Future financing for the CEN System

Conseil d'Administration

European Committee for Standardization (CEN)

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O. Foreword

The main objectives of the study (Chart 1) were to:

- Review the past and current financing schemes (and corresponding work volumes) and assess their possible development over the coming decade.
- Review the long-term financing of the CEN System (and in particular of the CMC) and define the most likely financing scenarios.
- Identify novel financing schemes through stronger involvement and commitment of the principal current and future beneficiaries of the CEN System.

The objective of the study was neither to review the core strategic orientation and concept of CEN nor to identify cost saving potentials.

The study focused on the financing of the CEN system. Wherever necessary, care was taken to make a clear distinction between CEN and the other two major European Standards Bodies (CENELEC and ETSI) and to avoid a mix of the respective numbers.

All estimates in the study are based on figures provided by the NSBs and are intended to express orders of magnitude.

A. Study background and methodology

1. The CEN System

The aim of the Comité Européen de Normalisation (CEN) as laid down in the Statutes is the implementation of standardization throughout Europe to facilitate the development and exchange of goods and services and the elimination of technical barriers to trade.

The development of European standards (Chart 2) is in the interest of many stakeholders such as manufacturers, retailers and wholesalers, consumers, employees, craftsmen, service companies, testing and certification organizations, academics, associations, and the government. Standards play a major role in modern economies worldwide, and standardization is currently of strategic importance to the majority of companies.

The CEN system (Chart 3) can be considered as a whole system, composed of three main building blocks: the 19 National Standards Bodies (NSB), the CEN Management Center (CMC), and the 5 Associates.

In addition to this, there are approximately 250 Technical Committees, with Sub-Committees, and Working Groups (a total of approximately 1500 technical bodies) developing the standards. The participants in those technical structures represent a wide range of interests both national and European. Their secretariat is usually organized by one of the NSBs.

The large amount of standards to be developed, the large number of people participating in the Working Groups, the time they spend on these activities, and the related costs, such as travel, require substantial financial resources for the 'CEN system'.

1. Initial situation

Several trends (Chart 4) indicate that the "CEN System" will find it increasingly difficult to cover its costs:

- Since the mid nineties, the fee income from mandated standardization work, introduced in 1985 has significantly declined, as much of the work has been completed and there are very few new mandates.
- The term of the 1997 Memorandum of Understanding, which guarantees payment of 45% of the CMC (CEN Management Center) standardization budget is limited to five years. It is not yet clear whether a follow-up contract with the same conditions can be negotiated.
- In the past, the CEN CS (Central Secretariat) used to benefit from significant annual increases in members' contributions. These contributions have been stagnating since 1999.
- However, there are other emerging trends that hold potential for CEN, such as electronic commerce, the introduction of a European equivalent to the FDA (Food and Drug Administration), *or the increased importance of the service sectors within the European economy*.

The CEN recognized these trends and launched a far-reaching strategy project in September 1997. Roland Berger & Partners supported the first phase of this project in early 1998 by conducting an in-depth market survey on a European basis. A CEN project team subsequently formulated recommendations for the CEN 2000 strategic vision and orientation.

With a view to the expected financial challenges, CEN *then* decided to commission Roland Berger & Partners to carry out a comprehensive study (Chart 5) on the future financing of the CEN System. The main objectives of the study were to:

- Review the past and current financing schemes (and corresponding work volumes) and assess their possible development over the coming decade.
- Review the long-term financing of the CEN System (and in particular of the CMC) and define the most likely financing scenarios.
- Identify novel financing schemes through stronger involvement and commitment of the principal current and future beneficiaries of the CEN System.

2. Methodology of the survey

To conduct the study (Chart 6), the CMC and Roland Berger & Partners developed a detailed questionnaire that invited responses on:

- Past and current activities and financing within the CEN System
- Threats to the CEN System
- Future activities and financing of the CEN System
- Likely future scenarios

The detailed questionnaires were sent to all National Standard Bodies (NSBs), to representatives of the European Commission, EFTA *and European Parliament*, and selected companies. In addition, 21 personal interviews and 10 telephone interviews were conducted. Particular attention was paid to representing a balanced mix of opinions and interests.

To gain a comprehensive and relevant view of industry/other stakeholders' opinions, results from the 1998 market survey were also used to support the findings.

B. Cost of the CEN System *for the last two decades*

1. Mirror/technical committees (coordinated by NSBs) account for more than 70% of total costs

The costs of standard development within CEN (Chart 7) amount to more than EUR 700 m, which is incurred by NSBs (EUR 146 m, or 21%), other organizations at national level (EUR 37 m, or 5%), the CMC (EUR 11 m, or 2%) and the experts participating in the technical committees and the mirror committees (totaling EUR 510 m, or 72%).

- Out of a total cost budget of EUR 401 m (Chart 8), the NSBs allocated EUR 300 m to standardization activities. Of the EUR 300 m for standardization purposes, EUR 156 m (52%) is allocated to CEN, of which EUR 146 m is required for European standardization support within the NSBs and the remaining EUR 10 m is transferred to support the CMC (EUR 5 m) and the TCs (EUR 5 m). The remaining EUR 144 m (48%) for standard development is allocated to national and international standard development.
- The other national organizations (Chart 9), such as UNM from France and VDMA from Germany contributed a total of EUR 37 m to European standard development within CEN in 1999.
- The cost budget for the CMC (Chart 10) with its 113 employees at present amounts to EUR 10.7 m. This figure has been relatively stable since 1995. Both main contributors to the CMC, EC/EFTA and the NSBs have significantly increased their financial support over the last 10 years (EC/EFTA by 38% to EUR 5.1 m and the NSBs by 227% to EUR 4.9 m). In total, the CEN budget (Chart 11) amounts to EUR 32 m in 1999, of which EUR 10.7 m is retained in CMC.

- For the experts (Chart 12) participating in the TCs (Technical Committees) and MCs (Mirror Committees) costs of a total of EUR 510 m are incurred. In total, 65,600 experts are involved in CEN standard development equaling some 5,600 full time employees.

C. Financing of the CEN System for the last two decades

In 1999, the financing of the CEN System (Chart 13) was carried by three parties: Industry/stakeholders carried the bulk of the costs by financing EUR 654 m (93%), national government fees supplied another EUR 35 m (5%) and EC/EFTA provided EUR 15 m (2%). In total, the NSBs were the second largest group of contributors, funding EUR 184 m (26%) of the costs.

- Industry and other stakeholders (Chart 15) contributed EUR 654 m to the financing of the CEN System. EUR 65 m was paid in the form of subscription/membership fees, EUR 47 m was used to purchase publications and other national organizations provided another EUR 37 m. Expert participation in the MCs was backed up by EUR 355 m and their participation in the TCs by EUR 150 m, amounting to a total of EUR 505 m.
- EC/EFTA (Chart 16) finances EUR 15 m of European standardization, of which EUR 5 m is used to support the CMC and EUR 10 m is transferred to the NSBs as support for the TCs .

D. Outlook on European standardization *until 2010*

Standardization in Europe (Chart 17) has progressed through two phases:

- Up until the late 80s, standardization was primarily the concern of the NSBs and carried out either at national or international level
- From the mid-80s to the late 90s, the European Common Market boosted the demand for European standards. The number of work items increased from less than 1,000 to over 9,000 accordingly.

1. A decline in demand for European standardization development is widely predicted

For the next decade (Chart 18), it is widely predicted that the demand for development of traditional standards will decline:

- The NSBs expect the workload in the traditional sectors to decrease by 5% on average over the next few years with, in particular, six NSBs forecasting a decline of between 5 and 15%, five NSBs anticipating the workload to stay at the same level, and only one NSB expecting the workload to increase.
- Top management at CMC (Chart 19) anticipates that the workload including the CWAs (CEN Workshop Agreements) will decrease by 25-40% to about 5,000 work items in 2006. The last 60 mandated work items, as per the current work program, will be completed by 2005 (provided the target dates given in business plan are met).

The overall trends identified in the course of the study can be summarized as follows:

- Traditional EN sectors will generate workload at reduced levels as the majority of the required standards have already been developed and the need for more standards is not foreseen. However, some NSBs expect the workload to stay at the same level because they believe that standard development will become more intensive (more detailed standards, faster standards).

Maintenance of standards will become increasingly important, as some NSBs consider that about 20% of the existing standards will have to be reviewed extensively. A few NSBs expect maintenance work to compensate for the decrease in traditional workload.

- The need for CWAs is expected to increase, albeit on a limited basis. Some predict that CWAs will increasingly replace consortia or company standards.

New demand for European standards (Chart 20) is expected in the services *(for instance privatized public services and accounting)*, environment *(e.g. measurement methods)*, health *(for example measurement methods)* and e-commerce sectors *(such as protocols, data security)*. The number of new work items coming out of the new sectors is predicted by a few NSBs as a first rough estimate to total between 200 and 400 over the next years.

2. Value-added products/services are expected to gain significantly in importance

All in all, NSBs expect their budgets (Chart 21) to be rather stable or slightly increase over the next years. In this context, the majority of the NSBs are concentrating their efforts on new products and services. Furthermore, marketing activities (e.g. call centers, print-on-demand facilities) are being intensified. The expected decline in traditional sources of income is thus likely to be overcompensated by new products/services.

Possible developments may include:

- New products
  - Multimedia products (currently being pursued at 10 NSBs): electronic compilation of standards, CD-ROMs, electronic drafts and standards, etc.
  - Value-added/faster products (5 NSBs): intracompany standards maintenance, customization of standard sets, tailor-made publications, books, etc.
  - Knowledge center (2 NSBs): editorial products, information & documentation management.

- New services
  - Online services (10 NSBs): online administration, online sale of standards, online standardization info, standards updates, etc.
  - Consulting (6 NSBs): feasibility studies, training, downstream services, etc.
  - Conferences and seminars (4 NSBs): info conferences, workshops, etc.

3. Industry has a keen interest in the development of standards – however, process improvements are required

The industry has a keen interest in the development of standards as well (Chart 22), and is unlikely to reduce its support to the standard development process. Almost 70% of industry participants expect European standards to play an increasingly important role in the future. The main trigger for standardization is likely to be the industry itself (as opposed to NSBs, EC or national governments).

However, there is widespread criticism (Chart 23) regarding the perceived lack of effectiveness and efficiency in the current standardization process (slow, cumbersome and costly), and action is required to remedy the situation. 54% of survey participants feel that the standardization process is not user friendly, 49% criticize the fact that CEN does not deliver the standards needed for their sectors, and 91% find the time for standard development too long.

4. EC/EFTA and government support of European standardization is expected to decrease in the long term

Support from EC/EFTA (Chart 24) is likely to decrease or, at best, stagnate at the same level. Five NSBs expect EC/EFTA to cut CEN funding, seven NSBs see the contribution remaining constant and five NSBs think that EC/EFTA will increase their support.

Financial support from national governments is widely expected to be reduced, too: eight NSBs forecast a decrease in the financial commitment of the governments, five see the financial support stagnating, and only one NSB believes that national government support will increase.

5. No major changes in the role of CMC are anticipated

NSBs see only very limited possibilities for the CMC to go beyond management and facilitation of standard development.

- Consulting, certification and marketing & sales should be limited to national level (Chart 25) as most NSBs are already active in this field, thus supporting the market relevance of standards.
- Info workshops and conferences and training activities are regarded as a possible extension of CMC's business if the activities are related to European standardization (Chart 26).

To expand the financing options at CMC (Chart 27), only increasing fees for TC/WG participation seems possible. Royalty fees and the centralized sale of standards are not considered suitable.

E. Main implications and options *for CEN as well as CMC*

Having mastered the two phases "National Focus" and "European Common Market" in the past (Chart 28), the CEN System has to face major changes in the coming decade. Three distinct scenarios appear conceivable:

Scenario 1: Reduced workload (Chart 29)

The CEN System would be faced with reduced EC/EFTA mandates. Active work items in the traditional sectors would decrease and no significant standard demand would be generated in new sectors. Maintenance would not make up for the decline in demand.

Thus, CEN would have to respond to the challenges by reducing the number of TCs/WGs and downscaling resources.

The CEN System would have to shift resources from standard development at European level to other activities at NSB level. An overall commercial reorientation would be required, with less funding coming from governments and more from project-related activities.

As a rough first estimate (Chart 30), the decreasing demand would force CMC to downscale its resources by 15-20%, assuming that the overall workload goes down by 25%.

Scenario 2: Demand for value-added services (Chart 31)

Value-added products/services would be increasingly developed at European level and the CMC would be required to coordinate these activities.

In terms of implications for the CMC, the scope of its activities should be substantially expanded. New skills for new products/services (multimedia, conferences, etc.) are necessary and the organization and processes would have to be adapted to master these new challenges.

By the same token, the NSBs would transfer certain activities to the CMC to face market demands and global competition. Direct funding of CMC activities should be possible. However, CEN's strategy and vision would require a review.

Scenario 3: Political push (Chart 32)

The extension of the "New Approach" to new sectors, as well as the introduction of co-regulation, would lead to an additional field of activity for CEN System. CWAs would become a significant alternative to ENs (European Norms) and consortia standards.

CMC, NSBs and EC/EFTA would have to agree upon a new charter. In particular, the qualification of CMC for the new challenges would have to be demonstrated to the respective institutions (as competitive bidding may increasingly become the rule).

As a consequence, the CEN System would increasingly orient itself toward more regulatory functions. Integration with NSBs and national concerns would become less intensive. The CEN System would be increasingly funded by EC/EFTA.

F. Conclusions and recommendations

1. Main conclusions (Chart 33/34)

- The European standardization system represents a major economic activity with expenditures totaling EUR 700 m and a manpower requirement of more than 7,000 full-time employees, including NSB staff.
- On a European level, the funding of standardization activity is primarily industry driven

	EUR m	
– Industry/stakeholders	654	93%
– National governments (through direct fees)	35	5%
– EC/EFTA	15	2%
	704	100%

- On a national level, the funding of the NSBs also relies primarily on industry

	EUR m	
– Sale of standards	133	33%
– Subscription/membership fees	33	8%
– Specific industry funding	56	14%
– Services (e.g. certification)	65	16%
– National governments incl. EC/EFTA	68	17%
– Others	47	12%
	401	100%

- The workload for traditional and mandated standards is diminishing (by some 25% in the coming years) but new products/services (e.g. value-added standards) are expected to offset some (or most) of that decline. The latter is currently being pushed and developed, primarily at national level, by selected NSBs
- Future streams of financial support may vary significantly, though total support for the system should be sustained, i.e. increased revenues from new products/services should more than compensate for reduced income from the sale of standards and government fees
- In general, the NSBs believe that the balance of activities between work carried out at national or at European level should not be changed. By the same token, there is widespread consensus that support received from governments or EC/EFTA will (or, as some NSBs even say, should) decline from its current levels – unless co-regulation leads to a new need for standardization-like activities
- Industry and stakeholders are willing to support the standardization process provided that efficiency and speed are clearly enhanced
- All in all, standardization activities should in future become increasingly product driven and project financed

2. Main recommendations (Chart 35/36)

1. Since under scenario 1, a lower workload on current tasks will require less resources at central level in Brussels in the coming years and CMC should review/downsize its current manpower on current tasks accordingly; in this context, future responsibilities and required skills should be reviewed and defined
2. CMC must spearhead the European drive for an "efficient" standard development process, i.e. in-depth review/re-engineering of current TC/WG activities toward increased cost/time efficiency (eCEN)
3. CMC should be more active at the NSBs in identifying services like marketing, info workshops, conferences and training that would better be performed centrally at European level (and develop the necessary skills)
4. Under scenarion 2, in an interactive process with the NSBs, CMC should identify opportunities for European coordination of new value-added products/services; for this purpose, the skill profile of CMC should be developed accordingly and communicated/marketed
5. To allow reliable budget planning EC/EFTA should give a clear commitment on the stability of their contributions. This should include the funding of basic services provided by CMC as well as order vouchers for the development and the maintenance of ENs
6. Under scenario 3, the financing of EC/EFTA to the CEN system must be increased to reflect the additional activities

3. Key financial and cost indicators (Chart 37)

Cost of the CEN system

	EUR m
Institutional support (NSBs, other organizations)	183
CMC	11
Expert participation	510
Sum	704

Financing of the CEN system

	EUR
EC/EFTA	15
National government fees	35
Industry	654
Sum	704

of which EUR 358 m are channeled through the NSBs

Munich,

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