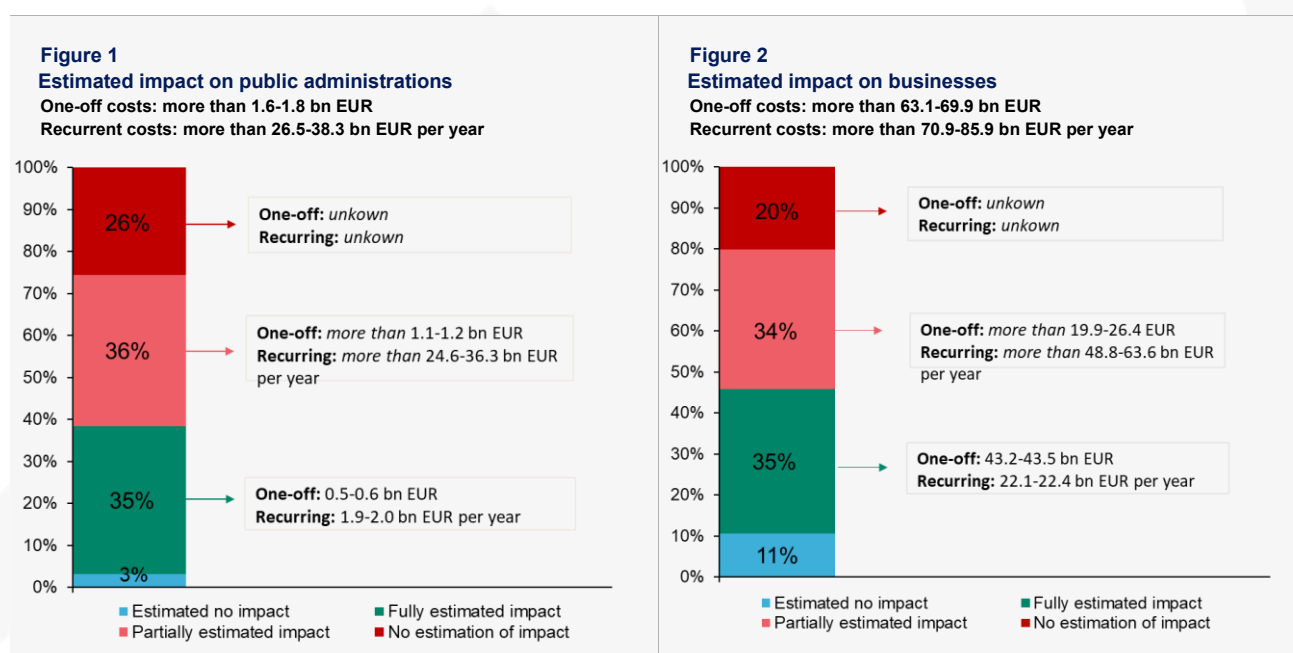
³ Draghi report, pp. 67, 69
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accompanied by an impact assessment from the Commission⁴. And, where available, estimates are often partial, or do not cover all relevant aspects, and costs may be underestimated⁵. Furthermore, the co-legislators are not carrying out impact assessments in relation to substantial amendments introduced during the legislative process.

Consequently, public authorities and other stakeholders sometimes lack overview and clarity concerning the costs and benefits of proposals or experience a disconnect between the costs estimated during the preparation of a legislative proposal and the actual costs when the new legislation is adopted and implemented. This entails a risk that new EU legislation has unforeseen impacts or excessive costs for companies and public authorities. It is also a challenge for national budget planning, when EU legislation requires more funding than expected.

The current flow of new EU legislation: A preliminary overview

The Danish presidency has prepared a preliminary overview (Annex A) that tables the estimated direct gross costs for businesses and public authorities of legislative proposals currently under negotiation and recently adopted EU legislation that has not yet entered into force or been transposed. This overview of the “flow” of new EU legislation (see Box 1 and Annex B for more information on the methodology) is based on the impact assessments by the Commission. Figure 1 and Figure 2 outline the main findings.



Note: The figures illustrate to which extend the economic impact of legislative proposals with an impact assessment has been estimated for public administrations (figure 1) and business (figure 2). For each category, the estimated gross costs (one-off and recurrent, respectively) have been accumulated (cf. Table 1 in Annex A).

⁴ In line with the 2016 IIA on Better Law-Making not every proposal will require an impact assessment. Where a proposal is not accompanied by an impact assessment, the Commission will in most cases produce a staff working document (SWD) which are not approved by the Regulatory Scrutiny Board (RSB).

⁵ For instance, in April 2021 the Commission estimated that the corporate sustainability reporting directive (CSRD) would cost EUR 0.7 billion in one-off costs and EUR 2.1 billion in annual recurring costs for all affected companies in the EU. However, nationally conducted estimates show that costs could have – in the absence of the first omnibus package – amounted to EUR 0.8 billion in one-off costs and EUR 0.7 billion in annual recurring costs in Denmark alone.

The preliminary overview shows that estimated direct gross costs for public administrations of all proposals for new EU legislation amount to more than EUR 1.6-1.8 bn in one-off costs and EUR 26.5-38.3 bn per year in recurrent costs (figure 1).

For businesses, the estimated costs amount to more than EUR 63.1-69.9 bn in one-off costs and EUR 70.9-85.9 bn per year in recurrent costs (figure 2)⁶.

It is not possible to conclude from the figures that EU legislation “is too costly”. However, with a shared ambition to reduce the burdens of existing regulation, there are indications that new EU legislation could water down these efforts. The overview also indicates that 26%/20% of the proposals accompanied by an impact assessment do not have estimates of the costs for administrations/businesses (at times it may not be required), while 36%/34% of the impact assessments only partially estimate the costs for national administrations/businesses. Consequently, the overall costs may be higher.

The estimated costs of new EU legislation would be additional to the costs of existing rules. According to the Commission, Eurostat has approximated overall recurring administrative costs for businesses of existing rules at EUR 150 bn. in the EU in 2022.

It should be emphasized that EU legislation in general provides benefits, and that both cost and benefits are often difficult to monetize, e.g. improved wellbeing or security. Currently, it is therefore not possible to consistently net any direct benefits nor costs savings, in particular due to differences in methodology, baseline scenarios, time-horizon and categorisation of cost types.

Box 1 Methodology

The estimates of gross costs and benefits are based on the Commission’s impact assessments, both for regulations and directives, utilizing the Commission’s preferred option retained for its final proposal. If available, each proposal/package is tabled with the estimated direct compliance, enforcement and hassle costs and a short summary of the direct benefits.

When the Commission has aggregated recurrent costs over a number of years, the costs have been distributed across the relevant years by way of a simple average. The Danish Presidency has sought to refrain from adjusting the Commission’s numbers, focusing primarily on collecting data from the Commission’s impact assessments. Staff working documents are not included.

The overview summarizes the gross direct costs as initially estimated by the Commission when presenting its legislative proposals. It does not capture the impacts of substantial amendments, since none have been assessed by the co-legislators so far or of adopted legislation that has not yet been transposed or entered into force. In addition, it should be noted that national implementation (“gold plating”) could introduce potentially higher costs as well as contribute to fragmentation.

The overview also indicates to which extent an impact assessment was carried out. As a rule, the Commission carries out impact assessments for proposals which are expected to have significant economic, environmental or social impacts. However, there are exceptions, mainly for reasons of urgency (In these cases, the Commission will instead produce a staff working document). In addition, quantified estimates are not always provided or sometimes incomplete or lacking in a number of cases.

⁶ As outlined in Annex B there are a number of limitations related to aggregation cost and benefit estimates of individual legislative proposals based on impact assessments. The burden reduction stemming from the Omnibus proposals are not included in the aggregation, as only a staff working document was available.

A new role for ECOFIN in monitoring the overall impact of new EU legislation?

Due to their role as “economic and financial guardians” in national governments, ECOFIN ministers are well-positioned to play a key and active role in ensuring that the overall flow of new EU legislation is transparent and does not result in an unintended, excessive growth of total burdens and costs.

The ECOFIN Council could potentially have an overview and discuss the important issue of costs and benefits of new EU legislation on a recurring basis, e.g. once or twice during each presidency, on the basis of an updated and consolidated version of the table providing an overview of costs and benefits for public authorities and businesses (Annex A). Ministers could exchange views on the economic consequences of new proposals in general and perhaps have a focused discussion of a handful of proposals that entail significant burdens. Substantial negotiations on the concrete files will of course remain with the relevant Council formations.

At a later stage, it could be discussed and determined how to develop the table overview (Annex A) in terms of its structure and exact content as well as placing the responsibility for the regular updates and the preparatory discussions leading up to ECOFIN meetings.

Questions for discussion:

1. Do ministers agree that the burdens and costs for public administrations and businesses from new EU legislation present a challenge, and agree that currently an overview of the burdens and costs is missing?
2. Should the ECOFIN Council have a horizontal and permanent role in monitoring the economic impact (burdens and costs as well as benefits) from new EU legislation across policy areas and Council formations on the basis of an overview table?
3. Is the preliminary overview table (Annex A) a valuable tool that should be further developed as well as consolidated and updated on a regular basis to ensure horizontal monitoring?