European Economic and Social Committee

Employers' Group

Newsletter

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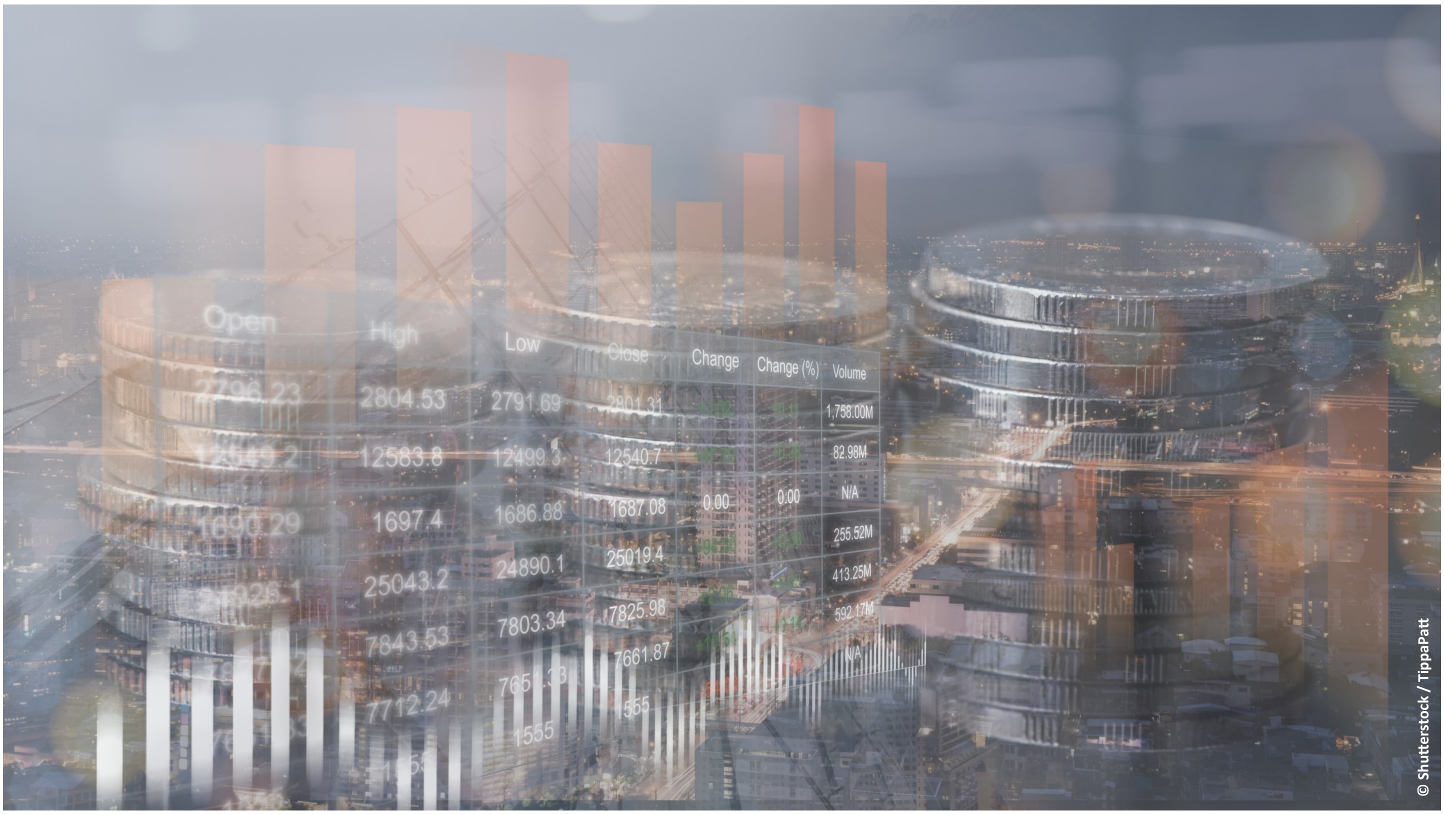
Corporate taxes:

LESS IS MORE - STUDY SAYS



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Corporate taxes are the most harmful form of taxation to economic growth. Contrary to public perception, there has been no reduction in corporate tax revenues in relation to GDP in the last 40 years. Countries that have reduced their corporate tax rates in recent years have seen increases in investment in the following years. There is no race to the bottom, rather to a middle range of some 20 per cent corporate tax rate and revenues are stable or even increasing. These are some of the conclusions of a recent study commissioned by the European Economic and Social Committee at the request of the Employers' Group.

According to the researchers, a high corporate tax rate can hamper business activity by making some investment projects unprofitable. This reduces the tax base and, consequently, revenue collection from corporate taxes.

A lower corporate tax rate would on the other hand increase both investments undertaken by domestic and foreign investors (FDI). When investments increase, employment increases and more taxes will also be collected on incomes and consumption.

The report presents estimates of concrete tax changes undertaken during the years 1981-2014. In the case of six countries, reductions in corporate tax rates led to an increase in revenues. Lower corporate taxes means more growth - cutting the tax rate by

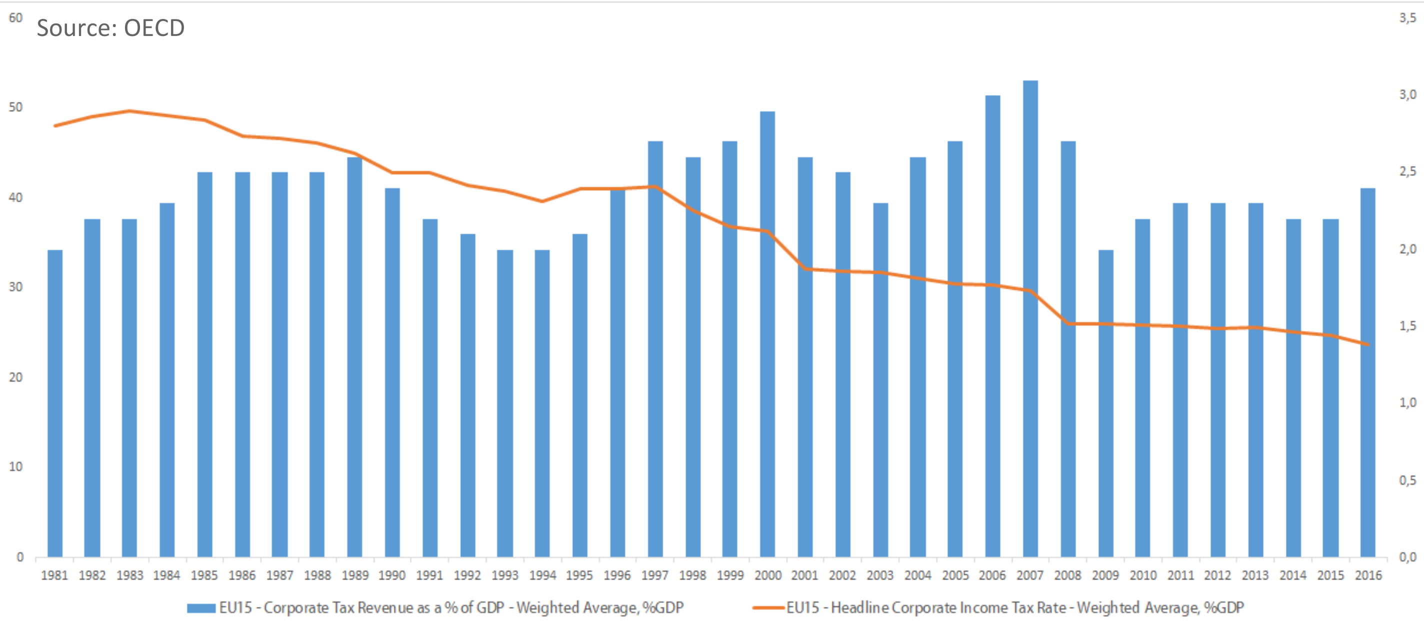
10 percentage points can raise annual growth by 1-2 percentage points.

"The study aims to present facts and figures and to serve as a useful and reliable tool in the discussion on taxation. This is especially important in the current situation in the European Union, where public perception of the taxation of companies (especially large multinationals) is distorted and exploited in media by populists", stated Krister Andersson, Vice-President of the Employers' Group. The study provides data and concrete examples to counter-act this narrative.

It is often claimed that if only companies paid their fair share of taxes, spending on education, infrastructure and social programs could be ensured. However, the OECD and the EU Commission have concluded that improper base erosion and profit shifting by multinationals amounted to some 0.3% of GDP before any counter measures were taken. That is a very small fraction of the overall public spending in the Member States.

That is why it is crucial that the tax system promotes growth and trade. Only then can public programs be properly financed. The EU Member States have in the last years passed extensive legislation to create a level playing field and to ensure that the tax systems protect the collection of revenues. The European economy needs to strengthen its competitiveness.

The study is available for download on the EESC's website under the following link: https://europa.eu/!NB43bP



What is the impact of corporate taxes on the European economy?

The study was presented on 5 July at the seminar entitled "The impact of corporate taxes on the European economy". Senior representatives from the EU Commission and the OECD participated in the event.

"While remembering that competence for taxation remains at Member State level, we need to find the most advantageous and fair solutions", said Jacek Krawczyk, President of the Employers' Group in his welcoming address. Violeta Jelić, Vice-President of the Group, discussed the impact of corporate taxes on SMEs. She underlined how important simplification and clarity of the tax system was for entrepreneurs.

Removing tax obstacles to cross-border activities, improving the exchange of information, ensuring more transparency, and country by country monitoring and reporting were some of the measures implemented during the last mandate of the European Commission – emphasised Valère Moutarlier, Director of Direct taxation, Tax coordination, Economic analysis and Evaluation at DG TAXUD, in his keynote speech. He gave a detailed account of the legislative proposals being prepared by the Commission and of the current state of play.

Following Mr Moutarlier's address, James Watson, co-author, presented the main outcomes of the study entitled *"The role of taxes on investment to increase jobs in the EU – An Assessment of Recent Policy Developments in the Field of Corporate Taxes"*. "Corporate taxation is no longer a subject for experts, it is a topic where anyone on the street has very strong views", he said, pointing to the growing public discontent on the issue of taxation.

Current tax systems had been designed on the assumption that companies should be taxed in the jurisdiction where value was created. However, innovative digital businesses models were challenging these old conceptions of value creation and legislation was lagging behind. These and other factors all seemed to have contributed to a misperception about companies not paying their fair share to society. On the contrary, evidence showed that although headline corporate tax rates had been falling over the past four decades, the actual amount of corporate income taxes (CIT) paid as a share of GDP had been very stable.

The presentation was followed by a discussion panel entitled "Economic impact of corporate taxation – how to promote investment, growth and job creation". Its participants commented on the findings of the study and shared their expectations regarding taxation systems.

"When CIT is decreased, it brings in more revenue for countries", said Vanessa De Saint-Blanquat, European and International Tax Policy Director at the French Movement of Enterprises, MEDEF. In her opinion, when companies paid less tax, they were able to invest more capital, create more jobs, and increase consumption and economic growth, which ultimately resulted in higher taxes being paid to the government. She also called for simplification of the current tax systems, citing the example of France, where companies were subject to up to 250 other taxes in addition to Corporte income tax (CIT) - one of the highest among OECD countries.

Chiara Putaturo, EU Inequality and Tax Policy Advisor at Oxfam EU, warned that tax competition could be dangerous for the economy as it led to a race to the bottom. Countries competed internationally through lower tax rates instead of through skilled workforce, quality of infrastructure or innovation capacity. This

state of affairs was especially harmful for developing countries, which were more reliant on corporate taxes than developed countries. "EUR 170 billion are lost every year because of tax competition, much more than the development aid given to these countries", she said.

David Bradbury, Head of the Tax Policy and Statistics Division, Centre for Tax Policy and Administration at OECD, supported the idea of the mobile nature of CIT. "Corporate Income Tax is one of the most distorting taxes because of its highly mobile nature. If one jurisdiction increases the tax rate, it flows to another tax jurisdiction", he said. Conversely, property tax or even consumption tend to be seen as relatively immobile, and are thus perceived as being less harmful to economic growth. However, he stressed that it was not a race to the bottom, but a race to the middle, as the average CIT converged at 20% and not 0%, as the expression would suggest.

"An ageing population, migration and digitalisation are all phenomena which will put pressure on the whole tax base", explained Milena Mathé, economic analyst at DG TAXUD. "Taxation is also about ensuring a level playing field", she added. A fair and effective tax policy ensured a more balanced distribution of the tax burden, something that was crucial to maintaining consensus around taxation and preventing economic and political instability.

For Scott Hodge, President of the Tax Foundation, Washington, D.C, tax competition was an important tool for countries with fewer resources to compete internationally. He pointed to the case of Estonia, which "has the most competitive tax system in the OECD, largely due to their corporate tax system which taxes only distributed earnings". He added that economies should strive to reach a neutral flat tax, because this decreased opportunities for arbitrage and brought stability and certainty to businesses.

"Increasingly we tend to have policies based on perception, not on facts and figures" said Krister Andersson, Vice-President of the Employers' Group and Chair of BusinessEurope's Tax Policy working group, summarising the discussion. He reminded the audience of the very positive work done by the outgoing Commission, which had produced 14 directives on taxation, more than in the previous 20 years.

Sustainable Europe Sustainable future

The third Finnish EU Presidency programme is forward-looking and resonates in many respects with the interests of the Employers' Group. The Finnish members of the Employers' Group (Jukka Ahtela, Tellervo Kylä-Harakka-Ruonala and Timo Vuori) summarise its priorities from the employers' perspective.

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Finnish EU Presidency priorities

- to strengthen common values and the rule of law
- to make the EU more competitive and socially inclusive
- to strengthen the EU's position as a global leader in climate action
- to protect the security of citizens comprehensively

The programme states that "the EU needs a comprehensive long-term strategy for sustainable growth and competitiveness that specifically includes measures to improve the functioning of the single market and promote an ambitious, rules-based trade policy". This is a welcome objective that focuses on the core competences of the EU. In addition, it recognises the essential role of the economy, markets and competitiveness in striving towards sustainable development.

Common values and the rule of law: cornerstones of EU action

By way of introduction, the Presidency programme sets the scene by highlighting the importance of the unity of the European Union. The cornerstones of European integration - peace, security, stability, democracy and prosperity – need to be protected. Acting together and defending our common values is the way to tackle the major challenges of our time.

The chapter on common values and the rule of law in the Presidency programme is short in terms of characters but heavy in substance and ambition. EU membership means committing to its core values: human dignity, freedom, democracy, equality, the rule of law and human rights. These values need to be protected comprehensively. This is not just a matter of protecting citizens; it also has implications for the functioning of Europe's economy.

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During its Presidency, Finland will strive to improve and strengthen the EU's rule of law toolbox. The rule of law dialogue in the Council will be evaluated with a view to a more structured and results-oriented direction. Work on establishing a peer review mechanism will continue.

The flagship issue for the Presidency is the pending Commission proposal to make receipt of EU funds conditional on respect for the rule of law. The aim is to gear negotiations towards setting up a balanced and effective mechanism tying EU funding to compliance with the rule of law.

A competitive and socially inclusive EU

The Presidency demonstrates a forward-looking approach by bringing together single market policy, digital development, as well as modern competition, industrial and trade policies. Moreover, the programme highlights the improvement in the single market for services, particularly by promoting digital services and eliminating barriers to cross-border trade.

At the same time, the Presidency programme underlines the social aspects of the single market. The key message of the new Government of Finland is clear: it wants a globally competitive but also socially inclusive EU.

As regards the financial single market, the programme calls for more resilient capital markets, a fully-fledged banking union and a robust crisis management framework.

The Presidency programme points out the role of digitalisation, artificial intelligence and the data and platform economy as key drivers of European productivity, growth, employment, prosperity and wellbeing. Specific reference is made to digitalisation and automation in the transport sector.

The programme correctly highlights the significance of the Horizon Europe programme, with an eye to giving a major boost to digitalisation and technological development and enabling Europe to stay at the forefront of research, development and innovation.

The programme also emphasises closer European-level cooperation in education and training, with the aim of having the best system in the world. To this end, the programme calls for a future-oriented, wide-ranging strategy for continuous learning that takes into account the transformation of work and digitalisation. It also calls for a much stronger Erasmus programme and the creation of a networked European "super-university".

According to the programme, the EU should adopt a long-term climate strategy aimed at making the EU carbon neutral by 2050. The transition to the bioeconomy and circular economy is considered to be central here.

An ambitious, open and rules-based trade policy

Referring to international trade tensions and increasing protectionism, the Presidency programme stresses the need for the EU to defend multilateralism and common rules and resist inward-looking approaches and new trade barriers.

This requires an ambitious, open and rules-based trade policy. The EU must be a strong global actor and play an essential role in preserving and strengthening the multilateral trading system. Modernising the World Trade Organization (WTO) and strengthening its functioning and credibility are key objectives of the programme.

During the Finnish Presidency, the EU will continue negotiations on ambitious and balanced trade agreements with key partners. The programme underlines the need to foster the transatlantic partnership. It also draws attention to relations with Africa, China and Russia. Furthermore, the programme emphasises the importance of the Arctic region for prosperity and security in the EU.

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EESC Employers' Group events during the Finnish presidency

***Tervetuloa* to Finland! The EESC Employers' Group will be hosting two conferences in the country holding the current European Council presidency – Finland. After discussing the prerequisites for a smart and intelligent Europe in Turku on 30 August, we will return to Helsinki on 9 October to debate how an open society can support Europe's business environment.**

The conference in Turku will focus on "Smart and intelligent Europe – How to get there?" and will consider the opportunities and challenges of digitalisation and AI for businesses, the enablers of success and the consequent expectations of EU policies. It aims to examine how Europe can be a frontrunner in innovation, what skills and competences are needed and how funding can be provided. We look forward to exchanging views on these issues with high-level experts, such as the mayor of Turku, Minna Arve, MEP Miapetra Kumpula-Natri and the Chairman of One Sea, Sauli Eloranta. The seminar will be part of the Turku Europe Forum that looks at the future of Europe and of Finland with members of the public and decision-makers.

"An open Europe – How does it benefit us all?" will be the theme of our second Finnish conference, to take place in Helsinki. The conference will explore how an open economy and society can contribute to building a business-friendly and strong EU. The timing of the conference, coinciding with the start of the new mandate of the European Commission and the European Parliament, will enable us to convey a strong business message to policy-makers at both EU and national levels. The first panel, on "Open economy – back to basics", will discuss the merits and future expectations of the single market and global trade as the core areas of common EU policies. It will be followed by the panel on "Open society – values in practice", which will evaluate the role of dialogue, diversity and the rule of law in ensuring a supportive business environment.

EU and Mercosur, A GOOD DEAL IN TIMES OF STRIFE

An ambitious Association Agreement without precedent, a great opportunity, a market of 780 million consumers, a sea change in political, economic and commercial relations. These are some of the reactions prompted by the agreement reached between the representatives of the European Union and Mercosur (Argentina, Brazil, Paraguay and Uruguay).

After almost twenty years of negotiations, we stand before a historical milestone. Moreover, at a time like the present, characterised by retrogression and protectionism, the EU and Mercosur have sent a clear signal that working together is still important. The agreement will save EUR 4 000 million in customs duties per year. Over and above trade, it is an association agreement with significant implications and it brings considerable improvements in political, social, labour and environmental terms.

There is undoubtedly reason for optimism, but those who are warning of potentially detrimental effects, such as livestock and other European farmers and producers of beef, chicken, citrus fruit, rice or sugar, should be heard. There are many great opportunities, but also, as with any major deal, there are issues to be resolved. It was essential to reach an agreement and this has been achieved, but the fears and asymmetries on both sides should now be considered.

At the EESC, where I represent the Spanish food and drink industry, we have been following this agreement closely. Last year we adopted an opinion in which we urged the negotiating parties, and in particular the EU, to reach an agreement, as failure to do so would involve a high political, economic and opportunity cost. We called for a balanced agreement that was the result of transparent dialogue between the parties.

We must seek reciprocity and enforce the strict sanitary and phytosanitary standards that regulate European producers and protect consumers, in order to ensure that the food products that can be acquired on the EU market meet all of these requirements and standards. We must call for compliance with the labour standards set by the International Labour Organization (ILO). Likewise, we need to ensure that agricultural and livestock practices are sustainable, animal welfare is protected, and climate change and deforestation are tackled.

Months of technical negotiations lie ahead, and the agreement must then be approved by the Council and European Parliament, as well as in the different Member States. This process may give rise to changes. The aim should be to sign a balanced and transparent agreement, which is not at the expense of any particular sector, region or country. Flanking and countervailing measures should be put in place, exceptions set out, plans to support the worst affected sectors established, and the promotion of investment and innovation policies initiated. It should also be ensured that all economic actors can benefit from the agreement: businesspeople, workers and the whole of society in both regions.

Historical, geostrategic, cultural and influential ties in the global arena for both regions mean that this agreement brings great social and economic benefits, countering protectionism and trade wars. Europe and Latin America are two regions that need each other more than ever.

The economic crisis taught us a lesson: we need to expand the external markets and diversify the products we export. The promotion of freer international trade and economic growth are closely linked. Multilateral agreements such as this are needed not only to boost economic growth, but also to bolster democratic consolidation.

The agreement also includes knowledge transfer and an extensive services market, with notable financial improvements. Moreover, it removes barriers to investment and covers engineering and telecommunications.

Mercosur is the sixth-largest economy in the world, with a GDP of USD two billion. The agreement with this region will give EU countries access to a market of 293 million people. In addition, it will strengthen the European presence in a region with significant energy, food and water reserves.

Under the agreement, the Latin American bloc will liberalise 91% of trade for the EU and 72% will be liberalised over a period of ten years or less. Important sectors such as the automobile sector will be completely liberalised. Machinery, chemical and pharmaceutical products, olive oil, wine, spirits, soft drinks, fresh fruit and many other sectors will benefit. Moreover, designations of origin from many European regions will be protected.

The agreement offers the Mercosur bloc the possibility of diversifying its economies and adding value to its exports, as well as the opportunity to gain access to a market of 500 million people.

With this agreement, these two very large blocs, the EU and Mercosur, have sent a very clear message in favour of free trade and international cooperation, as opposed to misguided protectionist policies.

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In Belfast on Brexit

The Employers' Group Vice-President Stefano Mallia recently took part in a mission to Belfast, together with the EESC President Luca Jahier. The visit to Belfast was part of the efforts undertaken by Mr Jahier under the Borders and Peace in Europe project. Mr Mallia was asked to accompany Mr Jahier in view of his role as chair of the Brexit Committee.

During the 2-day visit, a number of meetings were held with various entities and organisations forming part of civil society in Northern Ireland. These included meetings with the Lord Mayor of Belfast, the director of the Special EU Programmes Body, the Bishop of Belfast and other church officials, and the Visual Arts Council and the Arts Council. Other meetings were held with leaders of the business community and the civil service.

The EESC delegation visited a number of EU funded projects and took part in discussions on the effectiveness of these projects and the likely negative impact of Brexit on the political situation in Northern Ireland.

The discussions revealed that considerable political tension still exists in Belfast. The political divide is still very present and can be clearly seen within the city itself, as well as in the education system, which remains divided across political and religious lines. What also emerged from the visit is that the EU is seen as having played a pivotal part in the peace process by setting the stage for the Good Friday Agreement and providing continued investment via the PEACE programme and several other programmes such as Interreg.

Commenting on the facts that emerged from the Belfast mission, Mr Mallia said that "this mission has highlighted to us the unequivocal fears of civil society in Belfast that Brexit could undermine the peace process in Northern Ireland. There is a serious concern that if a hard border is reintroduced, the old tensions will very quickly come to the surface, with devastating consequences across Ireland and the whole of the United Kingdom. The concerns raised by civil society have increased our determination to continue to work hard to avoid a hard Brexit. The dangers such a situation will bring to the whole island of Ireland should not be underestimated."

In his capacity as chair of the Brexit Committee, Mr Mallia will be undertaking similar missions to England, Scotland and Wales.

Bioeconomy:
BUILDING UP SUSTAINABLE VALUE CHAINS

Bioeconomy creates new growth and opportunities. The Finnish Presidency of the Council, in cooperation with the European Commission, aims to raise awareness among the general public about the European bioeconomy. The "European Bioeconomy Scene 2019" took place on 9 July in Helsinki, Finland. 350 experts from all over Europe gathered in Helsinki. The goal of the bioeconomy conference was to move the European bioeconomy and circular economy into the next era, reflecting social sustainability, equity and fairness in all activities. Bioeconomy should move away from being a niche topic and become more mainstream.

The update to the EU's bioeconomy strategy, published last October, was the focus of the conference. A delegation from the EESC attended the conference. I had a pleasure to present the opinion on the Commission proposal "Update to the EU's Bioeconomy Strategy".

Commission vice-president Jyrki Katainen opened the conference by encouraging all EU Member States to adopt their own bioeconomy strategies as a common approach to research, economic and agricultural policies. We need to build up bioeconomy value chains in order to make progress towards a sustainable economy with even more efficient resource use than we have today.

"Bioeconomy is one of the seven key points for delivering on our long-term climate goals. It is also a mega trend, along with artificial intelligence. It is helping us to become more sustainable" Mr Katainen said.

Europe is on its way to becoming a carbon-neutral society. Climate change, rapid technological development, the competition for depleting natural resources, the transformation of the global economy, changes in values and attitudes, demographic shifts and urbanisation are developments that affect us on a global scale. The world needs sustainable solutions that will make it possible to safeguard the availability of clean food and water, promote a sustainable natural resource economy and ensure the success of rural areas.

The conference showed how EU Member States can mobilise their potential. Embracing the bioeconomy is about creating and developing new value chains. Training and educating young professionals is an important element. Long-term finance and investment instruments are needed. The further establishment of a European network of pilot production plants for bioeconomy products is also highly relevant for the business development of bioeconomy products. Moreover, the maritime sector can develop a new "blue bioeconomy".

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SME category discusses innovative financial instruments

Innovative financial instruments, loans and guarantees for SMEs were one of the topics at the SMEs, Crafts and Family Business Category's latest meeting on 11 July, which was attended by the secretary-general of the European Association of Guarantee Institutions (AECM) and the policy officer responsible for COSME financial instruments at DG GROW.

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According to the participants, guarantees are an important financial instrument for boosting investment in the EU. By reducing lenders' exposure to risk, they bring to life projects that otherwise would not have got off the ground, and they are especially relevant for micro and small businesses, which still rely on banks as their main source of finance.

Although finance conditions have improved significantly since 2009, 7% of EU SMEs still identify access to finance as their most significant concern. Micro and small businesses face the highest barriers in accessing finance: banks often consider their investment projects to be high risk, to have high operational costs and to need collateral.

Katrin Sturm, secretary-general of the AECM, explained how guarantees allowed risk sharing between banks and guarantee institutions (GIs), thus enabling more investment across the board. She explained that, on average, a bank carried 30% of the risk and the GI covered 70% of the loan, and that it was also possible for the GI to receive a guarantee from third parties such as specific funds, the EU or a Member State, in a process called a counter-guarantee.

COSME's Loan Guarantee Facility (LGF) instrument has so far provided more than EUR 25 billion of financing to over 450 000 SMEs. According to Albena Taneva, policy officer responsible for COSME financial instruments at DG GROW, 88% of the SMEs supported are micro-enterprises (including self-employed persons), and 48% are start-ups. She also noted that COSME would join the umbrella programme InvestEU under the next MFF.

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