

OECD Workshop– Regulatory Barriers to Competition in Professional Services :
Measurement and Reform Experiences

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Architects Council of Europe

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Four Findings to be Challenged

1. EU Architectural Practices are too small due to insufficient competition
2. Profit Margins are too high
3. Productivity in the sector is low
4. Differing forms of regulation across EU are anticompetitive

The Architecture Profession in Europe

Number of Architects

2010 – 502,000

2020 - 560,000

Median Salary

2010 - €30,000

2020 - €35,000

Practice Size

Small practices (less than 10 architects)

2010 - 130,000

2020 - 108,000

Medium - Large Practices (more than 11 architects)

2010 - 2,335

2020 - 3,184

What Architects Do

- **Architects provide bespoke services to public and private clients**
- **Architects design and contract manage the delivery of building projects**
- **Projects range from house extensions to hospitals and datacentres**
- **They are responsible for the building quality, construction safety, consumer and environmental protection**
- **They are responsible to their clients, end users and wider society**
- **The legislative, liability and building regulations provide an eco-system within which architects must operate**

EU Regulation of Architects

- **Professional Qualifications Directive provides automatic mutual recognition of diplomas and other qualifications**
- **It facilitates the freedom of establishment and the provision of services**

More than 90% of cross-border registration requests are satisfied for architects (as compared with 62% for the engineers).

Thesis 1 : EU Architectural Practices are too small due to insufficient competition

- Practices compete with others offering similar services. Large don't compete with small.
- 54% of projects are private homes, the service is delivered at local level.
- Practice size is impacted by the percentage of the work that is provided by intermediaries – larger practices have in-house skills

DG REGIO 2015 Study 'Overcoming obstacles in border regions' – the reasons given by **professionals for not seeking to work cross-border relate to issues other than registration or regulation of architects such as:** language, trust, different planning/building regulations, practical, relocation issues, family, fees, Insurance, etc.

Thesis 2: Profit Margins are too high

- Smaller architectural enterprises include the owner income/salary in the Gross Operating Rates (GOR)
- Countries with high GOR have higher levels of small practices
- GOR is not a reliable indicator of competition or profitability where the majority of enterprises are self-employed owners

Thesis 3: Productivity in the sector is low

- The Commission determines productivity through Value Added per employee. Architects are compared with manufacturing industries and primary sectors.
- Architecture is a bespoke service.
- The EU Commission Study 'Mutual Evaluation of Professions' DG Grow 2015 illustrates the potential inaccuracies of blanket cross-sectoral comparisons.

Thesis 4: Differing forms of regulation across EU are anticompetitive

- Architects are regulated in two ways in EU
 - Ex-Ante - Market entry regulations
 - Ex-Post - Behavioural regulations
- The OECD PMR measures the two types of regulation of architects differently - preferring the Ex Post model
- ACE suggests that Ex-Ante and Ex-Post regulation need to be viewed in context

Architects do not deliver services in a vacuum
– they operate in complex legal and technical eco-systems.

Thesis 4: Differing forms of regulation across EU are anticompetitive (contd)

Context

Some Member States ensure the quality of service providers through the Chamber system - others guarantee quality by stronger liability systems

- One gives consumer a measure of legal certainty by way of a precautionary or preventive model; the latter is a compensatory model
- OECD and EU COM view Ex-Ante regulation as a barrier to competition. However, Ex-Post regulations are not covered by OECD PMR
- Where responsibility for professional conduct is with a Chamber, the OECD and EU indicators give it a high score; where the same function is performed by a State agency it receives a low score or is not picked up by the indicator

New ACE Indices

ACE is working on the development of an Economic Improvement through Architectural Regulation Indicator (EIARI)

It comprises two blocks of components:

1. Socio-economic impact components e.g.

- investment effort of the business sector of architectural services (20%)
- expenditure on maintenance and repair of dwellings (10%)
- volume, in relative terms of housing over 50 years old (20%)

2. Environmental & health impact components e.g.

- overcrowding and distribution of dwellings (20%)
- final consumption of renewable energies and bio-fuels by households (10%)
- GHG emissions by construction (5%)
- pollution, grime and other environmental problems (10%)
- noise from neighbours or street (5%)

Conclusions

- The study of regulation must be nuanced
- Blanket interpretations can be misleading
- ACE is neither pro or anti Ex-Post or Ex-Ante regulatory systems – each has its merits, but must be viewed in context.
- The OECD preferred model of the Nordic countries, which regulate on an Ex-Post basis have the highest earnings per architect
- If the state regulates a profession it receives a low score, if the chamber regulates it receives a high score.

ACE works to support better regulation

Regulation that

- allows service providers move to where their skills are most required
- promotes innovation, competition and new market entrants

Ultimately whether is Ex-Ante or Ex-Post
- it must focus on quality and protect the end user

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Thank you for your attention!

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