

INSTITUTIONAL SYSTEMS OF CONSUMER PROTECTION IN THE EUROPEAN UNION

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ABSTRACT

The study is dealing with— a less researched field of consumer protection - mapping the institutional systems of consumer protection and their judgement made by the population. It analyzes the institutional systems of consumer protection of Hungary, the United Kingdom and Germany as typical examples of the three specific institutional structures. The study demonstrates the European practice of governmental subsidies in consumer protection. Relating to the operating institutional systems it analyzes the indicators of public judgement, satisfaction and confidence levels developed differently from country to country and the dispersion of these indicators.

Keywords: *consumer protection, institutional system of consumer protection*

INTRODUCTION

In the member states of the European Union nearly 500 million customers need to be provided by relatively standardised, high-level consumer protection. To make it possible, a system with appropriate tools and institutions is required that shows different view from country to country. The aim of this study is to shortly describe the various structures of consumer protection institutions operating in Europe on the one hand and to analyse how satisfied the public is with their activity and how much are they trust in them on the other. The part of this study dealing with organisational structures is based on scientific literature and on legal processing, while the analysis of public judgement is based on secondary information, on the statistical analysis of Eurobarometer and Flashbarometer researching results made by the European Commission.

1. Explanation of consumer protection activity and institution

In most cases we can meet with the questions of consumer protection in scientific literature from a legal point of view, as the legislative activity can primarily be considered as consumer protection activity. We can speak secondarily about those activities which are dealing with enforcement and execution of legal rules concerning consumer protection, such as supervision, consultation, education and information provision. In a broader interpretation, activities of consumer interest examination, interest representation, situation examination, information collection as well as assistance in creation of consumer protection legislation can also be linked to this term.

The term of institution needs to be explained as well, as domains of consumer protection use it in many different interpretations. The several turn-outs of the word were summarized by Farkas (2007) in the following way: In an economic point of view, an institution can mean an organisation or a subsystem of the society. In a legal point of view, under institution we mean mainly legal institutions marking specific systems of the regulations and their execution. In a sociological approach, the observable regularity of behaviour and the probability of attitudes and willingness for interpretation can also be called institution. The present study applies the term of institution for organisations of consumer protection and for authorities.

2. Institutional structures in Europe

Consumers' interests and rights are numerous and diverse by their nature, therefore the connecting institutions form a complex, multiple, complicated system differentiated by countries. In the countries of Europe, as a result

of different way of development, three typical institutional structures have been developed to perform consumer protection activity (Fazekas, 1998).

1. In performing consumer protection activities the **governmental system of institutions** is in the forefront. Most common examples are the Scandinavian states (Finland, Sweden, Norway) and Denmark.
2. **The system of non-governmental organizations** is in the forefront in performing consumer protection activities. Such structure operates for example in Germany.
3. The **mixed institutional system** is where consumer protection activities are performed by governmental and non-governmental bodies together. This kind of system operates for example in Belgium, France and Spain.

In the most Western European countries the governmental consumer protection ensures the enforcement of consumer protection legislation in force by applying the state administration system – considering the fact that their need for resources is very significant. It is typical for non-governmental (interest representing) bodies that they participate in establishing consumer protection policies and they help to explore problems of consumers by gathering information, they perform education activity concerning consumer protection, even initiate procedures at court and operate consumer consulting offices. In the developed countries of Europe, these organisations are recognised and subsidized by the governments. Financial instruments required for their maintenance and operation are primarily provided by the state.

Table 1 shows the amount of subsidies provided by the national governments in 2006 for consumer protection. The highest amounts per capita are in Luxembourg, in Austria, in Slovenia, in Belgium, in France and in the Scandinavian states.

Table 1: State-provided subsidies for consumer protection in 2006

Source: Consumers in Europe (2009)

3. The institutional system of consumer protection in Hungary

The institutional system of consumer protection in Hungary can be grouped around three pillars. The complex institutional system is divided into governmental, interest representing (non-governmental) and self-governmental bodies. (Fig. 1) Basically, the governmental institutional system is in the forefront in our country also, however the non-governmental organisations are involved in many activities, therefore Hungary is a good example for presenting a mixed structure of institutional system as well.

Figure 1: The structure of the Hungarian institutional system of consumer protection

Source: own edition

The basic pillar is the sphere of governmental institutions, which contains an institutional system differentiated by tasks and duties. In the recent years the composition of the governmental consumer protection system was severally restructured. Currently, the Ministry for National Economy - as one of the *legislative organization* - (the government and the Consumer Protection Council, etc.) is responsible for consumer protection - under which control several governmental consumer protection bodies belong.

The biggest of all of these bodies is the nationwide-authorized, *purely consumer protection oriented governmental body*, the Hungarian Authority for Consumer Protection (Nemzeti Fogyasztóvédelmi Hatóság or NFH). The institution itself is financially self-managing, a budgetary body that has full authority over the state budget (Table 2.) ,which consists of a central body and local inspectorates. Its activities primarily are to control and supervise the enforcement of provisions included in the Act on Customer Protection. (NGM, 2011)

Table 2: The budget outlines of the Hungarian Authority for Consumer Protection (Million HUF)

Source: own edition by using acts on state budgets

The amount of subsidy provided for the authority decreased to one fourth in the year of 2011. This is due to the amendment of the organisational system. Territorial consumer protection inspectorates formerly belonging under the supervision of NFH (Hungarian Authority for Consumer Protection) are continuing their work as specialised administrative bodies of government agencies in the organisation of the capital-city and county governmental offices as of January 1, 2011.

Besides the NFH, there are *governmental authorities performing special inspectional activities*, like the Hungarian Competition Authority (GVH) responsible for supervision of market competition, the Hungarian Financial Supervisory Authority (PSZÁF) controlling financial markets, the Hungarian Energy Office (MEH) responsible for the supervision of the wire provided energy sector or the National Media and Infocommunications Authority (NMHH) controlling the markets of media, electronical communications, IT and postal services. The consumer's health – which enjoys priority in every country - is protected by a separate body or organizations. The central body in our country is the Central Agricultural Office (NÉBIH), besides that the National Public Health and Medical Officer Service (ÁNTSZ) also performs such kind of activity. Moreover, there are *other organizations* not falling under any of the above mentioned three categories, just like the ombudsmen, the conciliatory corps etc..

In the domestic institutional system the 2nd pillar consists of associations representing consumer interests, i.e. the non-governmental organizations. According to Section 45 of the Act CLV of 1997 on customer protection these bodies represent the interests of the consumers, initiate investigations and proceedings and collaborate in the development of consumer policy. Their other duties are provision of information, consultation and education. The subsidization of associations representing consumer interests is ensured by the state in the annual act on the yearly state budget. The amount of subsidy was HUF 260 million in 2008, HUF 309 million in 2009 and also in 2010, while in the last year of 2011 the subsidy has decreased radically to 45 percent of the amount of the previous year, i.e. to HUF 140 million.

Non-governmental organizations can be divided into two groups according to their activities. There are the ones *with purely consumer protection based profile* (for example the National Consumer Protection Association or OFE, the National Alliance of Consumer Protection Associations or FEOSZ, the Association of Aware Shoppers or TVE) on the one hand, while on the other there are non-governmental organizations performing consumer protection activity as well, i.e. *special organizations* (e.g. the Alliance of Hungarian Energy Consumers or MESZ, Consumer Protection Association of Homebuilders or ÉFE, etc.). The exact number of non-governmental organizations operating in the country can not be determined. This has two reasons. On the one hand, these associations can be established and dissolved any time, on the other hand all organizations of which „consumer protection” is among their basic rules fall within this category (the number of such associations is relatively large). Taking into account all these things, we can say that their number in Hungary can be estimated to be approximately 100.

The third pillar of the institutional system is the bodies of local governments. Their role in this field is still quite small. According to the Section 44 of the Act on Consumer Protection, the representative bodies of the local governments have the right to help the self-organisation of the consumers, they can support the interest-representing activity of the local consumer protection associations and they can even run a consumer protection advisory office depending on the public demand. The representative bodies of the local governments and the notaries (also) have responsibilities and rights concerning consumer protection, which are determined by special legislation.

4. The institutional system of consumer protection in the United Kingdom

According to specialists, the United Kingdom has one of the most developed governmental institutional systems. This was also verified by an EU-wide survey made in 2010 (Fig. 4), which shows, that consumers have the most confidence in the activity of the governmental consumer protection authorities here, in this country among all EU member states. Nowadays, the restructure of institutional duties are being prepared in the UK. Currently, the consumer protecting activities are delegated to four main organizations.

In the United Kingdom the official organ for consumers and market competition is the Office of Fair Trading (OFT). The institution operates as an independent consumer protection authority, whose task is to facilitate the proper market operation. The Trading Standards Institute (TSI) operating with approximately 200 regional and local level offices helps the protection of consumers nationwide while it is in close contact with the OFT. Similarly to the Hungarian NFH, its duties include information provision, investigation of complaints and controll of the enforcement of legal regulations. The task of Consumer Focus is to patronize the consumers, while the main profile of Citizens Advice is consumer consultation (BIS, 2011).

The aim of the ongoing transformation is to eliminate duplication between organizations, improve efficiency meanwhile reducing costs. For the enforcement of the Act on Consumer Protection the government spent 247 million pounds in the years of 2009 and 2010; 86 % (213 million pounds) of the money was granted to the TSI.

This amount is planned to be reduced to 140-170 million pounds, i.e. to 65-80% of the above amount by 2014. (Morse, 2011)

There are non-governmental organizations also in the United Kingdom with number of years of history. The oldest from them is an independent organization called „Which?“, which has been trying to provide impartial advice for the costumers for more than 50 years. It is also performing some activities belonging to the competence of the consumer protection authority without receiving any state subsidy.

5. The Institutional System of Consumer Protection in Germany

Typical example of an institutional system mainly based on non-governmental organizations is Germany, where the government delegates the execution of many consumer protecting duties to non-governmental organizations. There is no central controlling body for consumer protection in the country. On a governmental level the consumer protection belongs to the Ministry of Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz (BMELV), however the 16 independent states (Bundesländer) are responsible for the enforcement of consumer protecting laws. The Ministry, based on the Budget of 2012, has earmarked 146,8 million Euro for consumer protection, which is 11.5 million EUR less than the previous year of 2011. In Germany, consumer protection is based on the principle of prevention, therefore the highest amount of subsidy, i.e. EUR 65.7 million is provided for the Bundesinstitut für Risikobewertung (BfR) (Institute for Risk Assessment). The main body of food safety is the Verbraucherschutz (BVL), which is provided with 20 million Euro subsidy. (BMELV, 2011)

One of the biggest non-governmental organizations is the Verbraucherzentrale Bundesverband (VZBV), which forms an alliance federation of 41 consumer associations, 16 consumer advisory centers and 25 other bodies dealing with other consumer policies. (Antalné, 2003) The Association represents the interests of consumers in public, it is even allowed to initiate legal procedures and works together with the establishers of the consumer protecting policies, authorities and companies on national and international level. The advisory centers handle approximately four million individual complaints every year. This activity is financed by the federal government and from financial recourses provided by the independent states and by their income from their publications. The budget of the BMELV for the year 2012 plans to provide the same amount of money for them as in the last year, i.e. 8.7 million Euros. The second largest consumer organization is the Stiftung Warentest Foundation, which carries out independent tests mainly in the field of households, healthcare, financial and insurance services. Almost 90 percent of their income are coming from publishing of Test, Finanztest and other publications. This source of money is supplemented by the government as well. The BMELV decided to provide 13,5 million euros for the organization in 2012, i.e. is 45% less amount than in the previous year.

6. Public judgement on institutional systems

The European Commission has been examining the operation of the inner markets and the consumer markets since the beginning of the 1970s. The surveys were initially conducted only in the countries of the European Community with the aim to examine the social and political changes. Later the survey was also expanded to the member states of the European Union and surveys are still conducted two times every year even to the present day. They ask approximately 1000 people in every country and apply the method of personal interviews in most cases. Since the beginning of the 1990s this survey called Standard Eurobarometer was supplemented by questions concerning the candidate countries and researches analyzing some special fields (Special Eurobarometer, Flash Eurobarometer). More of these researches are focusing on consumer protection; however there are some of which only partially relates to consumer protection. So as to explore the public perception on the institutional system, the present study examines such two factors from the above survey series that express the opinion of the cutomers th ebest. One of the factors is satisfaction and the other is trust.

Fig. 2 illustrates regarding 27 countries that whether the customers who have turned to the consumer protection organization with problems, were satisfied. This figure illustrates without any doubt the opinion of that part of the population, which already has experience in the management of customer protection issues, on consumer organizations of their country.

Figure 2: Satisfaction with organisations of consumer protection, 2010

Source: Special Eurobarometer 342

The German, French and the English citizens are the most satisfied with the complaint handling activities of their organizations, while the Lithuanian, the Spanish and the Polish consumers are the less satisfied.

Correlation can be stated between the amount of the governmental subsidies per thousand inhabitants (Table 1) and the level of satisfaction with organizations. In the countries where the amount was high – and the data was also available- just like in France, Slovenia, Finland, Luxembourg or Estonia, the satisfaction level was aslo high.

Figure 3: Trust placed in governmental consumer protection authorities, 2010

Source: Flash Eurobarometer 299

Fig. 3 and 4 shows the degree of trust placed in organizations separately broken down the analysis of governmental and non-governmental consumer protecting organizations. The level of trust placed in governmental organizations varies between 37 and 82 percent, which represents quite a broad range. The highest level of trust placed in governmental consumer protection authorities can be found in the United kingdom, Ireland and Luxembourg. The position of Hungary is above the EU average.

Figure 4.: Trust placed in non-governmental organisations of consumer protection, 2010

Source: Flash Eurobarometer 299

The level of trust placed in non-governmental organizations varies between 35 and 83 percent. The Finns, the Dutch and the Irish trust the most in their interest representing organizations. However, the Romanians and the Bulgarians do not show commitment towards neither their governmental nor non-governmental organizations. On the contrary, the Irish consumers maximally trust in the effective operation of both kinds of organizations.

Coherence can be shown between the level of trust and the date of accession of the given country to the European Union. There level of consumer trust in the countries that joined earlier shows a higher value. This is true both for governmental and non-governmental organizations. Examining the governmental authorities we can find Hungary, Malta and Cyprus special as compared to the date of their accession, their level of trust in their authorities are higher than the EU average.

7. CONCLUSION

The importance of the institutional systems of consumer protection is not a question anymore. However the proper establishment and operation of these systems are still important. In the relatively developed countries of the World and in Europe we can meet with different institutional structures. In Europe, three different structures can be observed: either governmental bodies, non-governmental (interest representating) organizations or these two both plays active role in the provision of consumer protection. The study illustrates a typical example for each type. Thus for the model where the consumer protection activities are carried out by governmental organizations, the United Kingdom was used; where such activities are mainly carried out by non-governmental organizations, Germany was used and to demonstrare a mixed institutional system, Hungary was used as an example. The second part of the study examined the public perception of the consumer protection organizations in all the EU-member countries. After the comparison of the state subsidies and the level of satisfaction with the consumer protection organizations, it could be cleraly demonstrated that in cases where the government spends higher amounts on consumer protection, the customers are more satisfied. As conclusion to the examination of trust, it can be stated that in those countries where an insitutional system has been developed earlier, the level of trust is also higher. Among the 12 EU member states, Hungary and Malta were the only ones, where in 2010 the population trusted both in the governmental and non-governmental organizations at higher degree than the EU average. First of all the country-group differences should be explored for the establishment of the goals of institutional developments, furthermore the reasonal background of organization typed differences should be taken subject to a separate, thorough investigation and analysis.

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Table 1: State-provided subsidies for consumer protection in 2006

Countries	Amounts of state-provided subsidies (thousand €s)	Amount of subsidies per thousand people (€)
Austria	2235	266
Belgium	1673	153
Bulgaria	30	4
Czech Republic	750	71
Estonia	51	38
Finland	521	97
France	7379	113
Greece	250	22
Hungary	946	95
Ireland	65	15
Latvia	30	13
Lithuania	72	22
Luxembourg	830	1622
Malta	0	0
Poland	556	15
Portugal	200	19
Romania	40	2
Slovakia	70	13
Slovenia	374	182
Sweden	965	102
The Netherlands	438	26

Source: Consumers in Europe (2009)

*Data of Cyprus, Denmark, The United Kingdom, Italy, Germany and Spain are not available

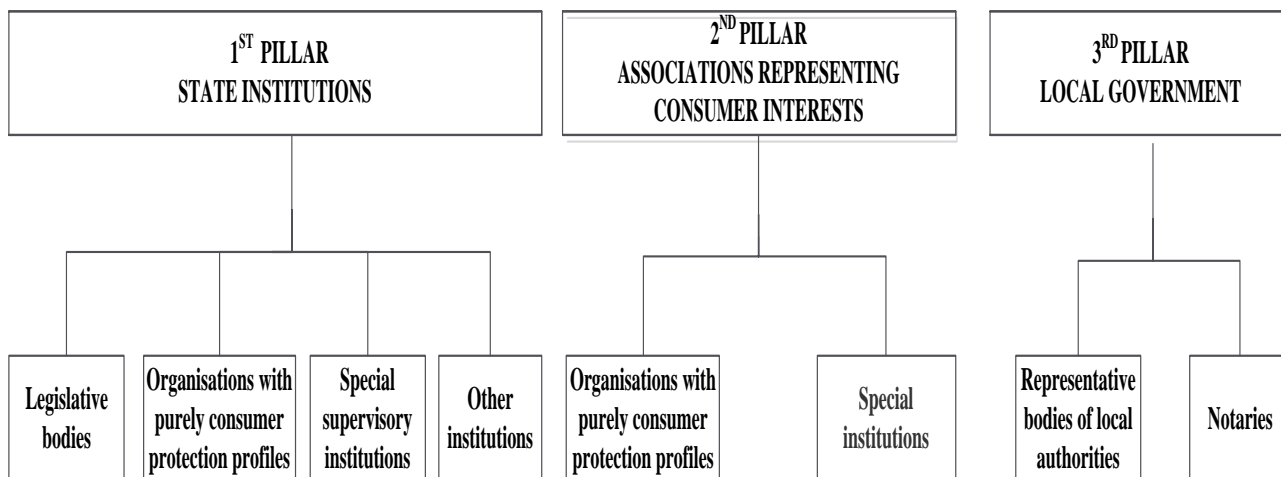


Figure 1: Structure of the Hungarian system of consumer protection institutions

Source: own edition

Table 2: The budget outlines of the Hungarian Authority for Consumer Protection (Million forints)

Descriptions/Years		2008	2009	2010	2011
Subsidies		3 285	3 300	3 083	818
Incomes		50	50	35	19
Expenses	Personal Allowances/Salaries	1 748	1 802	1 798	543
	Taxes to be paid by employers	556	573	485	159
	Material expenses	934	879	834	94
	Institutional investment expenses	97	97	-	40

Source: own edition by using acts on state budgets

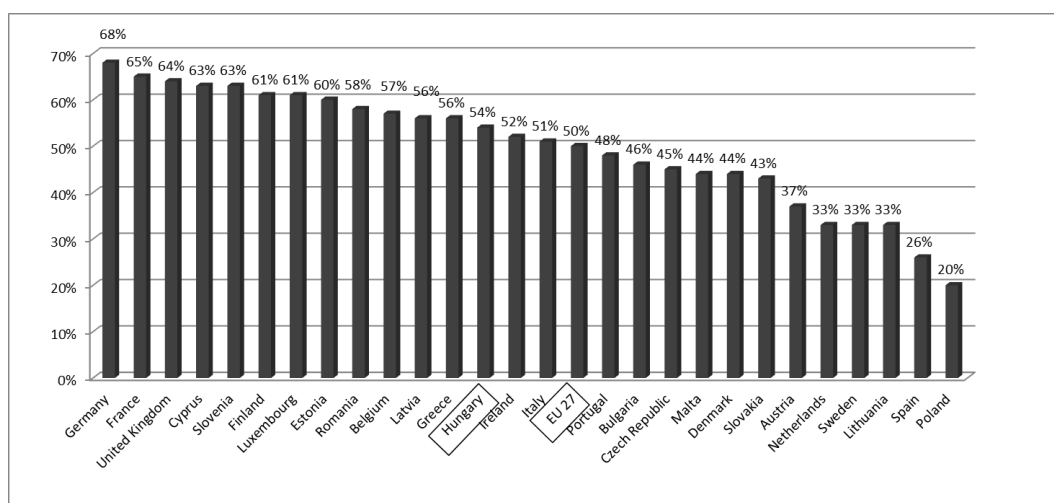


Figure 2: Satisfaction with organizations of consumer protection, 2010

Source: Special Eurobarometer 342

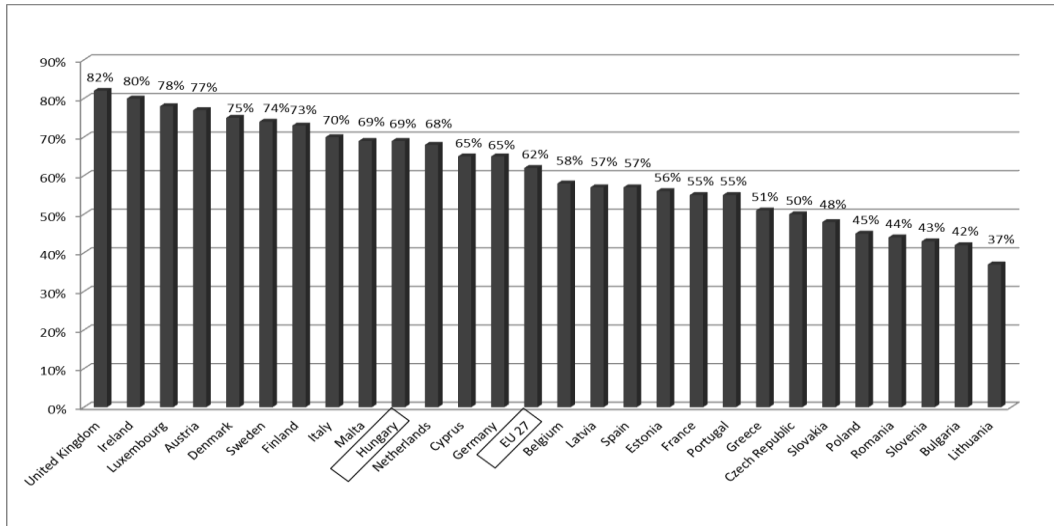


Figure 3: Trust placed in governmental consumer protection authorities, 2010

Source: Flash Eurobarometer 299

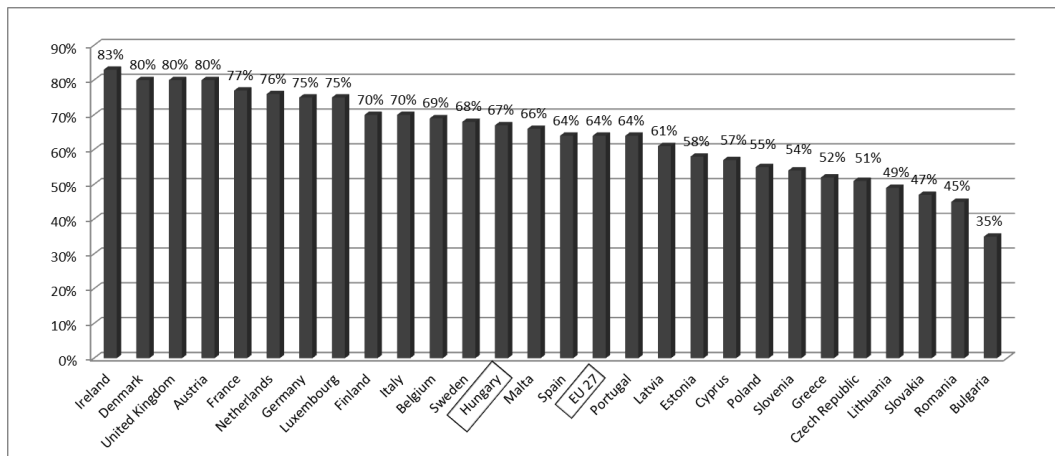


Figure 4: Trust placed in non-governmental organizations of consumer protection, 2010

Source: Flash Eurobarometer 299