Polski Instytut Ekonomiczny

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Challenges for the new European Commission: How to recover EUR 900 billion and restore confidence in the EU

Losses resulting from tax avoidance and profit shifting to tax havens amount to as much as EUR 900 billion in Europe. At a time when funding sources are being sought for ambitious pan-European projects—such as the energy transition—effectively tapping into these resources is essential. According to analysts at the Polish Economic Institute (PIE), the European project can be strengthened through a clear commitment to the single market, rather than through protectionism. These conclusions are presented in PIE's latest report on priorities for the new European Commission.

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The single market, the free movement of services, capital, goods, and people, and equal rules for all formed the foundation of a unifying Europe. A well-functioning common market—based on fair competition and supported by appropriately targeted public intervention—is the path toward strengthening the competitiveness of the European economy in the face of new geopolitical challenges, and should serve as a key direction for the new European Commission as the guardian of the EU's fundamental principles.

Reducing existing differences and long-standing disparities between EU Member States is intended to strengthen Europe's comparative advantage as a whole. Permissible state aid should therefore not become an instrument of competition within Europe itself, but should instead be directed where it can genuinely strengthen the position of European companies in global value chains. At the same time, it is crucial to preserve conditions of open and fair competition, says Konrad

Szymański, Secretary of State for European Affairs at the Ministry of Foreign Affairs.

PIE analysts point to several solutions that could improve the effectiveness of EU action aimed at boosting competitiveness. These include:

- increasing the role of the EU Council in decisions on industrial policy,
- introducing greater legislative flexibility by taking into account the perspectives of Member States,
- focusing on the removal of market entry barriers,
- pursuing a balanced competition policy, including geographically balanced state aid rules, and
- ensuring the protection of consumer interests in the digital market.

These proposals are outlined in the report "The Single Market as a Shared Commitment. Proposals for the new European Commission for 2019–2024.".

Europe needs tighter tax enforcement

Given that 5% of public procurement contracts in the EU—worth EUR 56 billion—were awarded between 2006 and 2018 to companies avoiding tax payments, it is clear that both the scale of the problem and the potential financial reserves available through addressing it are substantial.

In the United Kingdom, corporations are required to publish all information related to their tax affairs, which could serve as inspiration for systemic solutions. Introducing standardized transparency requirements for corporate tax practices at the EU level would undoubtedly improve tax collection. An additional revenue stream could be generated through the introduction of a digital tax at the EU level, with part of the proceeds allocated to the common EU budget.

Data on the VAT gap in the EU indicate that it amounts to nearly EUR 140 billion annually, representing 11% of total expected VAT revenues—a sum significantly exceeding the annual budget of a large EU country such as Poland. And this concerns VAT alone. Total losses resulting from tax avoidance are several times higher and are estimated at EUR 750–900 billion. There is therefore a pressing need for EU leaders to reflect on this issue and find a common remedy for this massive leakage of public funds, says Piotr Arak, Director of the Polish Economic Institute.

Climate protection and prosperity do not have to be mutually exclusive

Across Europe, there is a growing belief that the sooner the European economy shifts toward climate-friendly pathways, the more effectively future disruptive transformations can be avoided. Real action is therefore needed to combine the safeguarding of Europeans' future prosperity with limiting the harmful effects of climate change. This is particularly relevant for regions dependent on fossil fuel extraction and for relatively poorer regions.

According to Eurostat data, the greatest risk of deprivation resulting from climate policies that ignore socio-economic diversity is found in Southern and Eastern Europe. In the context of achieving the 2030 climate goals, public and private investment needs for the EU's energy transition are estimated at EUR 381 billion per year, while projected energy investments are expected to reach only EUR 231 billion annually.

A tool capable of mitigating the negative effects of the unavoidable energy transition would be the Just Transition Fund. For it to fulfill its objectives, its budget should amount to at least EUR 20 billion per year. This would allow the energy transition to be linked with the reduction of economic inequalities, adds Piotr Arak.

The scale of challenges facing the European Commission, which began its term in November, is enormous. Revitalizing the single market and increasing the innovative capacity and competitiveness of the EU economy are necessary conditions for implementing virtually all major initiatives—from a just energy transition, through labor market modernization, to investments in artificial intelligence. This makes the effective search for funding sources to achieve these ambitions all the more important.

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The Polish Economic Institute is a public economic think tank with a history dating back to 1928. Its main research areas include foreign trade, macroeconomics, energy, and the digital economy, as well as strategic analyses of key areas of social and public life in Poland. The Institute prepares analyses and expert studies supporting the implementation of the Strategy for Responsible Development and promotes Polish research in economic and social sciences domestically and internationally.

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Media contact:
Andrzej Kubisiak
Head of the Communication Team
E-mail: andrzej.kubisiak@pie.net.pl
Tel.: +48 512 176 030