European Parliament

Increasing European added value in an age of global challenges

Mapping the cost of non-Europe (2022-2032)

STUDY

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Mapping the cost of non-Europe (2022-2032)

Although European integration is a key driver of growth, peace, environmental protection and social prosperity, persistent challenges remain and potential crises can be anticipated. Looking forward, a number of possible pathways are open to Europe. The European Parliament favours the path of ambitious, collective EU action, where significant potential gains can be realised, not only for today, but also for various possible future scenarios.

This study seeks to support the European Parliament in defining the political agenda and stimulating debate on a sustainable path forward. It investigates the potential benefits that could be achieved in 50 policy areas, taking into account the state of EU legislation and its untapped potential, and applies quantitative analysis tailored to each policy area. If the EU does not pursue the path of ambitious, collective action, the benefits identified might not materialise fully, leading to a 'cost of non-Europe'.

The study finds that further EU integration could generate over €2.8 trillion per year by 2032 and help to achieve the EU's objectives in the areas of social rights, fundamental rights and the environment. Gains from further EU integration would not replace or undermine those from actions taken at national, regional or local level, but rather complement and reinforce them.

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Introduction

European integration has been a key driver of growth, peace and social prosperity.

European integration has been crucial to driving economic growth for half a century, generating significant gains in gross domestic product (GDP) and social prosperity for EU Member States. One of Europe's landmark achievements is the single market, which affects and generates benefits for millions of businesses and consumers every day. This project alone has been shown to have fostered a 6 % to 8 % expansion in EU GDP that would not have been achieved otherwise.[1] More broadly, **European integration has been effective in advancing peace, democratic governance, environmental protection and innovation across the Member States and in promoting resilience in the face of crises**.

The European project was put to the test with the COVID-19 pandemic. The restrictive measures adopted by the Member States to curb the spread of the virus affected the free movement of people in particular and partially also that of goods. **EU action was integral to reinforcing public health systems, mitigating socio-economic impacts, and coordinating the resumption of safe travel.**

The joint coronavirus vaccine scheme enabled Member States to leverage their negotiating position to obtain vaccines at lower prices. The SURE programme, designed to mitigate unemployment risk in an emergency, helped Member States preserve jobs for workers and the self-employed during the pandemic, protecting incomes and facilitating recovery. The Next Generation EU (NGEU) package was launched to help Member States repair the economic and social damage caused by the pandemic while providing support for the green and digital transitions and envisioning a recovery that would make Europe more resilient and fitter for current and future challenges.

Persistent challenges remain and other crises can be anticipated.

Despite the benefits of EU action, challenges and questions remain.

- With regard to the **COVID-19 pandemic**, how is it that care work, carried out disproportionately by women, is still under-valued and invisible in society?
- With the ongoing **war in Ukraine**, how can the geopolitical risks and turbulence and the pressing issues of security, defence and the economy, or the need to ensure human rights, democracy and peace worldwide, still be ignored?
- In a context of **climate emergency**, how can the pursuit of harmful business practices, dependence on critical raw materials, and unsustainable consumption patterns and value chains still be defended?

[1] T. Evas et al., Coronavirus and the cost of non-Europe, EPRS, May 2020.

- How can consideration not be given to the fact that, in the **digital space**, companies can undermine ethics and competition, threatening media freedom and democracy?

Increasingly, the world is characterised by challenges with cross-sectoral, trans-geographical and global consequences. The move towards a paradigm of so-called 'permacrisis' calls for a different approach to policymaking. **There is a need for systematic strategic thinking and the capacity to react quickly while ensuring transparency and democratic oversight and accountability**.

Further European integration can help respond to present and future challenges.

The EU's capacity to take joint action that is more effective than 27 countries' individual actions is tested almost every day. In line with the principle of 'subsidiarity', the EU and its Member States have to identify the appropriate level of decision-making to overcome the challenges they are facing, considering both the current state of EU integration and how it has developed in recent decades. In practice, **the key question is if and to what extent the aggregation and coordination of budgets, oversight and competences at EU level generate added value and higher benefits, compared to the action considered by Member States at national level.**

In some cases, **the aggregation of competences at EU level allows for the realisation of projects or the provision of public goods that would not have been available** if these competences had been kept scattered at Member State level – for example, in the field of research and development (R&D) or in the creation of big data infrastructure. The European Health Emergency Preparedness and Response Authority (HERA) was recently created to improve preparation and response in a common and coordinated way to any type of health or sanitary crisis that emerges at EU level. The EU could also generate additional capacity and resources to meet the growing demand for European 'public goods'.

Efficiency gains could be realised by transferring competences to EU level and making better use of limited existing resources. In addition, aggregating competences could generate savings by administrating some projects at EU level, allowing for lower administrative costs. **Aggregating competences at EU level, rather than leaving them at national level, could be the only and most efficient option for integrating the economic impact of externalities.** This is particularly relevant in environmental policy, where many issues are transnational by nature and where tackling the underlying sources of externalities requires at least a coordinated approach. In turn, these gains that would not have been realised otherwise could potentially generate further positive 'second order' effects.

Europe is at a crossroads: The European Parliament calls for ambitious, common action.

Looking forward to the next 10 years, Europe faces different possible paths: 1) the status quo; 2) strategic, collective action; and 3) fragmentation. The **'status quo'** would be the simple continuation, until 2032, of policy actions that have already been initiated, without substantial additional EU action. The path of **'strategic, collective action'** would initiate new policy actions to promote the anticipatory capacity and response of the EU, while the path of **'fragmentation'** would see the effectiveness of EU action dissipate due to divergent positions across Member States.

The path of strategic, collective action is aligned with the United Nations Sustainable Development Goals (SDGs). It calls for an integrated strategy that does not consider only one type of interest and does not distinguish artificially between economic, social, environmental and fundamental rights impacts. Following this approach, sustainability and upward harmonisation of environmental and social conditions are key drivers of prosperity.

The path of strategic, collective action also recognises the importance of anticipation and preparedness. Few crises cannot be anticipated, and the question is not what will occur, but rather when it will occur. The role of joint action at EU level could be determined in advance in a democratic manner and help to support a more effective response to a crisis.

As the only democratically elected EU institution, **the European Parliament has consistently called for strategic, collective action**, and for further European integration where significant potential gains can be realised, not only for today but for different possible futures. During the 2019-2024 legislature, the European Parliament has called for EU-level legislation in a number of areas, including the rule of law, digital finance, artificial intelligence, workers' protection, legal migration, and gender-based violence.

The cost of non-Europe: What can be achieved through ambitious, common action?

Drawing primarily on positions taken by the European Parliament from the beginning of the 2019 legislature, including those which have not yet been responded to by the European Commission, this report investigates the potential gains from further European integration over the next 10 years. **The potential gains of pursuing the path of strategic, collective action compared to the 'status quo' can be understood as the 'cost of non-Europe'**.

EU actions that define the path of strategic, collective action are within reach and within the limits of the existing treaties. This ambitious goal requires collective action on public goods, such as upward harmonisation of environmental and social standards, the reduction of inequalities, and widespread protection of fundamental rights.[2] The possibility for the EU to make efficiency gains and to lower the costs of implementing some policies, such as the cost of borrowing money on financial markets, as compared to Member States, could free resources for this purpose.

This study is the latest step in the series of analyses started in 2012 by the European Parliament's European Added Value Unit (which became part of the European Parliamentary Research Service (EPRS) in 2014) that aim to estimate the potential economic gain generated from joint action at EU level. This research activity has evolved and expanded since the concept of 'the cost of non-Europe' came into being several decades ago.[3]

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[2] J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, October 2020.

[3] The concept was originally pioneered in the 1980s, through a report commissioned (by the European Parliament's Special Committee on European Economic Recovery) from two leading economists, Michel Albert and James Ball. The Albert-Ball Report, published in August 1983, argued that the 'absence of a genuine common market', together with other obstacles to intra-Community trade, imposed a systematic handicap on the European economy, which was underperforming (compared to its potential) by the equivalent of approximately 'one week's work per year on average' for every worker, representing 'a cost of the order of two per cent of GDP'.

The European Parliament produces cost of non-Europe analyses as part of its commitment to upholding the Interinstitutional Agreement on Better Law-Making.[4] Cost of non-Europe reports serve to spark debate and ideas for the setting of priorities and the political agenda.[5]

The analysis takes into consideration the state of EU legislation, its capabilities and its impacts.[6] It applies analytical models, evaluation and impact assessment methods (e.g. general equilibrium model, regressions, cost-benefit analysis, data envelopment analysis) that are tailor-made for the specific area analysed, develops quantitative and qualitative estimations, and complements economic analysis with an assessment of potential impacts in all areas – social, environmental, or on fundamental rights – where possible and relevant.

Some of these analyses have been published before in other cost of non-Europe reports and European added value assessments, while other analyses are updated or completely new. In the context of the EPRS's initiative on stress-testing EU policies,[7] **the readiness of the EU's legislative framework for disruptive events and developments was taken into consideration**.

This edition of the 'cost of non-Europe'[8] seeks to recognise the full range of impacts of EU action (economic, social, environmental, and on fundamental rights) and aims to shed light on the channels of transmission between policy proposals and potential results.

Looking at the presence of common goods, economies of scale and spillover effects, identified as drivers of more profitable joint EU action, the study offers a range of macro and micro estimations, followed by foresight checks and valuable insights into concrete proposals that could be implemented to achieve higher-level objectives, or that could be envisaged under different scenarios.

Further EU integration in 50 policy areas could generate over €2.8 trillion per year by 2032. It could also help to achieve the EU's objectives in the areas of social rights, fundamental rights and the environment.

This study investigates the potential gains of EU action in 50 policy areas. On aggregate, the analysis suggests that **the EU economy could achieve at least €2.8 trillion in gains if the policies advocated by the European Parliament in a series of specific areas were to be adopted by the EU and then fully implemented over the 10-year period**.

4 Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making, OJ L 123/1, 12 May 2016.

5 This 'cost of non-Europe' became a powerful rationale for launching a detailed legislative programme to complete the single market during the first eight years of the Delors Commission, starting in January 1985. The cost that could be avoided by successful completion of the single market was quantified in detail in the landmark Cecchini Report, published by the European Commission in April 1988. It suggested the potential gain to the European economy to be in the order of 4.5 % (and potentially 6.5 %) of GDP.

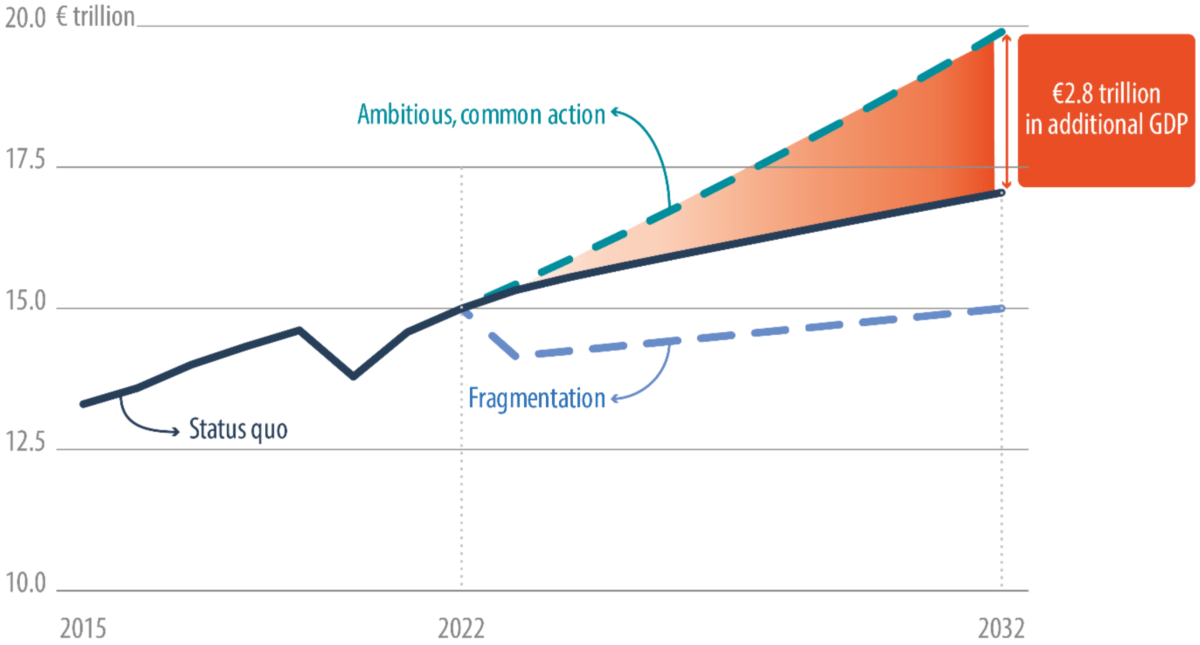
6 The cut-off date for the analysis was 15 September 2022. Data, parliamentary reports and studies published after that date may not be reflected.

7 M. Fernandes and A. Heflich, How to stress-test EU policies – Building a more resilient Europe for tomorrow, EPRS, January 2022.

8 While reading the quantitative estimates, it is important to be aware that they are based on different methodologies, so figures across policy areas are not fully comparable.

Figure 1 shows the impact in terms of potential added value (in euros), by showing where different levels of ambition and the consequent GDP could go.

Figure 1: Following the path of strategic, collective action could offer the EU potential added value of €2.8 trillion by 2032



Source: EPRS.

The baseline has been calculated by EPRS on the basis of scenarios and long-term projections made by the European Commission[9] and the OECD.[10] It reflects past (from 2015 to 2021) and projected real GDP in euros in purchasing power parity until 2032, with 2022 as the base year.

The baseline projection assumes a simple continuation, until 2032, of policy actions that have already been initiated, without substantial additional EU action ('no policy change' scenario). Under this scenario, real GDP would grow from a value of about €15 trillion in 2022 to about €17 trillion in 2032, which would translate to an average annual real GDP growth rate of 1.3 % over the period.[11]

This 'cost of non-Europe' scenario shows the overall impact of policy action envisaged in the 50 sub-chapters of the study, with an implementation horizon of 10 years. **Compared to the baseline, the analyses find that an additional €2.8 trillion could be generated**, thus bringing total real GDP to a value of almost €20 trillion in 2032. This is a rather ambitious but reasonable[12] estimation, as it would mean an average annual real GDP growth rate of 2.9 % over the period.

[9] European Commission, The 2021 Ageing Report: Economic & Budgetary Projections for the EU Member States (2019-2070), Institutional Paper 148, May 2021.

[10] OECD, The long game: Fiscal outlooks to 2060 underline need for structural reform, October 2021.

[11] An average annual inflation rate of 2 % is assumed over the projection horizon, in line with the ECB mandate and EMU long-term objectives. We therefore assume a nominal average GDP growth rate of 3.3 % over the period in the baseline scenario.

[12] A real GDP average annual growth rate of 3 % and an average annual inflation rate of 2 %, i.e. a nominal GDP growth rate of 5 %, was the assumption that originally served as the basis for the setting of EMU objectives.

The last scenario is reported for illustrative purposes to emphasise the cost of fragmentation, as analysed in some recent publications.[13] It assumes the occurrence of a new major economic crisis in 2023, of a proportion similar (we assume a shock of -5.6 % for real GDP for the EU as a whole) to the economic crises of 2020 and 2009. Then, the trend real GDP growth rate from 2024 is assumed to be halved compared to the baseline, as dislocation effects and negative spillovers impact the EU's potential growth rate. The result is a total net real GDP loss of €2 052 billion compared to the baseline, and of €4 899 billion compared to the 'cost of non-Europe' scenario. In this fragmentation scenario, the average annual real GDP growth rate would fall to 0.6 % over the period.

Gains from further European integration would not reduce the benefits for Member States.

The European Union is not built in such a way that the transfer of competences from national to EU level leads to a reduction in the benefits for its Member States. **This 'cost of non-Europe' identifies those actions in which a transfer of competences to the EU produces greater benefits than if the Member States acted on their own.** This does not mean that common integration would be better 'per se', but it is rather an illustration that there are policy areas where, by doing so, additional potential income, additional budgetary capacity or additional welfare gains can be generated.

How to read the study.

The analysis is structured in terms of 50 policy areas that are organised in 10 policy chapters. The policy chapters are organised in a thematic manner, starting from the macroeconomic dimension of EU policy (e.g. classic single market, consumer protection, European transport area), then moving to the social and microeconomic aspects (e.g. Erasmus+, health, education, employment) and lastly the external dimension (e.g. defence and multilateralism).

Section 2 presents a summary of the key findings for each of the 10 policy chapters.

Section 3 presents findings for each of the 50 policy areas, which are structured as follows:

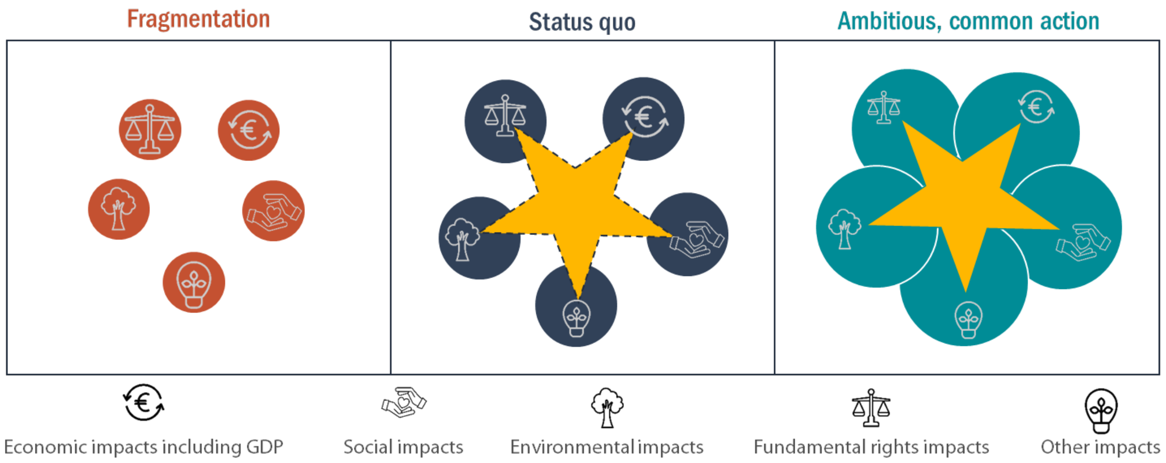
- Key proposition
- More detailed analysis of the potential benefit
- European Parliament position
- Commission and Council responses so far
- Looking forward

The assessment of potential benefits includes a quantitative calculation of the potential economic impacts as well as an assessment of other interlinked impacts.

As depicted in Figure 2, more ambitious, common action could not only produce economic impacts, but also greater gains in terms of social and environmental benefits as well as promotion of fundamental rights. Greater consideration of all types of impacts and their interlinkages can promote upward convergence and generate more added value.

[13] G. Felbermayr, J. Gröschl and I. Heiland, Undoing Europe in a New Quantitative Trade Model, IFO Working Paper, 2018; J. In 't Veld, Quantifying the economic effects of the single market in a structural macromodel, Discussion Paper 94, European Economy, European Commission, 2019; T. Evas et al., Coronavirus and the cost of non-Europe, EPRS, May 2020.

Figure 2: Ambitious, common action requires consideration of all impacts and their interlinkages and can generate greater benefits



Source: EPRS.

Summary of key findings in 50 EU policy areas

This section provides a summary of key findings across 10 broader policy chapters. Each policy chapter includes several areas which are supported by concrete policy actions.

A brief summary of quantitative and qualitative impacts follows for each policy area. Quantitative impacts represent annual GDP growth. Qualitative impacts include social and environmental impacts, impacts on fundamental rights and other impacts. Rather than providing an exhaustive summary per policy action and its economic impact, this section highlights key findings from a broader perspective and provides a full range of impacts.

1) Classic single market and single transport area

- **Completing the single market for goods** (sub-chapter 1): Improve implementation and enforcement, reduce excessive administrative complexity, tackle unnecessary national requirements, and address unharmonised labelling standards and other remaining obstacles to trade at various levels.
- **Completing the single market for services** (sub-chapter 2): Continue to deepen cross-border provision of services, reduce distortions induced by national home bias, expand harmonisation, reduce administrative burdens, and tackle barriers to cross-border provision of services and remaining excessive requirements.
- **Consumer protection policy** (sub-chapter 3): Provide consumers with relevant information on commercial guarantees of durability and software updates, ban practices related to early obsolescence, address fragmentation of rules on consumer credit, and adapt product safety rules in light of new technologies.
- **Single European transport area** (sub-chapter 4): Support a shift to sustainable public transport modes, eliminate infrastructure bottlenecks and underdevelopment that hinder connectivity to and between all EU regions, develop multimodality, improve safety and reliability, and build passenger-oriented transport systems.
- **Geographical indication protection for non-agricultural products** (sub-chapter 5): Establish EU-wide protection for geographical indications of non-agricultural products, and guarantee its accessibility, fairness and capacity to convey reputation and generate trust.
- **Addressing the corporate income tax (CIT) gap** (sub-chapter 6): Implement the G7/OECD agreement, create a common rulebook for businesses operating in the single market in more than one Member State, reduce red tape and cut compliance costs, combat tax avoidance, and provide a simpler and fairer way to allocate taxing rights between Member States, improve exchange of information and transparency, and support digitalisation and effective tax administration.
- **Combating value added tax (VAT) fraud** (sub-chapter 7): Reduce complexity, fragmentation and the high level of compliance costs, address tax fraud vigorously, improve exchange of information and transparency, and support digitalisation and effective tax administration.

Such actions, called for by the European Parliament, could generate **economic benefits of at least €644 billion per year by 2032**.

These benefits would mainly stem from the free movement of goods, services, capital and people, while also resulting from fair and simpler taxation. This would help to ensure a level playing field, where increasing competition is beneficial and where efficiency gains and economies of scale allow for a better use of resources and more solidarity between Member States. It would also allow for greater protection of fundamental rights, particularly the rights to freedom to conduct a business and freedom of movement.

More generally, it would increase equality between workers, transparency, legal certainty and fairness in taxation. Consumer protection would be enhanced, while the risk of social erosion and lower social standards would be reduced.

Regarding environmental impacts, it could lead to a more efficient use of resources, a lower risk of reduced environmental standards and a lower risk of environmentally harmful products in the EU.

2) Green transformation

- **Transformation of EU energy systems** (sub-chapter 8): Conduct ambitious, united EU action to transform energy systems, including forward-looking common action on regulations (e.g. adequately pricing carbon), budgets (ambitious EU-level allocations beyond 2027) and social aspects (redistribution of revenues from carbon pricing to support the most vulnerable in EU society).
- **Averted climate change impacts** (sub-chapter 9): Conduct ambitious, united climate policy both at EU level and internationally. In parallel to mitigation efforts, reinforce action on climate adaptation.
- **EU-driven global deforestation** (sub-chapter 10): Introduce a mandatory due diligence system that prevents commodities and products issuing from deforested land being placed on the EU market, monitor countries with the highest deforestation risk and benchmark them and, in parallel, act at international level and ensure EU policy coherence.
- **Improving environmental quality through efficient environmental expenditure** (sub-chapter 11): Improve quality of public spending on the environment through better efficiency and effectiveness, and by improving transparency, monitoring and reporting.

EU-level action in the area of **green transformation could bring €439.5 billion in economic benefits per year** if addressed in a united and ambitious way.

These benefits would come from regulatory measures, budgetary allocations and redistribution of climate revenues to vulnerable citizens. The latter will help to attenuate negative social impacts.

Successful green transformation will also bring climate and environmental benefits, such as lower greenhouse gas emissions and averted socio-economic damage from the worst effects of climate change. Efficient public spending could bring additional resources to this unprecedented transformation and serve to close the investment gap.

3) Digital transformation

- **Provision of digital services** (sub-chapter 12): Harmonise e-commerce rules, enhance consumer protection (transparency of contract terms or commercial communications), and create a framework for content management. Establish and implement a single digital gateway and create a European digital identity.

- **Digital transition of SMEs** (sub-chapter 13): Support digitalisation of SMEs through raising awareness, sharing of best practices, providing dedicated financing instruments, re-skilling of the workforce, and developing Digital Innovation Hubs based on a sectoral approach and targeted to SMEs' needs.
- **Cybersecurity and data governance** (sub-chapter 14): Introduce harmonised rules for products with digital elements, develop cybersecurity standards for artificial intelligence (AI) and 5G, and create a framework for safe and secure data exchange.
- **Regulating the platform economy** (sub-chapter 15): Guarantee workers' rights and improved working conditions for platform workers. Implement the OECD taxation agreement on digital platforms and relevant single market regulations.
- **Ethical and liability aspects of artificial intelligence** (sub-chapter 16): Establish a common EU framework on ethical aspects of AI and robotics and common EU action on liability and insurance.
- **Data transfers and privacy of communications** (sub-chapter 17): Further support the implementation and enforcement of the General Data Protection Regulation (GDPR), reflect the conclusions by the Court of Justice of the European Union (CJEU) ruling in Schrems I and II to all reviews of adequacy decisions with third countries, and update the current rules on privacy and electronic communications (ePrivacy).

The above actions could generate significant benefits for the EU economy and society. **In economic terms, EU action to support digital transformation could yield yearly benefits worth €384 billion**.

The estimated benefits would come from more harmonised rules on e-commerce, cybersecurity, and liability rules. Policy measures to support digitalisation of SMEs, representing the backbone of the EU economy, would contribute to GDP growth and higher employment rates. EU action would have wider positive impacts on society – including better protection of personal data, privacy and fundamental rights – and has the potential to help close the digital gap. Digital technologies also have the potential to bring environmental benefits in terms of better energy use, if designed sustainably and as long as there is effective coordination between the two objectives.

4) Economic and monetary union (EMU)

- **Better coordination of fiscal policy and sustainability of public finances** (sub-chapter 18): Reduce excessive and artificial complexification, clarify fiscal rules by focusing on an expenditure benchmark, apply responsible flexibility when necessary, and avoid one-size-fits-all and theoretical approaches. Move towards effective coordination of fiscal policy, possibly by setting up an EU treasury, continue to improve the European Semester and address issues linked to enforcement and compliance, in particular through systematic and greater involvement of the Parliament in economic agenda-setting and in the Semester.
- **Completing banking union** (sub-chapter 19): Continue to improve the crisis management framework and the provisions of the existing deposit guarantee scheme directive, and make progress on setting up a European deposit insurance scheme (EDIS). Tackle national barriers to banking integration and address remaining high levels of non-performing loans in some jurisdictions. Ensure that banks are further integrated and diversify their investments in sovereign bonds geographically. Make progress on sovereign bond-backed securities (SBBS).

Pursue harmonisation, particularly regarding taxation, insolvency regimes and barriers to the provision of services in the single market.

- **Financial market integration and resilience** (sub-chapter 20): Continue to diversify sources of EU financing to support risk taking and innovation. Tackle persistent home bias, which has resulted in the EU lacking cross-border financing diversification and risk sharing. Think more strategically to reduce dependencies, to develop global EU financial centres and to continue benefiting from the development of sustainable finance.

- **EU macro stabilisation instruments** (sub-chapter 21): Continue to improve and develop the temporary support to mitigate unemployment risks in an emergency (SURE) and consider the possible creation of a permanent European unemployment benefit reinsurance scheme. Assess the economic and social impact of SURE more comprehensively. Continue to ensure the deployment of Next Generation EU (NGEU) and assess the impact and effectiveness of related reforms in national recovery and resilience plans (NRRPs). Ensure that the Parliament is informed about the ongoing assessment of the NRRPs, so that it can exercise its right of democratic scrutiny over the Commission's assessment and implementation of the Recovery and Resilience Facility (RRF). In view of the war in Ukraine, evaluate the role of the RRF in the rollout of REPowerEU.

- **Digital finance, crypto currencies and crypto-assets** (sub-chapter 22): Support healthy development of new digital technologies and innovation in the financial sector that takes into account the need to protect users, to avoid harmful levels of risk taking and to address the lack of transparency in some areas. Ensure the adoption of appropriate rules covering transparency, disclosure, authorisation and supervision of transactions. Effectively address market manipulation, money laundering and other criminal activities. Reduce the high carbon footprint of digital activities, particularly crypto-asset mining activities.

Such actions, called for by the European Parliament, could generate economic benefits of **at least €321 billion per year by 2032**.

These benefits would mainly stem from responsible fiscal policies and financial stability, which would facilitate solidarity, and from the full positive impact of EU macro stabilisation instruments. This would help to ensure a level playing field that prevents isolated actions by some Member States, fiscal profligacy, and 'free rider' behaviour. This would lower the risk of a sovereign debt crisis in the EU, lower the risk of fragmentation and reduce waste of budgetary resources by Member States.

5) Education, EU-financed research programme, and culture

- **Erasmus+** (sub-chapter 23): Clarify conditions to extend the programme to people of different ages and backgrounds, and to those with fewer opportunities, such as people with disabilities and citizens living in remote areas. Monitor the implementation of measures through the Erasmus+ National Agencies.

- **EU-financed research programme** (sub-chapter 24): Complete the implementation of a stronger ERA, increase investment to achieve ambitious goals in the energy and environmental sectors, and strengthen the legislative framework to increase the effectiveness and performance of public research systems.

- **Creativity and cultural diversity** (sub-chapter 25): Continue to implement the Creative Europe programme, and increase the competitiveness and supervise the recovery of the cultural and creative sector after the pandemic.

- **Media freedom and pluralism** (sub-chapter 26): Strengthen the legislative framework to enhance the transparency of media ownership, step up protection and working conditions for journalists, limit foreign influence in democratic processes in the EU, promote media literacy programmes to complement educational programmes, and strengthen monitoring tools and their utilisation.

The above actions could generate **economic benefits of at least €69.5 billion per year**.

These benefits would stem from better access to knowledge, education and training throughout the EU. A series of actions in these areas would have a wider positive impact on society, including income generation, job creation and the dissemination of knowledge, while promoting social cohesion, cultural diversity and human development. This would also promote the development of positive attitudes towards the EU and a better ranking in the global race to competitiveness. Environmental benefits could also be realised through better coordination on research and innovation to face long-term challenges such as climate change and loss of biodiversity.

6) Joint EU health policy

- **Towards a joint EU health policy** (sub-chapter 27): Enhance EU preparedness and its response to health crises, coordinate cross-border healthcare measures, establish a dedicated EU fund to improve hospital infrastructure, complement the launch of HERA and adopt a renewed mandate for the European Medicines Agency (EMA).
- **Ensuring equitable access to and affordability of medication across EU Member States** (sub-chapter 28): Leverage joint procurement to ensure equitable access and affordability of medication for EU Member States, ensure more transparency over pricing and market launches of new medication, and revise the legislative framework for pharmaceuticals.
- **Protecting workers from asbestos** (sub-chapter 29): Enhance existing instruments and pursue additional strategies to protect workers/citizens from asbestos. Examine the feasibility of EU legislative proposals, together with the call for a European framework for national asbestos removal strategies.

Such actions could generate economic benefits of **at least €46.5 billion per year by 2032**.

This benefit would come in terms of increased budgetary efficiency in consolidating healthcare expenditure at EU level in the areas of prevention and procurement. This would allow Member States to reduce prices paid for pharmaceuticals while ensuring more equitable access to medication. Internalising spillover and scale effects through joint procurement of medication would disproportionately benefit smaller and poorer Member States. A successful framework for protecting workers from asbestos would have a clear impact not only on businesses but also on public health over the long term.

7) Employment, mobility, social and cohesion issues

- **Measures to fight poverty and inequality** (sub-chapter 30): Sustain the level and the upward harmonisation of minimum wages, sustain minimum income policies to ensure people can live in dignity, and support the fight against precarious employment.
- **Free movement of workers** (sub-chapter 31): Ensure full recognition of vocational training qualifications, reinforce coordination of social security systems, ensure portability of benefits, and ensure equal treatment for cross-border workers.
- **Promotion of pathways for legal migration and access to employment** (sub-chapter 32): Develop pathways for legal and safe migration, and facilitate access to employment and social inclusion of third-country nationals in the EU (especially students, family members of migrants, and asylum-seekers and refugees).
- **European structural and investment funds** (sub-chapter 33): Increase EU-supported public investment to boost the green and digital transitions and support vulnerable areas, increase flexibility in mobilising EU public spending, and encourage synergies between different EU instruments through a strategic planning process.
- **Digitalisation of European reporting, monitoring and audit** (sub-chapter 34): Revise monitoring processes and data collection, introduce a common EU database for all programmes under shared management of EU funds, make use of the ARACHNE integrated data tool obligatory, and introduce an EU-wide unique identifier to determine beneficiaries of EU funds.
- **European works councils** (sub-chapter 35): Inform and consult workers more systematically, guarantee that time and resources allow for substantial involvement by workers, and increase coverage.
- **Social enterprises and non-profit organisations** (sub-chapter 36): Provide an enabling legal framework to scale up such enterprises and organisations, harmonise definitions and cross-border treatment, develop support through public procurement, and support financing.

EU action in the above areas could generate economic benefits of at least **€334.1 billion per year** over a 10-year horizon.

These benefits derive from increased employment, improved working conditions and wages that also translate into a larger tax base, and by improved allocation of human capital, due to better employment integration of mobile EU workers and third-country nationals. This would be supported by improved industrial relations, including more inclusive governance of enterprises. Crucial to these gains is the reduction of poverty and in-work poverty, the reduction of inequalities, including gender and intersectional inequalities, and greater social inclusion. From a broader perspective, mobilisation of EU public expenditure (and its greater efficiency) and promotion of upward harmonisation in social standards are expected to favour the convergence process, reduce the possibility for harmful competition and improve cohesion at both local and EU level.

8) Justice and the rule of law

- **Rule of law and control of government** (sub-chapter 37): Strengthen monitoring efforts and application of the conditionality mechanism, and expand its application to apply to breaches of the law apart from the budget.

- **Corruption** (sub-chapter 38): Strengthen the legislative framework on corruption, boost transparency requirements for EU public procurement, and regulate citizenship and residence by investment schemes.
- **Serious crimes and terrorism** (sub-chapter 39): Strengthen police and judicial cooperation at an operational level, improve EU measures to confiscate criminal proceeds and assets, and monitor the effectiveness of counter-radicalisation programmes.
- **Access to justice** (sub-chapter 40): Promote the effectiveness of EU instruments such as the European Arrest Warrant, and promote mutual recognition of judicial decisions.
- **Border control and visa policy** (sub-chapter 41): Clarify conditions for reintroducing internal border checks to better balance the need to ensure freedom of movement with security, and address the root drivers of displacement and irregular migration.

Such actions, called for by the European Parliament, could generate significant benefits for the EU. **In economic terms, EU action on justice and the rule of law could generate at least €153.9 billion per year by 2032.**

These benefits would stem from greater protection of fundamental rights, in particular the rights to dignity and liberty, as well as the right to a fair trial and effective remedy. **Greater protection of fundamental rights can enhance the public's trust in institutions, which is the bedrock of democracy.**

EU action could facilitate the free movement of people, goods and services, thus strengthening the single market, while also attracting tourism, trade and legitimate investment. There could also be environmental benefits, to the extent that efforts to promote climate justice could be realised.

9) <u>Gender equality, non-discrimination and civil rights</u>

- **Gender-based violence** (sub-chapter 42): Define gender-based violence (GBV) as a new area of crime, expand the mandate of the equality bodies, and support school programmes and training for civil servants on the specific issues posed by GBV.
- **Gender inequalities on the labour market and in care work** (sub-chapter 43): Promote pay transparency, gender-sensitive classification of occupations, work-life balance, valuation of care work, and investment in the care economy.
- **Equal treatment, non-discrimination and hate crime** (sub-chapter 44): Adopt or amend legislation to extend protection against discrimination and hate crime, and promote implementation and enforcement of the existing EU legislative framework.
- **Asylum policy** (sub-chapter 45): Introduce EU humanitarian visas, expand the mandate of the European Asylum Support Office (EASO), and ensure human rights and financial accountability in external funding and the return of irregular migrants to third countries.
- **Migrant discrimination on the labour market** (sub-chapter 46): Promote the alignment of rights of non-EU national workers with those of national workers, and their enforcement by the European Labour Authority.

EU action in these policy areas could generate significant benefits. **In economic terms, EU action on gender equality, non-discrimination and civil rights could generate at least €284.5 billion per year by 2032.**

These benefits would be driven by the greater realisation of fundamental rights to equality, as well as the right to fair and just working conditions, which would unleash human capital that already exists in the EU. EU action would promote social inclusion and mental health for groups that are subject to discrimination, and contribute to a more diverse and multicultural society.

10) International cooperation, external action and global governance

- **Promoting sustainable trade and value chains on a global scale** (sub-chapter 47): Support global upward harmonisation of social, environmental and governance standards, and mandatory due diligence in the entire value chain for companies, also covering activities in third countries.
- **EU common defence** (sub-chapter 48): Move towards common EU defence, increased defence budget integration, and integration in procurement and R&D.
- **Common diplomacy and promotion of multilateralism** (sub-chapter 49): Further support common diplomatic representation and consular protection of EU citizens, and promote rules-based multilateralism and democratisation through the role of the European Parliament.
- **Better coordination of development policy** (sub-chapter 50): Further coordinate EU development policy, lower volatility and improve policy coherence for development.

EU action in these areas could generate significant economic benefits, as well as benefits that go beyond the economic dimension. The economic gains amount to **at least €169.7 billion per year**.

They would stem, firstly, from integrated investment in global governance towards sustainability, avoiding races to the bottom, addressing global imbalances and inequalities, and promoting peacebuilding. Secondly, a major channel of EU added value is greater efficiency of public spending, avoiding duplication and decreasing administrative costs, by exploiting economies of scale.

Improving living and working conditions worldwide, and addressing global public goods (such as the fight against climate change) has benefits for all, including the EU economy. Promoting business practices other than short-termism would have benefits for companies themselves through the improved quality of production processes and increased profitability.

Detailed analysis of potential economic gains in 50 EU policy areas

Table of contents

Chapter 1 – Classic single market and single transport area

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
1	**Completing the single market for goods**	€228 billion per year	Higher potential growth, level of trade and FDI, productivity gains Diversity of products Price convergence and fair prices Integrity of the single market, level playing field and lower risk of anti-competitive behaviour Increase investment, development opportunities for SMEs and start-ups	Higher incomes Employment opportunities, lower unemployment rate Higher level of consumer protection Lower risk of race to the bottom	More efficient use of natural resources Lower risk of reduced environmental standards Lower risk of environmentally harmful products in the EU	Freedom to conduct a business	Higher product quality Lower risk of instability Lower risk of geoeconomic confrontation
2	**Completing the single market for services**	€279 billion per year	Higher potential growth, level of trade and FDI, productivity gains Access to more services	Higher incomes Employment opportunities, lower unemployment rate, upward convergence Higher level of consumer protection		Freedom to conduct a business Freedom of movement Increased equality between workers	Recognition of professional qualifications Higher quality of services

			Price convergence and fair prices Integrity of the single market, level playing field and lower risk of anti-competitive behaviour Increase investment, development opportunities for SMEs and start-ups	Lower risk of social erosion Lower risk of reduced social standards Lower risk of race to the bottom			Lower risk of instability Lower risk of geoeconomic confrontation
3	**Consumer protection policy**	€22 billion per year	Positive impact on repair sector, including higher employment	Better informed choice on product sustainability and durability at purchase Protection of vulnerable consumers Better information on product guarantees and availability of software updates Increased consumer safety via safer products	More efficient use of resources due to product repair instead of replacement Higher environmental standards Longer product durability	Potential positive impact on social inclusion Prevention of over-indebtedness	Promotion of more sustainable consumer behaviour at global level
4	**Single European transport area**	€10 billion per year	Positive impact on trade within and outside the single market	Better accessibility to public transport throughout the EU, including for vulnerable groups of society, remote or border regions; less air pollution thanks to cleaner transport	Cleaner transport that pollutes less	Positive impact on social inclusion thanks to better access to public transport Further improvement in passenger rights	

5	**Geographical indication protection for non-agricultural products**	€11 billion per year	Increased trade Increased consumer welfare due to better information Increased producer welfare due to increased reputation	Increased employment Development, especially in remote areas with a higher incidence of poverty	Improved rural development	Potentially positive impact on gender equality	Higher product quality Reduced information asymmetries
6	**Addressing the corporate income tax (CIT) gap**	€53 billion per year	Level playing field and lower risk of anti-competitive behaviour, lower risk of tax competition Reduce complexity of the tax system Higher level of tax compliance Reduced risk of tax evasion More effective tax administration, digitalisation of taxation, better enforcement Higher public revenues	Fairness in taxation Larger availability of budgetary resources		Less risk of unlawful behaviour More transparency and legal certainty	Lower risk of regulatory arbitration by Member States Lower risk of illicit activities, and money laundering
7	**Combating value added tax (VAT) fraud**	€41 billion per year	Level playing field and lower risk of anti-competitive behaviour, lower risk of tax competition	Fairness in taxation Larger availability of budgetary resources		Less risk of unlawful behaviour More transparency and legal certainty	Lower risk of regulatory arbitration by Member States

			Lower complexity of the tax system Higher level of tax compliance Reduced risk of tax evasion More effective tax administration, digitalisation of taxation, better enforcement Higher public revenues, EU budget included (more own resources)					Lower risk of illicit activities, and money laundering
Total		**€644 billion per year**						

1. Completing the single market for goods

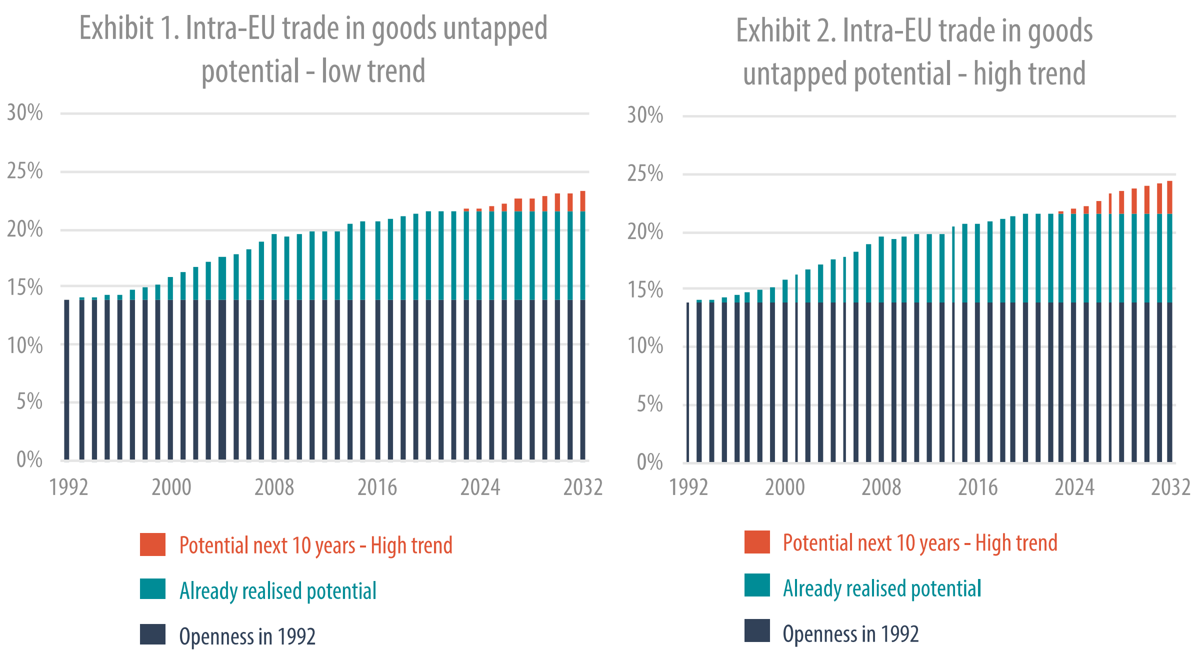
Potential benefit: €228 billion per year

Key proposition

The single market for goods is one of the greatest achievement of the European integration process, benefiting millions of businesses and consumers on a daily basis. Since its adoption, the single market for goods has already addressed 80 % of regulatory barriers prevailing at the time through the adoption of common rules, which focus on harmonisation of legislation. The pandemic and the negotiations following Brexit have, however, been a serious challenge for the integrity of the single market, particularly regarding free movement.[14] Growing world tensions and Russia's military aggression against Ukraine are now further emphasising the benefits of unity between Member States.

Therefore, despite the progress already made, single market rules continue to need better implementation and enforcement, as excessive administrative complexity, unnecessary national requirements, unharmonised labelling standards and other remaining obstacles to trade at various levels still have a negative effect on intra-EU trade.

Figure 3: Intra-EU trade openness in goods (extrapolated trend – as a % of GDP)



Source: EPRS.

[14] M. Szczepanski, Single market and the pandemic: impacts, EU action and recovery, EPRS, June 2020.

Identifying and tackling these obstacles and focusing on areas where the single market needs further deepening and strengthening is extremely relevant, as evidence[15] shows that a strong, thriving and open single market is most likely to offer the best prospect for a sustainable European economic recovery. A recent update[16] of previous evaluations by EPRS[17] stressed further action to reduce barriers to trade facilitation and complexity of regulatory procedures could significantly boost intra-EU trade in goods, with corresponding economic benefits of between €228 billion and €372 billion, representing between 1.5 % and 2.4 % of GDP per annum in the long term.

More detailed analysis of the potential benefit

Despite the already high level of integration, some analyses[18] emphasise that single market rules continue to need better implementation and enforcement, as the ratio of directives that have not been correctly transposed has never been as high as in 2020. The number of single market-related infringements has also risen further to 837 pending cases (+5 % compared to 2019), one of its highest levels in the past 10 years. High administrative complexity, excessive national requirements, unharmonised labelling standards and other remaining obstacles to trade at various levels still seem to have a negative effect on intra-EU trade.[19] A study[20] estimated that the home bias was indeed substantial, as the average EU Member State trades 45 times more within its borders than it does across intra-EU borders. Identifying these remaining obstacles to the single market and areas where the single market needs further deepening and strengthening is extremely relevant, as a strong, thriving and open single market is most likely to offer the best prospect for a sustainable European economic recovery.

As recalled by the European Commission,[21] existing business surveys stress that there is room for convergence towards best practices as, for instance, 69.3 % of entrepreneurs still replied 'No' to the question 'Is the single market sufficiently integrated, allowing your company to operate and compete freely?' A recent business survey[22] provides an interesting overview of the relative importance of individual challenges that need to be addressed so that the single market for goods delivers its full potential (see Figure 4).

The survey emphasises that there is a need for **credible simplification** by tackling excessive red tape and reducing complexity at all levels. More specifically, legal uncertainty and complexity when doing cross-border trade, detailed technical requirements and the multiplication of procedures in some areas continue to prevent the principle of mutual recognition from reaching its full potential. Additional administrative burdens are also caused by the tendency of some Member States to

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[15] T. Evas et al., Coronavirus and the cost of non-Europe: An analysis of the economic benefits of common European action, EPRS, May 2020.

[16] J. Saulnier, Completing the single market for goods, EPRS, April 2022.

[17] See A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

[18] European Commission, Single Market Scoreboard 2021, December 2021; E. Dahlberg et al., Legal obstacles in Member States to Single Market rules, DG IPOL, European Parliament, November 2020.

[19] Intra-EU trade in goods (at 22 % of GDP) remains below that of intra-US trade (at 40 % of GDP), see R. Nieminen and L. Puccio, The added value of international trade and impact of trade barriers – Cost of Non-Europe Report, EPRS, September 2017; J. Estefania-Flores et al., A Measurement of Aggregate Trade Restrictions and their Economic Effects, IMF Working Paper, Volume 2022: Issue 001, January 2022.

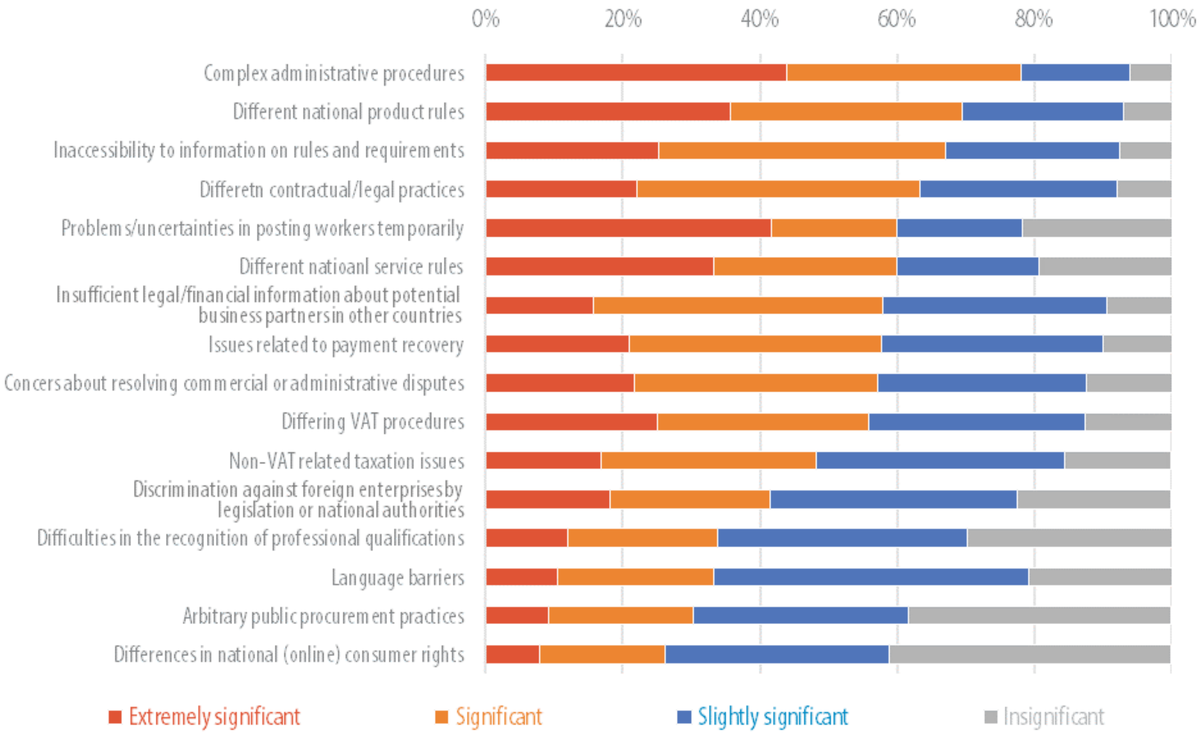
[20] A. Mika, Home sweet home: the home bias in trade in the European Union, ECB Working Paper No 2046, April 2017.

[21] European Commission, Business Journey on the Single Market: Practical Obstacles and Barriers, SWD(2020) 54 final, March 2020.

[22] Eurochambres, Business survey – The state of the Single Market: Barriers and Solutions, December 2019.

combine the transposition of EU legislation with the revision of related internal legislation (so-called 'gold plating'[23]). As a result, according to the study by Eurochambres, complex administrative procedures remain the largest obstacle to doing cross-border business in the single market (79.5 % of businesses rate it as a significant or extremely significant obstacle).

Figure 4: Main single market obstacles – producers



Source: Eurochambres.

There is also a need for **better enforcement and harmonisation** (67.4 % of businesses identify different national rules as a significant or extremely significant obstacle). Despite noticeable progress, the adoption of harmonised rules in Member States' national legal frameworks could still face delays, and infringements sometimes hamper further integration. For businesses operating within non-harmonised sectors (representing around 20 % of the total goods market), application of the principle of mutual recognition should be extended. Finally, prevention of unfair competition from non-compliant products should continue to be strengthened, as a growing number of products are not in compliance with the applicable EU legislation on industrial products.

Finally, there is a need to **address administrative ineffectiveness** through, notably, faster adoption of digital technologies, effective one-stop shops and the generalisation of digitalisation of information. In practice, many businesses are actually not fully aware of the principle of mutual recognition and thus do not take advantage of all the possibilities at their disposal (67.1 % of businesses complain about the inaccessibility to information on rules and requirements).

Instruments for resolving disputes and ensuring compliance should continue to be improved, taking into account the ongoing digitalisation of the economy. These elements are naturally self-

[23] M. Dragoumis et al., Gold-plating: how to identify and avoid, Friedrich Naumann Foundation for Freedom, December 2021.

reinforcing and, for an optimal result, they need to be addressed through a systemic approach rather than through independent and sometimes unrelated tools.

Previous ex-ante research[24] carried out in 2014 by the EPRS European Added Value Unit for the European Parliament's Committee on the Internal Market and Consumer Protection (IMCO) concluded that removing these obstacles and completing the single market for goods could still boost intra-EU trade. It was subsequently estimated that this could generate between €183 billion and €269 billion per annum in additional gains for the EU economy.

A series of comprehensive studies[25] have confirmed that the single market for goods is one of the greatest achievements of the European integration process, benefiting millions of businesses and consumers on a daily basis. Since its adoption in 1993, the single market for goods has already addressed 80 % of regulatory barriers prevailing at the time through the adoption of common rules, which focus on harmonisation of legislation.[26] The transposition deficit of EU directives[27] has also decreased considerably.

As a result, intra-EU trade in goods grew significantly, from a value of 14 % in 1992 to around 22 % in 2021 (see Figure 3). The most recent estimations conclude that this has helped to substantially increase employment[28] and that it has boosted EU GDP by between 3.1 % and 6.2 % on average,[29] depending on the scope of the analysis and the model used. Furthermore, the single market for goods has had a positive impact on investment,[30] as more competitive and better integrated EU value chains have developed.[31]

Finally, the single market has helped to reduce the gender earnings gap by boosting employment opportunities for women. However, more needs to be done to ensure that the gender perspective is better reflected in the single market strategy and included in all decisions. In particular, the impact on the gender-earnings gap and under-representation of woman in management of proposals related to the single market for goods should be systematised.

A recent evaluation updated[32] the previous EPRS study from 2014 on the untapped potential of the single market for goods. As barriers to trade facilitation and complexity of regulatory procedures

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24 EPRS, The Cost of Non-Europe in the Single Market – Single Market for Goods, September 2014.

25 See, notably, G. Felbermayr, J. Gröschl and I. Heiland, Undoing Europe in a New Quantitative Trade Model, IFO Working Paper, 2018; P. Poutvaara et al., Contribution to Growth: Free Movements of Goods – Delivering Economic Benefits for Citizens and Businesses, study requested by the IMCO Committee, European Parliament, March 2019; G. Mion and D. Ponattu, Estimating economic benefits of the Single Market for European countries and regions, Bertelsmann Stiftung Policy Paper, 2019; European Central Bank, Baldwin vs. Cecchini revisited: the growth impact of the European Single Market, Working Paper 2392, April 2020.

26 Currently, around 82 % of products traded in the single market are subject to harmonised rules. The principle of mutual recognition applies to non-harmonised products, and aspects of products which fall outside the scope of harmonisation legislation.

27 The transposition deficit shows the percentage of single market directives that have not yet been completely notified to the Commission in relation to the total number of directives that should have been notified by the deadline.

28 See H. Brauer Schultz, 25 years of the European Single Market, study funded by the Danish Business Authority, 2018.

29 A value which is relatively similar to the ex-ante estimate by Cecchini et al., of potential general economic gains to be expected from the single market of between 4.25 % and 6.5 % of GDP.

30 See J. In 't Veld, Quantifying the Economic Effects of the Single Market in a Structural Macromodel, European Economy Discussion Paper 094, European Commission Directorate-General for Economic and Financial Affairs, 2019; F. Carril-Caccia and E. Pavlova, Foreign direct investment and its drivers: a global and EU perspective, Economic Bulletin Articles, European Central Bank, vol. 4, 2018.

31 European Commission, The performance of the Single Market for goods after 25 years, Final Report, July 2019.

32 J. Saulnier, op. cit.

continue to hinder the free movement of goods, the results confirm that **the benefits of further action remain substantial, representing between €228 billion and €372 billion of additional GDP per annum in the long term**. These results underline the fact that completing the single market for goods is an integral part of the path towards more strategic autonomy, more resilience, more security, and more rapid, broad-based and sustainable development.

European Parliament position

The European Parliament has been one of the most consistent advocates for completing the single market and has been central in developing the rationale and sustaining political momentum towards this goal. It is involved in enacting key pieces of single market legislation to constantly bring the single market for goods up to date with ongoing transformations.

Following up on an earlier resolution in 2016,[33] in February 2022 the Parliament approved a comprehensive report[34] on tackling non-tariff and non-tax barriers in the single market. It recalled that the single market's shortcomings deserve the same level of attention as the Green Deal and the Digital Agenda, calling for the removal of unjustified barriers across the EU. The Parliament also addressed the impact of the COVID-19 pandemic on the single market, stressing the 'serious impact' this has had on the free cross-border movement of goods, persons and services and pointing out that some of the effects may be temporary, but others will have lasting consequences. Finally, the Parliament welcomed the Commission's proposal to present a single market emergency instrument, which should be a legally binding structural tool to ensure the free movement of persons, goods and services in case of future crises.

Commission and Council responses so far

In May 2019, the Competitiveness Council called on the Commission to complete the assessment of the remaining regulatory and non-regulatory obstacles and opportunities within the single market.[35] The Commission recognised these challenges in the single market governance package of March 2020,[36] which provided, in a series of publications,[37] evidence of administrative inefficiencies and regulatory barriers still faced by EU businesses and consumers. Against the backdrop of the COVID-19 pandemic, the Council also adopted, in September 2020, conclusions[38] on how to deepen the EU single market for a strong recovery and a competitive, sustainable Europe.

In April 2021, the Council and Parliament adopted the EU's single market programme for 2021-2027, with a total budget of €4.2 billion, to help the single market reach its full potential and ensure Europe's recovery from the COVID-19 pandemic.

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33 European Parliament resolution of 26 May 2016 on Non-tariff barriers in the Single Market (2015/2346(INI)).

34 European Parliament report on tackling non-tariff and non-tax barriers in the single market (2021/2043(INI)).

35 Council of the European Union, Outcome of the Council meeting, 3694th Council meeting: Competitiveness (Internal Market, Industry, Research and Space), 27 and 28 May 2019.

36 Communication on Identifying and addressing barriers to the Single Market, COM(2020) 93 final, European Commission.

37 On 10 March 2020, the Commission released the Communication on Identifying and addressing barriers to the Single Market, a Commission Staff Working Document accompanying the Communication, and a Communication on a long term action plan for better implementation and enforcement of single market rules.

38 Council of the European Union, Conclusions on a deepened Single Market for a strong recovery and a competitive, sustainable Europe, September 2020.

The Commission updated its communication on a new EU industrial strategy[39] in May 2021. It reaffirmed the 2020 priorities and presented new measures for a stronger single market, especially in times of crisis. In May 2021, the Commission published a single market report[40] analysing the impact of the crisis on the single market. In February 2022,[41] the Commission recognised the need to pay renewed attention to strengthening the resilience of the single market. In particular, the 2022 report confirms the importance of effective implementation and enforcement of single market rules.

Looking forward

Given an increasingly restricted fiscal space, using the untapped potential of the single market for goods could contribute significantly to lifting Europe's potential growth prospects and facilitate the recovery. There is therefore an opportunity for action to tackle existing multi-layered administrative burdens and barriers, including assessing and challenging justifications for new measures introduced by Member States, and to reinforce the principle of mutual recognition by default.

Regarding the need for more integrated and efficient EU procurement of goods, the recent move towards European-level procurement represents a promising step.

[39] Communication on Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, COM(2021) 350 final, European Commission.

[40] European Commission, Annual Single Market Report 2021, SWD(2021) 351 final.

[41] European Commission, Annual Single Market Report 2022, SWD(2022) 40 final.

2. Completing the single market for services

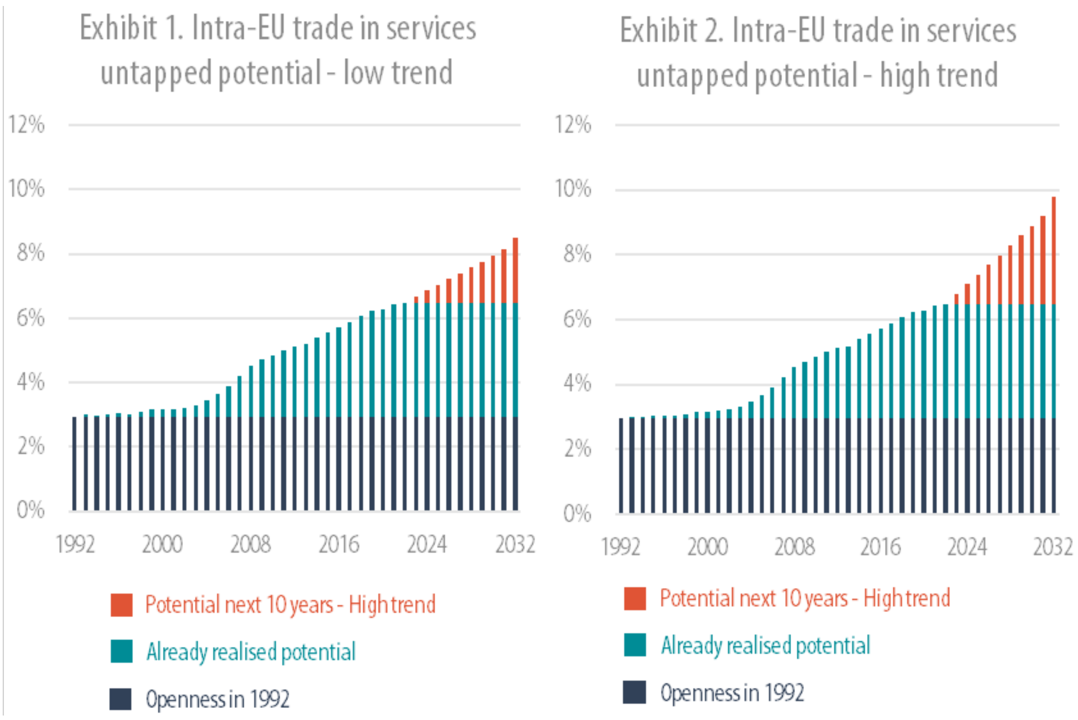
Potential benefit: €279 billion per year

Key proposition

Services account for three-quarters of EU GDP, represent two-thirds of employment and create nine out of 10 new jobs in the EU economy. A well-functioning EU services market is therefore key to boosting employment, growth and investment in Europe. Complementing the adoption of the single market in 1993, the Services Directive[42] was adopted in 2006 and implemented by all EU Member States in 2009. As a result, thousands of excessive requirements and rules have been abolished and the simplification measures introduced have increased transparency and made it easier to provide or use services in the single market.

The COVID-19 pandemic and the negotiations following Brexit have, however, been a serious challenge for the integrity of the single market. Furthermore, despite the progress made, the cross-border provision of services is still largely under-developed, as distortions induced by national home bias, lack of harmonisation, administrative burdens, barriers to cross-border provision of services and excessive requirements persist. Growing world tensions and Russia's military aggression against Ukraine are now increasingly emphasising the benefits of unity between Member States.

Figure 5: Intra-EU trade openness in services (extrapolated trend – as a % of GDP)



Source: EPRS.

[42] Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on [services in the internal market](#).

A recent update[43] of previous evaluations by EPRS[44] stressed that further action to reduce barriers in service sectors and distortions induced by state involvement could significantly boost intra-EU trade in goods, with corresponding economic benefits of between €279 billion and €457 billion, representing between 1.8 % and 2.9 % of GDP per annum in the long term.

More detailed analysis of the potential benefit

The Services Directive currently establishes a horizontal framework covering 65 % of services activity within the Union, representing around 45 % of EU GDP. All the services outside the scope of the Directive, except health and government services, benefit from EU-specific regulation. In addition, the Professional Qualifications Directive[45] and specific directives for some professions, create rules to facilitate the recognition of qualifications between Member States. Finally, temporary cross-border services are addressed in a specific directive.[46]

Despite the progress made, the cross-border provision of services is still largely under-developed, as the regulation of services remains fragmented and some excessive requirements persist. The share of services in intra-EU trade still represents less than a third of the comparable figure in an integrated continental economy of similar size, namely the US.[47] This relative incompleteness of the single market for services implies significant efficiency losses and costs for the EU economy and society as a whole. In addition, as recalled by the OECD in 2020,[48] significant barriers still affect cross-border trade, particularly of services, within the single market.

Removing unjustified barriers to cross-border provision of services would increase efficiency by creating opportunities for new businesses to enter the market and increasing exposure to competition. More openness for services would also increase the opportunity to benefit from economies of scale, thus potentially improving competitiveness and lowering prices for consumers. It would also encourage innovation and absorption of knowledge, as the bigger the potential market for innovation, the greater the rate at which innovation will be adopted.

More specifically, as recalled by the European Commission,[49] business surveys stress that there is still room for convergence towards best practices as, for instance, 69.3 % of entrepreneurs still replied 'No' to the question 'Is the single market sufficiently integrated, allowing your company to operate and compete freely?' A recent business survey by Eurochambres[50] provides an interesting and comprehensive overview of the relative importance of individual challenges that still need to be addressed so that the single market for services delivers its full potential (see Figure 6).

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43 J. Saulnier, Completing the single market for services, EPRS, April 2022.

44 See A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

45 Directive 2013/55/EU of the European Parliament and of the Council of 20 November 2013 amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation (EU) No 1024/2012 on administrative cooperation through the internal market information system ('the IMI Regulation').

46 Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services.

47 OECD, Economic Surveys: European Union 2018, June 2018.

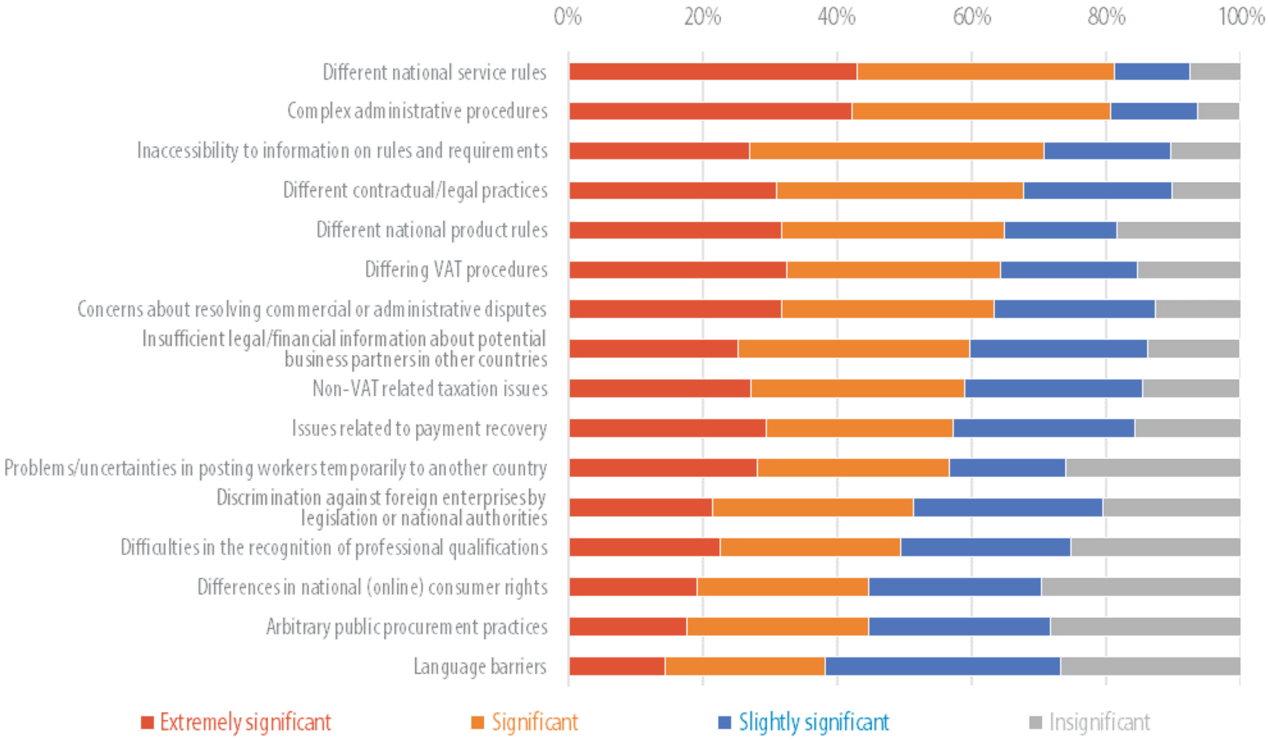
48 OECD, Service trade restrictiveness index, January 2020.

49 European Commission, Business Journey on the Single Market: Practical Obstacles and Barriers, SWD(2020) 54 final, March 2020.

50 Eurochambres, Business survey – The state of the Single Market: Barriers and Solutions, December 2019.

The survey emphasises the **need to tackle distortions induced by national home bias and to move towards more harmonisation** (81.2 % of service providers identify different national rules as a significant or extremely significant obstacle). It is worth recalling here that the Services Directive in itself does not harmonise national regulations; it rather facilitates cross-border services/activities, as Member States are only allowed to keep certain restrictions in place as long as they are non-discriminatory, necessary and proportional. The implementation of the Services Directive also requires Member States to adopt sector-specific amendments to ensure full compliance with national law. As a result, fragmented legislation, home bias[51] in the provision of services and diverging levels of requirements can still be observed.[52]

Figure 6: Main single market obstacles – service providers



Source: Eurochambres.

The survey also stresses the importance of **addressing barriers to trade in services** by tackling excessive red tape and reducing complexity at all levels (80.6 % of service providers rate 'complex administrative procedures' as a significant or extremely significant obstacle). In particular, legal uncertainty and complexity when providing cross-border services, different requirements and the multiplication of procedures in some areas continue to prevent the Services Directive from delivering its full potential. The persistence of home bias stressed in the previous paragraph also

51 See A. Mika, Home sweet home: the home bias in trade in the European Union, ECB Working Paper Series No 2046, April 2017.

52 Such as shareholder or voting rights requirements, compulsory minimum tariffs, administrative complexity and costs, lack of information about applicable rules, differences in rules and requirements between countries, complexity of procedures and formalities, lack of electronic procedures, unclear deadlines and multiple fees. See the proposal for a directive on the legal and operational framework of the European services e-card introduced by Regulation, COM(2016) 0823 final, European Commission, January 2017.

naturally leads to a great deal of heterogeneity in rules and practices, the complexity of which in turn increases costs and procedural time and hinders the cross-border provision of services.[53]

Regarding the regulated professions, the extent of openness also varies between Member States, and providers in several service sectors still face a wide array of barriers when they want to establish themselves in another Member State or deliver services on a temporary cross-border basis. As stressed by the OECD,[54] recognition procedures remain costly and lengthy, and the harmonisation of requirements is also not yet fully achieved, leading to market restrictions and limiting cross-border mobility.

Finally, there is a need to **address administrative ineffectiveness** through, notably, faster adoption of digital technologies, effective one-stop shops and the generalisation of digitalisation of information as, in practice, many businesses are not fully aware of rules and requirements and thus do not take advantage of all the possibilities at their disposal (70.8 % of service providers complain about the inaccessibility to information on rules and requirements). Instruments for resolving disputes and ensuring compliance and enforcement should continue to be improved, taking better account of the ongoing digitalisation of the economy. These elements are naturally self-reinforcing and so, for an optimal result, they need to be addressed through a systemic approach rather than through independent and sometimes unrelated tools.

A series of recent comprehensive studies[55] have confirmed the positive impact of the single market on services and benefits for millions of businesses and consumers on a daily basis. For instance, a study[56] carried out a series of simulations to assess the economic benefits arising from various steps of European integration. The results showed potential output losses of 2.9 % in the service sector had the single market been reversed.

The most recent data on international trade by Eurostat[57] also show that intra-EU trade in services grew significantly, from a value of 2.9 % in 1992 at the beginning of the single market, to around 3.9 % in 2006 when the Services Directive was adopted, and to 6.3 % in 2020 (see Figure 1). Another study[58] concluded that the single market for services has helped to substantially increase employment and that it could still boost EU GDP by at least 2 %. Furthermore, the single market for services has had a positive impact on investment,[59] as more competitive[60] and better integrated EU value chains[61] have developed.

Finally, the single market has helped to reduce the gender earnings gap by boosting employment opportunities for women. However, more needs to be done to ensure that the gender perspective is better reflected in the single market strategy and included in all decisions. This is particularly

53 European Court of Auditors, Special report No 5/2016: Has the Commission ensured effective implementation of the Services Directive?, March 2016.

54 OECD, Economic Surveys: European Union, 2021.

55 For a review, see EPRS, Coronavirus and the cost of non-Europe. An analysis of the economic benefits of common European action, EPRS, May 2020.

56 G. Felbermayr, J. Gröschl and I. Heiland, Undoing Europe in a New Quantitative Trade Model, ifo Working Papers 250, January 2018.

57 Eurostat, International trade in services, June 2022.

58 Copenhagen economics, Making EU trade in services work for all, November 2018.

59 See J. in 't Veld, Quantifying the Economic Effects of the Single Market in a Structural Macromodel, European Economy Discussion Paper 094, European Commission Directorate-General for Economic and Financial Affairs, 2019.

60 European Commission, The performance of the Single Market for goods after 25 years, Final Report, July 2019.

61 See H. Brauer Schultz, 25 years of the European Single Market, study funded by the Danish Business Authority, 2018.

relevant for the single market for services, as 83.1 % of the female workforce is employed in the service sector compared with 58.1 % of the male workforce, with women disproportionately represented in the flexible and part-time employment market.[62]

A 2019 study for the IMCO Committee[63] found that, since the adoption of the Services Directive in 2006, thousands of excessive requirements and rules have been abolished and the simplification measures introduced have increased transparency and made it easier to provide or use services in the single market. The study concluded that the benefit of achievements related to the single market for services up to 2018 could be estimated at €389 billion, or around 2.6 % of EU GDP. Previous research carried out by EPRS suggested that the potential gains from completing the single market in services[64] lay within the range of €277 billion to €550 billion, representing between 1.5 % and 3.5 % of GDP.

A recent evaluation[65] showed that, as barriers in service sectors and distortions induced by state involvement continue to hinder the free provision of services, the **benefits of further action remain substantial, representing between €279 billion and €457 billion of additional GDP per annum in the long term**. These results therefore confirm that completing the single market for services is an integral part of the path towards more strategic autonomy, more resilience, more security, and more rapid, broad-based and sustainable development.

European Parliament position

The European Parliament has been one of the most consistent advocates for the completion of the single market and has been central in developing the rationale and sustaining political momentum towards this goal. It is involved in enacting key pieces of single market legislation in order to constantly bring the single market for services up to date with the ongoing transformations.[66]

The Parliament resolution of January 2021[67] recalled the importance of free movement of services for a resilient single market, and expressed the need to extend the EU professional card and services e-card. The Parliament also asked to strengthen the point of single contact (PSE) and the single digital gateway to improve access to information, particularly for SMEs, and to improve the governance framework through the single market scoreboard.

Following up on an earlier resolution,[68] in February 2022 the European Parliament approved a comprehensive report on tackling non-tariff and non-tax barriers in the single market.[69] It recalled that the single market's shortcomings deserve the same level of attention as the Green Deal and the

62 European Parliament, Report on women's working conditions in the service sector (2012/2046(INI)).

63 Contribution to growth: The single market for services – Delivering economic benefits for citizens and businesses, DG IPOL, European Parliament, March 2019.

64 This assessment looks at the potential impact of a fuller and more effective application of the Services Directive, including opening regulated professions. See EPRS, The Cost of Non-Europe in the Single Market II – Single Market for Services, EPRS, September 2014, and A. Teasdale (ed.), op. cit.

65 J. Saulnier, op. cit.

66 M. Negreiro, Path to the digital decade programme, EPRS, November 2022.

67 European Parliament, resolution of 20 January 2021 on strengthening the single market: the future of free movement of services, 2020/2020(INI).

68 European Parliament, resolution of 26 May 2016 on Non-tariff barriers in the Single Market, 2015/2346(INI).

69 European Parliament, report on tackling non-tariff and non-tax barriers in the single market, 2021/2043(INI), December 2021.

Digital Agenda, calling for the removal of unjustified barriers to the provision of services across the EU. The Parliament also addressed the impact of the COVID-19 pandemic in the single market, recalling the 'serious impact' this has had on the free cross-border movement of services and pointing out that some of the effects may be temporary, but others will have lasting consequences. Finally, the Parliament welcomed the Commission's proposal to present a single market emergency instrument, which should be a legally binding structural tool to ensure the free movement of persons, goods and services in case of future crises.

As expressed in a resolution of November 2020,[70] the Parliament is also anxious that the environmental and social dimensions be properly integrated into the single market strategy and that consumer protection be ensured and reinforced when necessary.

Commission and Council responses so far

In May 2019, the Competitiveness Council called on the Commission to complete the assessment of the remaining regulatory and non-regulatory obstacles and opportunities within the single market.[71] The Commission recognised these challenges in the single market governance package of March 2020, which provided, in a series of publications,[72] evidence of administrative inefficiencies and regulatory barriers still faced by EU businesses and consumers. Against the backdrop of the COVID-19 pandemic, the Council also adopted conclusions on how to deepen the EU single market for a strong recovery and a competitive, sustainable Europe in September 2020.[73]

The Commission updated its communication on a new EU industrial strategy in May 2021.[74] It reaffirmed the 2020 priorities and presented new measures for a stronger single market, especially in times of crisis. The Commission also published a single market report[75] analysing the impact of the crisis on the single market in May 2021.

In April 2021, the Council and Parliament adopted the EU's single market programme for 2021-2027, with a total budget of €4.2 billion, to help the single market reach its full potential and ensure Europe's recovery from the COVID-19 pandemic. In February 2022,[76] the Commission recognised the need to pay renewed attention to strengthening the resilience of the single market. In particular, the 2022 report confirms the importance of effective implementation and enforcement of single market rules.

70 European Parliament resolution of 25 November 2020 on Towards a more sustainable single market for business and consumers (2020/2021(INI)).

71 Council of the European Union, Outcome of the Council meeting, 3694th Council meeting: Competitiveness (Internal Market, Industry, Research and Space), Brussels, 27 and 28 May 2019.

72 On 10 March 2020, the Commission released the Communication on Identifying and addressing barriers to the Single Market, a Commission Staff Working Document accompanying the Communication, and a Communication on a long term action plan for better implementation and enforcement of single market rules.

73 Council of the European Union, Conclusions on a deepened Single Market for a strong recovery and a competitive, sustainable Europe, September 2020.

74 Communication on Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, COM(2021) 350 final, European Commission.

75 European Commission, Annual Single Market Report 2021, SWD(2021) 351 final.

76 European Commission, Annual Single Market Report 2022, SWD(2022) 40 final.

Looking forward

Given an increasingly restricted fiscal space, using the untapped potential of the single market for services could contribute significantly to lifting Europe's potential growth prospects and facilitate the recovery. There is therefore an opportunity for action to tackle multi-layered administrative burdens and barriers, including assessing the progress made in the service sectors.

More should also be done to ensure an effective, resilient and future-proof single market, in which essential services continue to be delivered across the EU at all times and are available to all citizens. A forward-looking paper by the EPC[77] emphasises the need in the post-COVID-19 period to continue expanding the single market and possibly to move towards a single economic territory, as economic policies are increasingly interrelated and need to be addressed as part of a strategic agenda.

[77] F. Zuleeg, The end of the level playing field?, European Policy Centre, October 2020.

3. Consumer protection policy

Potential benefit: €22 billion per year

Key proposition

Consumer protection rules have been continuously developing with each legislative term, ensuring further harmonisation at European level. The ambitious green and digital transition, as well as the COVID-19 pandemic, have only exacerbated the need to adapt the existing rules to new realities, including changes in consumer behaviour. To respond to these trends and challenges, the Commission presented the New Consumer Agenda, a vision for 2020-2025 that places the consumer at the heart of the digital and green transformation.[78] The Agenda outlines five key priority areas: the green transition, the digital transformation, redress and enforcement of consumer rights, specific needs of certain consumer groups, and international cooperation.

This sub-chapter analyses several policy initiatives and their potential benefits for consumers and the EU economy. The analysis builds on data published by the Commission on the ongoing policy initiatives that are subject to political discussion, as well as other publicly available data and studies. The overall estimated benefit of enhancing consumer protection in selected policy areas could amount to **€22 billion per year**.

Other important benefits include greater consumer trust, changing consumer behaviour towards more sustainable consumption, and social impacts such as protecting vulnerable consumers. These benefits are difficult to quantify but should be taken into consideration; therefore, the above estimation represents a lower bound. Providing information on product durability and software updates, facilitating access to repair and tackling practices leading to product obsolescence remain of key importance.

More detailed analysis of the potential benefit

The 2019 study on delivering economic benefits for citizens and businesses in consumer protection,[79] requested by the Committee on Internal Market and Consumer Protection (IMCO), analysed the potential economic impact of enhanced consumer protection in the form of job creation, increased consumer confidence and lower costs. The study estimated potential positive economic effects for selected policy areas[80] to range from €1.3 billion to €13.1 billion, depending on the sector. Based on these, the overall potential economic impact of putting legislative measures into practice and improving consumer protection is assumed to amount up to €26.8 billion.

[78] New Consumer Agenda, Communication by the European Commission, COM(2020) 696, 13 November 2020.

[79] M. Bukowski, T. Kaczor, Contributing to Growth: Consumer Protection; Delivering economic benefits for citizens and businesses, Policy Department for Economic, Scientific and Quality of Life Policies, DG for Internal Policies, May 2019.

[80] The following sectors were subject to assessment: passenger rights when travelling by sea and waterways and by bus/coach transport, new rules on the supply of digital content, fees related to payment accounts and consumer credit.

Since 2019, numerous initiatives to enhance consumer rights have been announced, either in the context of the ambitious digital and green transformation or in reaction to the COVID-19 pandemic's consequences on consumer needs and behaviour. Table 1 provides an overview of selected policy areas related to consumer protection as of September 2022, including upcoming announced initiatives and their potential benefits for consumers.

Table 1: Potential future benefits in selected areas of consumer protection

Selected policy areas	Benefits	Potential benefits in € billion per year
Providing consumers with relevant information (e.g. on commercial guarantee or software updates)	Decrease in consumer detriment	0.8-1.3
Prolonging product lifespan	Reduction of CO_2 emissions if products last 1-3 years longer, expressed in EU carbon price*	0.4 -0.9
Introducing a right to repair	Benefits for sectors involved in product R&D, repair, maintenance, leasing and renting	7.9
Introducing a common charger for electronic devices	Wider economic benefits, including economic operators	0.7
Reducing fragmentation of the current framework on consumer credits	Better information for consumers and prohibition of unsolicited sales of credit	0.2
Adapting product safety rules to online sales and new technologies	Decrease in consumer detriment associated with online sales and new technologies	11.5
Total		**21.5-22.5**

*Assuming a carbon price of €100 per tonne.
Source: Compiled by the author on the basis of selected Commission inception impact assessments, legislative proposals, impact assessments and supporting studies, as in the footnotes.

This section analyses the following selected policy areas:

1. Provision of relevant information

Available data and research suggest that substantial benefits could be achieved by providing consumers with relevant information on their products, including on repair options. Data from a 2018 survey show that 82 % of consumers believed it was difficult to find information relating to product repair. At the same time, the survey results confirm consumers' growing concerns about the impact their products have on the environment: 86 % of respondents wish to obtain better information on durability and 83 % on reparability of products at the time of purchase.[81] There is therefore clear potential to increase consumer welfare and enhance consumer protection by providing reliable information on sustainability, reparability and environmental performance of products that would empower the consumer to take better-informed decisions.

[81] Behavioural Study on Consumers' Engagement in the Circular Economy, European Commission, 2018, p. 81.

This assessment is based on the current situation, where consumers experience a lack of reliable information on the sustainability of products, including on lifespan and repair options, on the one hand, and face misleading commercial practices related to early obsolescence or lack of transparency, on the other. This has an impact on trust in products' environmental performance, leading ultimately to a detriment for the consumer. The Commission's supporting study accompanying the proposal for a directive on empowering consumers for the green transition estimates that targeted EU action, tackling the above problems, could substantially reduce consumer detriment.[82] The study finds that having information on the length of the existing **commercial guarantee of durability** and on the provision of **software updates** might lead to an increase in consumer welfare ranging from €2.4 billion to €3.6 billion during 2025-2040, resulting from higher repair rates and choosing products with guaranteed software updates for longer periods. Banning practices leading to **early obsolescence of products**, where 5-20 % of selected products fail earlier than reasonably expected, would provide an additional gain of €1.8 billion to €2.3 billion during the same time period. The need for such measures is also confirmed by the outcome of open public consultation by the Commission, where 76 % of respondents had experienced an unexpected failure of their products in the last three years.[83]

Furthermore, a recent survey shows that more than half of consumers consider environmental claims vague or misleading, or that they contain unfounded information.[84] Banning the use of vague statements on **environmental performance** and setting minimum criteria could increase consumer welfare by €3.7 billion to €6.9 billion during 2025-2040. Finally, measures increasing **transparency and credibility** of labels and digital information tools would lead to gains in consumer welfare of €4.5 billion to €6.6 billion and contribute to increased consumer trust in such labels, leading to better informed choices at the time of purchase. Other benefits include better decision-making by consumers, protection of vulnerable consumers and environmental benefits.[85] In overall terms, the potential benefits of the above-mentioned measures are estimated at **€0.8 billion to €1.3 billion** per year.

2. Longer product lifespan and right to repair

Making products last longer would lead to additional benefits in terms of CO_2 savings. Research shows that prolonging the lifetime of products by just one year would help reduce CO_2 emissions by around 4 million tonnes every year,[86] corresponding to monetised benefits of **€0.4 billion**.[87] Should products last three years longer, overall CO_2 savings would reach almost 9 million tonnes, amounting to **€0.9 billion per year**. This comes in addition to increased consumer welfare and a more efficient use of resources.

When it comes to repair, the results of the Commission's behavioural study show that 64 % of consumers repair broken products and that providing repair information has proven highly effective.

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82 Commission Staff Working Document, Impact assessment report accompanying the proposal on empowering consumers for the green transition, SWD(2022) 85 final, European Commission, 30 March 2022.

83 A New Consumer Agenda factual summary report – public consultation, European Commission, 2020.

84 Environmental claims in the EU – inventory and reliability assessment, European Commission, 2020.

85 Commission Staff Working Document, Impact assessment report, SWD(2022) 85 final, European Commission, 30 March 2022.

86 Coolproducts don't cost the earth, Report, European Environmental Bureau, 2019.

87 Assuming a carbon price of €100 per tonne.

The survey also found that repair decisions depend on the effort required to repair products. The outcomes indicate great potential to increase consumer engagement in this aspect.[88]

Recent Eurobarometer results on attitudes towards digitalisation also confirm this conclusion: 79 % of respondents agreed that manufacturers should make it easier to repair digital devices or replace their individual parts.[89] A study prepared for the IMCO Committee analysed the potential benefits of a longer lifetime for products for the EU economy. A minimal 1 % increase in economic activities in sectors related to maintenance and repair would lead to an aggregated effect of €6.3 billion, while an additional 1 % increase in final consumption would lead to growth of €1.6 billion. The total economic growth associated with repair therefore amounts to **€7.9 billion** per year.[90]

In France, for example, as of January 2021 certain products such as smartphones, laptops or TVs need to display a reparability index.[91]

3. Common charger

In June 2022, EU institutions agreed on amendments to the 2014 Radio Equipment Directive that will introduce a common USB Type-C charger for mobile phones and other small devices. New rules include so-called 'unbundling', meaning consumers could decide whether to purchase a device without a charger. New measures would help consumers save at least €250 million per year in avoiding purchases of unnecessary chargers and achieve savings in terms of electronic waste of 980 tonnes per year.[92] Wider economic benefits, including a positive impact for EU manufacturers, retailers and distributors, would amount to a total of €3.4 billion during 2023-2028, or approximately **€0.7 billion** per year. As the new measures cover only wired chargers, there is further potential to harmonise wireless chargers in the future to avoid a proliferation of wireless charging solutions, as in the case of wired chargers.[93]

4. Consumer credit

Both digitalisation and the crisis following the pandemic had a profound impact on consumer decisions and ways to obtain credit. The Commission has proposed a review of the 2008 directive on credit arrangements to reflect these changes.

The estimated positive impact for consumers from extending the current scope and prohibiting unsolicited sales of credit, as well as better information provision, could reach up to €2 billion by 2030, or **€0.2 billion** per year, linked to products offered by banks.[94] This would lower consumer detriment, better protect vulnerable consumers and promote social inclusion through better assessments of creditworthiness.

88 Behavioural Study on Consumers' Engagement in the Circular Economy, European Commission, October 2018.

89 Special Eurobarometer 503 on attitudes towards the impact of digitalisation on daily lives, European Commission, March 2020.

90 A Longer Lifetime for Products: Benefits for Consumers and Companies, a study for the IMCO Committee, Policy Department for Economic and Scientific Policy, European Parliament, 2016.

91 Major steps for durability and Right to Repair taken in France, Press release, Right to Repair, 6 January 2020.

92 Commission Staff Working Document, Impact assessment report, SWD(2021) 245 final, European Commission, September 2021.

93 The Commission intends to assess the different wireless charging technologies available in view of possible future harmonisation.

94 Commission Staff Working Document, Impact assessment accompanying the proposal for a directive on consumer credits, SWD(2021) 170 final, European Commission, June 2021.

5. Product safety and liability

The ongoing digital transformation and the exponential increase of digital products and technologies, including online sales present in consumers' daily lives, challenge the existing product safety rules.[95] In 2020, 71 % of consumers purchased their goods online and 43 % were confident to buy online from a different EU country.[96] The impact assessment report accompanying the proposal for a regulation on general product safety estimates the potential benefits of new product safety rules, including extending the definition of 'product', new requirements for online marketplaces and more effective product recalls.[97] Replacing the existing directive with a regulation would ensure better implementation of rules across the EU and thereby increase legal certainty for both consumers and businesses.

The analysis is based on previous research indicating that 15 % of accidents caused by unsafe products could have been prevented by better product design and safety instructions. Given that the total consumer detriment has been estimated at €76.6 billion per year, it is assumed that around **€11.5 billion** per year could be prevented. This reduction in consumer detriment could be interpreted as a potential added value of making products safer and avoiding product-related accidents.[98] Additional benefits might include corresponding financial loss suffered by consumers, resulting from buying unsafe products, estimated to reach €19.3 billion in 2019. Should new proposed measures[99] be implemented, consumer detriment could decrease by €5.5 billion by 2034, expressed as the decrease of financial costs related to the purchase of unsafe products.[100]

Closely linked to product safety, the Commission also presented two proposals on new liability rules related to digital age in September 2022: one on adapting non-contractual civil liability rules to artificial intelligence (AI) and another on revision of the Product Liability Directive.[101] The two initiatives aim to update the existing rules on liability for defective products, including digital and refurbished products, and to harmonise national liability rules for products using AI.

European Parliament position

The European Parliament has been vocal on protecting consumer rights during the pandemic and on reflecting the changing reality of digital transformation, including the increase of online sales and products with digital components. It called for mandatory labelling of products providing information on the estimated lifetime and reparability of products at the time of purchase and

95 Commission Staff Working Document, Impact assessment accompanying the proposal for a regulation on general product safety, SWD(2021) 168 final, European Commission, June 2021.

96 Key Consumer Data 2020, Factsheet by the European Commission, 12 March 2021.

97 Review of the General Product Safety Directive, Inception impact assessment, European Commission, June 2020.

98 The total detriment for EU consumers and society is estimated to reach €76.6 billion per year. The preventable consumer detriment includes aspects such as healthcare costs or productivity losses. This estimation is considered to be a modest one.

99 Preferred policy option 3 under the current Commission proposal would tackle product safety in online sales through new obligations for manufacturers, enforcement powers for market surveillance authorities, new product safety obligations for online actors and software updates responsibility in case of 'substantial modification'.

100 Commission Staff Working Document accompanying the proposal for a regulation on general product safety, SWD(2021) 168 final, European Commission, June 2021.

101 New liability rules on Products and AI to protect consumers and foster innovation, Press release, European Commission, 28 September 2022.

assessing how to extend the length of legal guarantees closer to the estimated product lifetime.[102] MEPs repeatedly called for a 'right to repair' for consumers and also asked the Commission to grant free access to repair and maintenance information to independent repairers and consumers.

To facilitate repair, a reasonable period for provision of spare parts should be set. Particular attention should be paid to products with digital elements where the provision of software updates is key. Consumers should receive information about the availability of software updates at the time of their purchase and a minimum period for their provision should be set in line with the Digital Content Directive. Functional updates should not diminish performance of digital devices and should be reversible. Any practices that unduly restrict access to repair or lead to obsolescence should be added to Annex I to the Unfair Commercial Practices Directive.[103] When it comes to introducing a common charger, the Parliament has been requesting EU action since 2014. In its 2021 resolution, the Parliament asked to include measures for both wired and wireless charging solutions.[104]

On the consumer credits framework, MEPs propose a list of objective data that should be used to assess a consumer's creditworthiness, including only objective financial data and excluding health data or medical situation. Pre-contractual information provided to consumers should be clear and not overwhelming. On the other hand, misleading advertisements should be prohibited and the consequences of missed payments should be clearly communicated.[105]

Commission and Council responses so far

As a follow-up to the New Consumer Agenda as well as the Circular Economy Action Plan, the Commission presented a first part of the Circular Economy package on 30 March 2022, including a proposal[106] for a directive on empowering consumers for the green transition. New rules aim to ensure that consumers receive information to make environmentally friendly choices when they buy and consume products and services. The new legislation would introduce:

1. provision of information on the existence[107] and length of a producer's commercial guarantee of durability, on top of the legal guarantee of two years;
2. provision of information on reparability of products, including software updates, by amending the Consumer Rights Directive;
3. prohibition of practices associated with planned obsolescence and misleading or insufficiently substantiated or verifiable claims about products' environmental performance, by amending the Unfair Commercial Practices Directive.

In line with the 2022 work programme and the repeated requests by the Parliament to establish the right to repair for consumers, the Commission will propose amendments to the Sales of Goods Directive and possibly a dedicated legislative proposal on the right to repair. Possible measures

102 European Parliament resolution of 25 November 2020 on more sustainable single market for businesses and consumers.

103 European Parliament resolution of 7 April 2022 on the right to repair.

104 European Parliament resolution of 10 February 2021 on the New Circular Economy Action Plan.

105 Report on the proposal for a directive on consumer credits, Committee on the Internal Market and Consumer Protection, European Parliament, 31 January 2022.

106 Proposal for a directive on empowering consumers for the green transition through better protection against unfair practices and better information, COM(2022) 143 final, European Commission, March 2022.

107 For energy-related products, the non-existence of such guarantees also has to be communicated.

include prioritisation of repair over replacement, extension of the legal guarantee or enabling replacement of defective products by refurbished ones.[108]

Council conclusions in response to the Commission's Circular Economy Action Plan aim to find a balance between political ambitions and challenges that different Member States will face to implement new measures. The document notes national specificities and calls for a just transition for all.[109]

Looking forward

Several initiatives were proposed in 2022 to enhance consumer safety, ranging from empowering consumers through better provision of information to protecting consumer safety.

The proposed initiative on empowering consumers includes important provisions that would encourage more sustainable consumer choices on the one hand and contribute to longer lifetimes of products through information and repair on the other. Possible impacts will also depend on the final careful wording, as they will be first scrutinised by the Parliament and the Council and the level of ambition proposed will be subject to trilogue negotiations. Once adopted, the Member States will need to transpose the measures into their national law within 18 months (in case of a directive) or become directly applicable (in case of a regulation).

The right to repair initiative, announced back in December 2019[110] and expected for the end of November 2022, has been postponed due to a negative opinion by the Commission's Regulatory Scrutiny Board.[111]

Finally, a common charger for electronic devices will be introduced by the end of 2024 for wired chargers and the Commission might adopt a delegated act on interoperability of wireless charging solutions.[112]

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108 Sustainable consumption of goods – promoting repair and reuse, Have your say website, European Commission, consulted in April 2022.

109 Council conclusions on Making the Recovery Circular and Green, 11 December 2020.

110 The European Green Deal, COM(2019) 640, European Commission, 11 December 2019.

111 Right to repair law delayed after negative opinion from scrutiny board, Press release, ENDS, 17 October 2022.

112 Deal on common charger: reducing hassle for consumers and curbing e-waste, Press release, European Parliament, 7 June 2022.

4. Single European transport area

Potential benefit: €10 billion per year

Key proposition

For over three decades the EU has pursued common policies to develop better transport connections throughout the continent to stimulate development of the EU internal market, reinforce economic, social and territorial cohesion, and to improve connections with EU neighbouring states.[113] Transport plays a key role in operationalising the single market's free movement of people and goods. However, the creation of a single European transport area is still far from complete, and ambitious new goals were recently set at EU level for the transport sector,[114] as it needs to decarbonise in the next three decades to help the EU become climate neutral by 2050.[115] Moreover, many other challenges hampering transport effectiveness remain. The most recent events, such as the COVID-19 pandemic and Russia's war of aggression against Ukraine, revealed that considering adverse events in policymaking might prove rewarding in mitigating negative impacts in a time of crisis.

The impacts of no or unambitious future EU action in the field of transport studied in this sub-chapter relate to the following problems: (i) shift to sustainable modes of transport; (ii) elimination of existing infrastructure bottlenecks and underdevelopment that hinders connectivity to all EU regions as well as the development of multimodality; (iii) improvement of safety and reliability of the key trans-European transport network (TEN-T);[116] (iv) weaknesses in governance of TEN-T as well as its outdated design; (v) improvement of public transport connections in cross-border regions; and (vi) improvement in information and booking possibilities for international rail connections.[117]

A study underpinning the Commission's impact assessment of boosting the TEN-T network further estimates that nearly €188 billion of EU-level investment (from EU funds and EIB loans) would be

[113] The TEN-T network has been developed in the EU since the 1990s. At the end of 2021, a proposal was laid out (COM(2021) 812 final) by the European Commission to review the TEN-T Regulation (EU) No 1315/2013.

[114] These stem from the EU's carbon neutrality goal by 2050 and the European Green Deal agenda. For example, the associated sustainable and smart mobility strategy proposed by the European Commission envisages doubling high-speed rail traffic by 2030 and rail freight traffic by 2050: Communication on Sustainable and Smart Mobility Strategy – putting European transport on track for the future, COM(2020) 789 final, European Commission.

[115] We present potential measures and impacts of EU action in decarbonisation of transport systems in sub-chapter 8 on transformation of EU energy systems. In this sub-chapter we focus on potential impacts of EU action in further improving EU cross-border transport systems that are smart, sustainable and resilient, as foreseen in the 2020 sustainable and smart mobility strategy. See also sub-chapter 41 on the impacts of internal EU border controls.

[116] TEN-T is an EU-wide network of rail, inland waterways, short-sea shipping routes, and roads. It connects 424 major cities with ports, airports and railway terminals.
https://oeil.secure.europarl.europa.eu/oeil/popups/summary.do?id=1686877&t=d&l=en

[117] See a list of existing problems regarding the TEN-T network in the European Commission Impact assessment accompanying a proposal for a regulation on the development of the TEN-T, SWD(2021) 472 final. On problems related to cross-border railways in the EU, see: European Commission, Providing public transport in cross-border regions – Mapping of existing services and legal obstacles, 2022; European Commission, Directorate-General for Mobility and Transport, Long-distance cross-border passenger rail services: final report, 2021.

needed between 2025 and 2050.[118] This means a nearly €7.5 billion annual average investment. When checking the potential impact for the EU economy of such EU-level public investment, **an annual long-term benefit could be between €10 billion and €20 billion**.[119] The lower estimate of €10 billion is selected for the assessment of the cost of non-Europe in the transport area.

More detailed analysis of the potential benefit

It is estimated that a total of €427 billion (€17 billion per year on average) in investment – both at EU and Member State level – would be needed over the period 2025-2050 to deliver the ambitious goals of a seamless TEN-T network.[120] Of this, Member States would finance 55 %, common EU financing (EU and EIB funds) would finance 43 %, and 2 % would come from private funding and toll revenues (1 % each).[121] This investment would enable sustainable and reliable transport connectivity along the TEN-T network as well as removing bottlenecks and physical infrastructure gaps by 2050. It would also allow the goals set in the **sustainable and smart mobility strategy** (for example, those related to accelerated uptake in rail freight, high-speed passenger rail and inland waterways) to be achieved.

Some of the key measures proposed to be financed are: (i) introduction of a legally binding deadline for making the European Rail Traffic Management System (ERTMS) the only signalling system used on the TEN-T comprehensive network by 2040 (instead of 2050, as previously envisaged);[122] (ii) increase train speeds on the TEN-T network to 160 km/h for passengers and to 100 km/h for freight, as well as reducing waiting times; (iii) guaranteeing a good navigation status for inland waterways on the TEN-T network; (iv) deploying, at 60 km distance in each direction, the charging and refuelling infrastructure necessary for alternative transport fuels across the TEN-T network by 2025 on the core network and by 2030 on the extended core and comprehensive networks; (v) development of sustainable urban mobility plans promoting zero-emission transport and the greening of the urban fleet by 424 major cities on the TEN-T network by 2025.[123]

In the cost of non-Europe assessment, we focus only on estimating impacts of EU-level action, thus we only calculate the impact of EU-financed action. The estimated upper bound of €20 billion per year is computed on the basis of the work by the JRC to estimate the impact of the Juncker plan.[124] It includes all potential effects, including transitory and cyclical adjustments, of additional investments by the EU. It 'reflects higher demand for goods and services as the investments take place in a region, especially during the implementation and construction phase when the financing

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[118] W. Schade, W. Rothengatter, M. Stich et al., Analysis accompanying the impact assessment for the revision of Regulation (EU) No 1315/2013 on Union guidelines for the development of the trans-European transport network: final report, European Commission, Directorate-General for Mobility and Transport, 2022.

[119] This estimate is based on the 'investment effect' assumed by EIB using the RHOMOLO model in: European Investment Bank and Joint Research Centre (JRC) of the European Commission, Assessing the macroeconomic impact of the EIB Group, June 2018.

[120] In 2015 prices. This corresponds to the cumulated investments needs identified for policy option 3 in the TEN-T review proposal: W. Schade, W. Rothengatter, M. Stich et al., Analysis accompanying the impact assessment..., European Commission, Directorate-General for Mobility and Transport, op. cit., Table 152.

[121] Idem, Table 153.

[122] The TEN-T Regulation envisages completion of ERTMS deployment on the core network by 2030.

[123] For all proposed improvements on the TEN-T network see, European Commission, Impact assessment accompanying a proposal for a regulation on the development of the TEN-T, SWD(2021) 472 final.

[124] European Investment Bank and Joint Research Centre (JRC) of the European Commission, Assessing the macroeconomic impact of the EIB Group, June 2018.

reaches the real economy'.[125] The lower bound of €10 billion per year is 'the longer-term structural effect of the completed investments' and it 'reflects more accurately the effective added value and the effect on the structure and competitiveness of the economy of as a better transport network'.[126]

The estimated total benefits of all investments in the sector in complement to EU funding and which aim at completing and upgrading the TEN-T network are naturally much higher than only the benefits stemming from EU investment. It is estimated that the economic impact on GDP of total EU-level and Member State investment would be positive and progressively increase over time, from 0.4 % in 2030 – equal to €58 billion – to 1.3 % in 2040 and 2.4 % in 2050.[127] This represents a cumulated GDP benefit between 2025 and 2050 of €2 152 billion, equal to €86 billion per year on average (compared to the baseline).[128] These benefits could materialise thanks to large infrastructure investments, which would not only positively impact the construction sector and its suppliers but also, indirectly, other economic sectors.[129] It is also estimated that the most ambitious approach to updating the TEN-T Regulation would result in a high GDP multiplier.[130]

These very high results (compared to other multiplier effects of public investment present in the available literature) are explained by the inclusion in the calculation of indirect, second-round effects and the long time span of the analysis which gives benefits more time to materialise. The potential negative environmental effects of such investment are, however, mostly only marginally taken into consideration, while the economic and social benefits are often largely overstated, which, when corrected, would bring the largest estimate more in line with reasonable evaluations.

Finally, an interesting analysis sheds some light on further benefits of cross-border mobility that go beyond realisation of the TEN-T network. It studied the impact of removing legal and administrative barriers on land borders between EU countries. The research revealed that **'a suboptimal use of accessibility' in land border regions incurs losses for business and leisure travellers of nearly 0.9 % of EU GDP**.[131] The loss to the GDP of the land border regions could be much higher – 2.45 %. This was identified as the barrier that yields the highest impact of all legal and administrative barriers (such as limited trust, inefficient exploitation of productive capacity or insufficient exploitation of agglomeration economies). It is an interesting finding in the context of the identified untapped potential of cross-border public transport services in the EU and the identified obstacles to provision of these services being administrative and legal issues.[132] There were many identified missing land

125 Idem.

126 Idem.

127 European Commission, Impact assessment accompanying a proposal for a regulation on the development of the TEN-T, SWD(2021) 472 final, Table 3.

128 W. Schade, W. Rothengatter, M. Stich et al., Analysis accompanying the impact assessment..., European Commission, Directorate-General for Mobility and Transport, op. cit., Table 7.

129 Both GDP and employment impacts vary per Member State depending on the specificity of their economy. See more in W. Schade, W. Rothengatter, M. Stich et al., Analysis accompanying the impact assessment..., European Commission, Directorate-General for Mobility and Transport, op. cit., pp. 59-65.

130 Idem, p. 57.

131 R. Camagni et al., Measuring the impact of legal and administrative international barriers on regional growth, Regional Science Policy & Practice. June 2019, Volume 11, Issue 2, pp. 345-366.

132 E. Medeiros et al., Boosting cross-border regions through better cross-border transport services: The European case, Case Studies on Transport Policy, Volume 9, Issue 1, March 2021, pp. 291-301; S. Zillmer, European Commission, Directorate-General for Regional and Urban Policy, Providing public transport in cross-border regions – Mapping of existing services and legal obstacles, final report, 2021; European Commission, Directorate-General for Mobility and Transport, KWC and Steer, Long-distance cross-border passenger rail services, final report, 2021; European Commission, Report on EU Border Regions: Living labs of European integration, COM(2021) 393 final; L. Sippel et al., European Commission, Directorate-General for Regional and Urban Policy, Comprehensive analysis of the existing

cross-border transport links, especially missing small rail connections that are not important enough to be covered by the TEN-T network, and which therefore miss out on EU funding.[133]

Another shortcoming in EU action relating to mileage manipulation in cross-border trade of second-hand motor vehicles appeared in the previous assessment of the cost of non-Europe in the area of transport. The EPRS has assessed that this fraudulent procedure of clocking backwards second-hand cars' mileage (by tampering with the odometer) could cost the EU economy at least €1.3 billion per year (in a conservative scenario) and, in the most probable scenario, €8.8 billion loss per year.[134] Until now the issue has not been effectively addressed at EU level. Some Member States have developed best practice systems based on frequent registering of odometer data and exchange of this data with partner countries; upscaling such solutions to EU level could solve the problem.

European Parliament position

In January 2021, the Parliament considered in its resolution on the revision of the Trans-European Transport Network (TEN-T) guidelines that further realisation of the single European transport area and the good functioning of the EU internal market could benefit from the revision of the TEN-T Regulation.[135] It also urged the Commission to 'prioritise cross-border train connectivity in order to strengthen the modal shift in international passenger transport' and underlined the potential of night trains. The Parliament also stressed that, to improve both cross-border freight and passenger rail transport on the TEN-T network and along rail freight corridors, the Commission should propose mandatory measures for infrastructure managers as part of the TEN-T review.

In a resolution on ERTMS, the Parliament stressed that, if the new goals set in the 2020 sustainable and smart mobility strategy were to be achieved, large-scale acceleration of the roll-out of the ERTMS throughout the EU is required.[136] It suggested a deadline for deployment on the core network by 2030 and on the comprehensive network by 2040, and called on the Commission to set binding targets for Member States to decommission class B signalling systems.

In its resolution on future-proof inland waterway transport in Europe, the Parliament referred to the Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system.[137] It also urged the Member States to fully respect their obligation to complete the TEN-T core inland waterway network by 2030 and called on the Commission and the TEN-T network coordinators to strengthen oversight in this regard.

The Parliament has been supportive of further developing public services in EU cross-border regions and of EU action in response to challenges they face, including the inefficiency of public transport services.[138] The Parliament also stressed that, if creating new cross-border transport infrastructure is

cross-border rail transport connections and missing links on the internal EU borders, final report, 2018; C. Lehnert, Heinrich Boll Stiftung Brussels, Cross-Border Mobility: Closing the Gaps, 2021.

133 E. Medeiros et al., Boosting cross-border regions through better cross-border transport services..., op. cit.

134 A. Heflich, Odometer manipulation in motor vehicles in the EU, EPRS, January 2018.

135 European Parliament resolution of 20 January 2021 on the revision of the Trans-European Transport Network (TEN-T) guidelines (2019/2192(INI)).

136 European Parliament resolution of 7 July 2021 on railway safety and signalling: assessing the state of play of the European Rail Traffic Management System (ERTMS) deployment (2019/2191(INI)).

137 European Parliament resolution of 14 September 2021 towards future-proof inland waterway transport in Europe (2021/2015(INI)).

138 European Parliament resolution of 15 September 2022 on EU border regions: living labs of European integration (2021/2202(INI)).

too costly and could be environmentally harmful, potential soft measures for boosting cross-border transport links – such as better coordination of public transport schedules, inclusive planning and the use of tailor-made innovations by cross-border local and regional authorities with sufficient autonomy to pursue common goals – should be considered.

The Parliament has also emphasised the role of EU cohesion policy in addressing EU transport challenges and developing a well-functioning single European transport area that will allow seamless connectivity and a shift to low-emission mobility by, inter alia, supporting the completion of missing small cross-border rail links. It has also expressed its support for establishing partnerships to develop common services in cross-border regions, as well as harmonisation of timetables and ticketing that has already taken place. In that respect, back in 2019 the Parliament supported the initiative for an EU regulation on a mechanism to resolve legal and administrative obstacles in a cross-border context (European cross-border mechanism).[139] In 2022, the Parliament called on the Commission to amend the initial proposal, on which negotiations within the Council have stalled.[140]

On the issue of second-hand motor vehicle mileage tampering, the Parliament called on the Commission to act on this issue in the previous legislature.[141] In the current legislature, it has recalled that the problem is still not solved and has reiterated – in its 2021 resolution on the implementation report on the road safety aspects of the Roadworthiness Package – its call to better protect EU consumers on the second-hand car market when it comes to tampering with odometers.[142]

Commission and Council responses so far

In its response to the Parliament's January 2021 resolution,[143] the Commission already agreed with the Parliament's call to ensure the completion of the core TEN-T network by 2030 and of the comprehensive network by 2050. It has confirmed this position, and even enhanced it, in its proposal for a revision of the TEN-T Regulation, which would introduce a new intermediary deadline of 2040 to advance the completion of major parts of the comprehensive network (called an 'extended core network').[144]

In 2021, the Commission also presented an action plan to boost long-distance and cross-border passenger rail services[145] and is planning to follow up with several legislative proposals that will be

139 European Parliament legislative resolution of 14 February 2019 on the proposal for a regulation of the European Parliament and of the Council on a mechanism to resolve legal and administrative obstacles in a cross-border context (COM(2018)0373 – C8-0228/2018 – 2018/0198(COD)).

140 Proposal for a regulation on a mechanism to resolve legal and administrative obstacles in a cross-border context, COM(2018) 373 final - 2018/0198 (COD), European Commission.

141 European Parliament resolution of 31 May 2018 with recommendations to the Commission on odometer manipulation in motor vehicles: revision of the EU legal framework (2017/2064(INL)).

142 European Parliament resolution of 27 April 2021 on the implementation report on the road safety aspects of the Roadworthiness Package (2019/2205(INI)).

143 European Commission, Follow up to the European Parliament non-legislative resolution on the revision of the Trans-European Transport Network (TEN-T) guidelines, SP(2021)223.

144 Proposal for a regulation on Union guidelines for the development of the trans-European transport network, amending Regulation (EU) 2021/1153 and Regulation (EU) No 913/2010 and repealing Regulation (EU) 1315/2013, COM(2021) 812 final, European Commission.

145 Communication on an Action plan to boost long distance and cross-border passenger rail, COM(2021) 810 final, European Commission.

key in filling remaining gaps in EU transport: (i) on multimodal digital mobility services;[146] (ii) on international freight and passenger transport – increasing the share of rail traffic;[147] and (iii) on a Combined Transport Directive.[148]

On the issue of addressing remaining legal and administrative barriers in EU border regions – relating, among other things, to local public transport – the Commission issued a proposal in 2018 proposing two European cross-border mechanisms to address the problem that stems from differences in administrative practices and national legal frameworks.[149] Nevertheless, work on the proposed law did not progress in the Council.[150]

EU ministers for transport subscribed to the ambitious vision of the sustainable and smart mobility strategy.[151] They also stressed that 'completing the Single European Transport Area remains a cornerstone of EU transport policy' and 'that a precondition for realising that goal and for achieving sustainable and smart transport and mobility is to have resilient, up-to-date, high-performance multimodal transport infrastructure to help connect and integrate all the Member States and regions of the EU'.[152]

The EU transport ministers acknowledged the investment gap of nearly €230 billion per year by 2030 identified by the Commission and underlined, in this respect, the importance of an appropriate level of EU financing, as well as public funding at national, regional and local levels and private resources. They also supported the EIB Group's revision of financing policy for transport in the broader framework of the Climate Bank Roadmap 2021-2025 and underlined that there should be an alignment of that financing policy with EU transport policy objectives along the lines set out in these Council conclusions.[153]

On the issue of second-hand motor vehicle mileage tampering – in its response to the Parliament's 2021 resolution on the implementation report on the road safety aspects of the Roadworthiness Package – the Commission acknowledged odometer fraud among the areas for improvement, which might require particular attention during the planned revision of the EU legal framework on roadworthiness testing of vehicles planned for 2023.[154]

[146] European Commission, Inception impact assessment: Multimodal Digital Mobility Services (MDMS), Ares(2021)6062336.

[147] European Commission, Inception impact assessment: International freight and passenger transport – increasing the share of rail traffic, Ares(2022)1673547.

[148] European Commission, Inception impact assessment: Combined Transport Directive, Ares(2021)5187133.

[149] Proposal for a regulation on a mechanism to resolve legal and administrative obstacles in a cross-border context, COM(2018) 373 final - 2018/0198 (COD), European Commission.

[150] Council of the European Union, Cohesion policy legislative package 2021-2027 – Overall state of play of negotiations = Presidency Report, 8760/20.

[151] Council of the European Union, Council conclusions on the Commission's Sustainable and Smart Mobility Strategy, 25 May 2021, 8824/21.

[152] Idem.

[153] Idem.

[154] European Commission, Follow up to the European Parliament non-legislative resolution on the implementation report on the road safety aspects of the Roadworthiness Package.

Looking forward

The EU has an important role to play supporting Member States in the transformation to smart and sustainable transport systems. Securing long-term funding for these unprecedented changes and making sure that investments in the sector are transparent and help to preserve the environment rather than degrading it further, will be crucial.

The Commission assessment mentioned that a majority of the new measures needed to boost the TEN-T network will have to be implemented by 2040 and 2050. This means that the necessary funding is not yet secured, and the current MFF goes only to 2027. The financing challenge is even greater for small-scale cross-border public transport projects, whose profitability is often difficult to assess before the connections are actually operating. It has been assessed that, for a new cross-border rail connection, 'full passenger potential can only be reached after a start-up phase of several years'.[155] Therefore, 'seed funding can help operators or competent authorities to launch such services'.

Moreover, in the current complex and unpredictable times, transport resilience needs to be constantly checked and improved. Potential weaknesses of the TEN-T network due to natural and man-made disasters that were identified in the Commission's impact assessment should be further studied and addressed. Other potential disruptions should also be considered when planning such a long-term and costly transition. Considering only best-case scenarios when planning policy interventions may leave unaddressed vulnerabilities in a time of crisis. In this vein, EPRS is currently applying its pilot stress-testing methodology to EU rail policy and should publish its results in 2023.

[155] E. Medeiros et al., Boosting cross-border regions through better cross-border transport services..., op. cit.

5. Geographical indication protection for non-agricultural products

Potential benefit: €11 billion per year

Key proposition

Geographical indications (GIs) are protected at EU level on agricultural products, but not on non-agricultural products. The current fragmented protection of geographical indications for non-agricultural products has a cost affecting the EU economy and especially trade, employment and rural development. These costs are mainly foregone benefits of increased trust due to improved information between producers and consumers on the quality of products in the single market. Both producers and consumers would benefit from a more harmonised framework, such as the one for agricultural GIs.

An improved and certified reputation mechanism at EU level would bring[156] an increased volume of trade, both within the EU and with third countries; as regards intra-EU trade, in the most affected sectors exports are expected to increase between 4.9 % and 6.6 % over the two decades from the establishment of the schemes. It is expected to promote employment, especially in rural areas where the incidence of poverty is greater, thus improving rural livelihoods and economic diversification. The increase in employment (expected to be about 0.12-0.14 %) could increase GDP by €11 billion to €13 billion per year thanks to increased labour incomes.

More detailed analysis of the potential benefit

Geographical indications identify goods as originating in a country, region or locality, where a particular quality, reputation or other characteristic of the products is essentially attributable to their geographical origin. Some popular examples include Bordeaux (wine), Vetro di Murano (glass) and Prosciutto di Parma (ham). GIs for non-agricultural products have so far been mainly protected at national level (including through consumer protection laws, trademarks, case-law, or a *sui generis* GI system). At EU level, unitary GI protection is currently only provided for wines, spirit drinks, aromatised wines and agricultural products and foodstuffs.

GIs are part of intellectual protection policy. Their main role is to be a quality sign of a product, which has the beneficial effect of reducing information asymmetries between producers and consumers. These asymmetries can be reduced by the 'reputation' of a product and GIs can help the 'institutionalisation' of this reputation, to avoid free riding by producers who do not match these quality standards. Contrary to trademarks, GIs are usually collective rather than individual[157] and linked to a specific geographical area, where (and until) specific conditions are met; these conditions should be clearly defined and are verified collectively by producers, independent agencies and/or

[156] C. Navarra and E. Thirion, Geographical indications for non-agricultural products: Cost of Non-Europe Report, EPRS, 2019.

[157] Trademarks too can be collective, but in the case of GIs this is an inherent characteristic.

governments. While trademarks usually have high costs for producers, GIs have limited registration costs and are therefore more accessible to small producers.

A cost of non-Europe report[158] by EPRS in 2019 identifies and quantifies the cost of the absence of EU-level GI protection for non-agricultural products. These correspond to foregone benefits that would, on the contrary, be generated by GI protection in three main areas:

1. increased trade, thanks to improved trust and reputation;
2. increased employment, thanks to improved market access and value creation for producers' companies; and
3. improved rural development, due to preservation of knowledge mainly in rural contexts and diversification of local economies.

By building on evidence collected for agricultural GIs,[159] the cost of non-Europe report shows that introducing such a scheme would have an overall positive effect on intra-EU **trade**. However, this depends on whether the introduction of a new GI-protected product occurs in the importer's or the exporter's country: the trade expansion effect occurs only if the GIs are introduced in exporting countries or in both exporting and importing countries.[160]

The results of the cost of non-Europe report estimate that, overall in the EU,[161] about 20 years after the introduction of an EU scheme in the 17 non-agricultural sectors that include 80 % of existing and potential GIs, the expected increase in the intra-EU value of exports would be between €37.6 billion and €50 billion, which represents between 4.9 % and 6.6 % of the exports in the same sectors in 2018. However, the effect in each sector can vary a lot.[162] Regarding extra-EU trade, based on the literature on agricultural GIs, one may expect a positive effect on EU exports. At the same time, EU imports from extra-EU countries are expected to decline with the introduction of new GIs in the EU, although this negative effect may be mitigated in cases where third countries have a GI policy in place. The literature on agricultural GIs finds greater support for the export-increasing effect than for the import-decreasing one.[163]

The cost of non-Europe report shows that introducing EU GI protection for non-agricultural products would have a positive effect on **employment**. The analysis shows a potential increase in regional-level employment of 0.12-0.14 %. Overall, this move would help create between 284 000 and 338 000 new jobs across the EU. This would be expected to have a positive impact on GDP, by

158 C. Navarra and E. Thirion, Geographical indications for non-agricultural products: Cost of Non-Europe Report, EPRS, 2019.

159 An underlying assumption is that exports react to the introduction of GIs for artisanal products in the same way as for agricultural products.

160 V. Raimondi, C. Falco, D. Curzi and A. Olper, The Trade Effects of the European Union Geographical Indication Policy, February 2018, and V. Raimondi, C. Falco, D. Curzi, and A. Olper, Trade effects of geographical indication policy: The EU case, Journal of Agricultural Economics, 71(2), 2020, pp. 330-356. Other studies find different results constructing different scenarios, and are reviewed in C. Navarra and E. Thirion, EPRS, 2019.

161 The analysis still includes the UK. We do not expect this to have a major impact since there are seven expected GIs in the UK, compared to an average per country of 25, with Spain, Germany, Italy, France, Austria, Bulgaria and the Czech Republic above the average.

162 A strong positive impact is expected in the ceramic sector, which has the highest number of existing and potential GIs, while a negative effect is expected in the tobacco sector and in the sector of toys, games and sports requisites.

163 See review in C. Navarra and E. Thirion, Geographical indications for non-agricultural products: Cost of Non-Europe Report, EPRS, 2019.

increasing labour incomes due to better performing small businesses. This is estimated to potentially generate an additional €11 billion to €13 billion per year.[164]

Such an EU scheme would, moreover, boost **rural development**. In particular, it could improve rural livelihoods that rely on local resources, support rural economic diversification (e.g. tourism) and enhance the ability of local producers to organise collectively. The impact on gender equality is potentially positive, since women producers often play an important role in local knowledge (analysis exists, especially on agricultural production, but also on shea butter, for example). However, while this is acknowledged in rural development in general, some academics find that, so far, GI policy has been quite gender-blind and risks resulting in practices that may even reinforce gender inequalities.[165]

The introduction of an EU scheme protecting GIs for non-agricultural products is expected to have a positive impact on consumer and producer welfare. Overall, the impact on consumers and (GI and non-GI) producers would depend on the administrative costs for GI registration, and the difference between GI and non-GI products in terms of quality, provided they comply with the competition rules of the single market. In this respect, a number of risks have to be minimised – for example, the risk of unfairly excluding some producers and generating high barriers between producers that fall within the designated region and manage to comply with the requirements and those who cannot.

European Parliament position

On 6 October 2015, the Parliament adopted, by a vast majority (608 in favour, 43 against and 43 abstentions), a resolution[166] calling for EU geographical indication protection to be extended to non-agricultural products. In addition, since January 2015, six questions[167] for written answer have been asked to the European Commission, mainly asking for the launch of a legislative initiative.

In 2018, the Committee on Legal Affairs (JURI) asked EPRS for a cost of non-Europe report on geographical indications for non-agricultural products.

The JURI Committee is working on the report on the Commission's proposal for a regulation on a common legal framework for geographical indication protection for craft and industrial products.[168] The draft report of the rapporteur welcomes the Commission's proposal, underlines the potential gains of a non-agricultural GI scheme and proposes some amendments – for example, on efficiency and legal certainty in application procedures. The Committee's work is ongoing.[169]

164 This calculation assumes that the additional jobs would be distributed across sectors proportionally to the share of GIs in each sector. The corresponding wage is associated to each sector to estimate overall labour income (Eurostat lc_ncost_r2).

165 F. Parasecoli, The gender of geographical indications: Women, place, and the marketing of identities, Cultural Studies? Critical Methodologies, 10(6), 2010, pp. 467-478.

166 European Parliament resolution of 6 October 2015 on the possible extension of geographical indication protection of the European Union to non-agricultural products (2015/2053(INI)).

167 Question asked on 27 October 2017, question asked on 5 December 2016, question asked on 18 March 2016, question asked on 28 January 2016, question asked on 14 April 2015 and question asked on 30 January 2015.

168 Proposal for a regulation on geographical indication protection for craft and industrial products and amending Regulations (EU) 2017/1001 and (EU) 2019/1753 of the European Parliament and of the Council and Council Decision (EU) 2019/1754, European Commission.

169 Committee referral announced in Parliament in May 2022.

Commission and Council responses so far

On 28 October 2015, the Commission announced that it would push forward efforts on EU protection of non-agricultural GIs in its communication on 'Upgrading the Single Market: more opportunities for people and business'.[170] It was only in 2020 that the Commission announced[171] that it would consider the feasibility of a GI protection system for non-agricultural products at EU level, and in April 2022 that the Commission issued a proposal for a regulation[172] to establish EU-wide protection for geographical indications of craft and industrial products.

The regulation would be self-standing and create specific GI protection instead of simply extending the agricultural GI system. It is expected to introduce a protected geographical indications (PGI) system[173]. The registration would occur in a two-step system, first in the Member State, then at EU level, where the European Union Intellectual Property Office (EUIPO) would take a decision, on which no fee would be charged. The proposal establishes, moreover, an exceptional scheme for direct procedures managed at EU level (by the EUIPO) for applicants from a Member State that meets certain conditions and which does not designate a national authority for GIs.

The regulation specifies arrangements for verification and controls. The controls would include verifying that a product designated with a GI has been produced in accordance with the relevant product specification, and checking the use of GIs on the market. Member States have to designate an authority responsible for controls on compliance with the regulation; the certification can be done by a third party or through producers' self-declaration. In the proposal, GIs would be protected by an EU title that replaces the existing national GI regimes and absorbs national GI titles. The proposal aims to ensure that producers can fully benefit from the international framework for the registration and protection of GIs (the Lisbon system).

The Regulatory Scrutiny Board gave a positive opinion with reservations.

Looking forward

The negotiations on the proposal for a regulation are ongoing. In the Parliament, the dossier was assigned to the JURI committee, which is working on the draft report of the rapporteur (amendment tabled in November 2022). The Council adopted a 'general approach' in December 2022 for negotiation with the Parliament.

170 COM(2015) 550.

171 European Commission, Making the most of the EU's innovative potential – An intellectual property action plan to support the EU's recovery and resilience, (COM(2020) 760 final).

172 Proposal for a regulation on geographical indication protection for craft and industrial products and amending Regulations (EU) 2017/1001 and (EU) 2019/1753 of the European Parliament and of the Council and Council Decision (EU) 2019/1754, European Commission.

173 Under PGI protection, a particular quality, reputation or other characteristic of a product is essentially attributable to its geographical origin, if at least one of the stages of production, processing or preparation takes place in the defined geographical area (not all the stages need to be processed in the geographical area).

6. Addressing the corporate income tax (CIT) gap

Potential benefit: €53 billion per year

Key proposition

The concepts of residence and location of where income is generated are essential for a fair and efficient CIT system. In recent years, the process of globalisation and the acceleration of integration at international level has naturally led to more strategic planning and organisation by businesses. A number of high-profile, sophisticated and sometimes harmful tax schemes,[174] such as cases relating to the **'Panama Papers'** and the **'Lux Leaks'** revelations, have attracted a lot of attention and calls for action. Furthermore, the rapid reorganisation of global value chains also has direct implications for tax revenues.[175] Again, a number of specific cases relating to the digital economy[176] have been highlighted as examples of non-addressed CIT loopholes and policy gaps in the regulation and administration of corporate taxation at international and EU levels.

The Parliament has warned about these shortcomings for a long time, and the OECD has also recognised the need to proceed with an overall modernisation of CIT. In 2013, following a call from the G20, the OECD started its work on base erosion and profit shifting (BEPS). In the EU, in May 2021, the Commission published a communication on business taxation for the 21st century, which includes a proposal for **BEFIT (business in Europe: framework for income taxation)** to replace the pending proposal for a CCTB, which will be withdrawn. BEFIT should create a common rulebook for businesses operating in the single market in more than one Member State, reduce red tape and cut compliance costs, combat tax avoidance and provide a simpler and fairer way to allocate taxing rights between Member States.[177]

Further effective EU action would be welcomed, as the budgetary losses from BEPS are still estimated at approximately €33 billion per year on average for the EU. More broadly, the CIT gap for the EU as a whole, including cross-border CIT evasion and fraud, was estimated at around €154 billion in 2020, more than the entire annual EU budget. A recent and comprehensive European Added Value Assessment (EAVA) study by EPRS[178] for the FISC Subcommittee on Tax Matters, estimated that implementing the G7/OECD agreement, combined with BEFIT and reinforced cooperation, could bring **between €53 billion and €68 billion per year**.

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174 See E. Van de Velde and F. Cannas, Harmful tax practices within the EU: definition, identification and recommendations, DG IPOL, European Parliament, May 2021.

175 T. Torslov, L. Wier and G. Zucman, The missing profits of nations, 22 April 2020.

176 See OECD, Tax challenges arising from digitalisation - economic impact assessment, October 2020, and OECD, Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy, July 2021.

177 Communication on Business Taxation for the 21st Century, COM(2021) 251 final, European Commission.

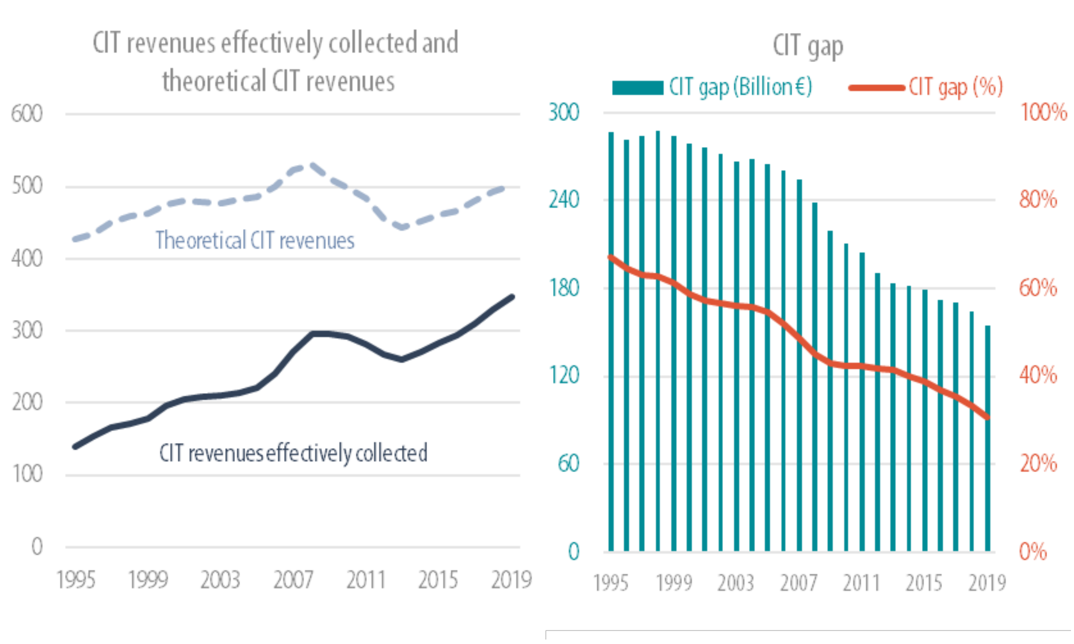
178 J. Saulnier and M. M. Garcia Munoz, Fair and simpler taxation supporting the recovery strategy – Ways to lower compliance costs and improve EU corporate income taxation, EPRS, September 2021.

More detailed analysis of the potential benefit

CIT is an important source of revenue for Member States as, in 2019, CIT is estimated to have raised around €360 billion, which corresponds to 2.8 %[179] of EU GDP. The current challenging economic situation, where a large amount of debt has been accumulated to address the negative impact of the pandemic and of the war in Ukraine, is leading to renewed interest in addressing the CIT gap. As early as 2015, a study by EPRS looked at the issues linked to the estimation of the total CIT gap and BEPS.[180] Figure 7 presents updated calculations on the evolution of the CIT revenues effectively collected, of theoretical CIT revenues and of the CIT gap. It shows that the financial and sovereign debt crisis that started in 2008 had a substantial impact, reducing the amount of theoretical CIT revenues. It also contributed to better collection of CIT revenues, with a significant shift in the trend compared with the 1995-2007 period.

As a result, as Figure 7 shows, this has led to a substantial reduction, from around €300 billion on average per year for the pre-crisis period (1995 to 2007) to **a CIT gap of €154 billion in 2020**. The results also present the positive reduction of the CIT gap as a percentage of CIT theoretical revenue, from a value of almost 70 % in 1995 to 32 % in 2019. This might relate to the substantial legislative agenda put in place in this area at EU and international level since 2011. This must also be analysed in the light of the result of all the actions and reinforced administrative cooperation at joint EU and Member State level undertaken to tackle tax fraud and tax evasion within the EU in the recent period, notably through the frameworks of the Anti-Tax Avoidance Directive (ATAD) and the Directive on Administrative Cooperation (DAC).

Figure 7: Evolution of CIT revenues and CIT gap



Source: EPRS estimation based on data from DG TAXUD, AMECO and Eurostat.

[179] European Commission, Taxation trends in the European Union, June 2021.

[180] See R. Dover, B. Ferrett, D. Gravino, E. Jones and S. Merler, Bringing transparency, coordination and convergence to corporate tax policies in the European Union, EPRS, September 2015. For an update on methodologies to compute the CIT gap, see European Commission, The concept of tax gaps: corporate income tax gap estimation methodologies, Taxation Papers Working Paper No 73, Fiscalis Tax Gap Project Group, 2018.

Furthermore, there is now an international consensus that the fundamental concepts of tax residence and source on which the CIT system has been based for the last century are outdated, as business practices now regularly involve carrying out activities in a state without maintaining a physical presence. At EU level, building upon this positive momentum, there is a need for renewed focus on ensuring simplified, transparent and common rules for determining the corporate tax base.

In practice, CIT laws and related accounting rules have become a web of complex and sometimes cryptic arrangements that are difficult to comprehend. The excessive complexity of the regulatory framework, combined with a lack of exchange of information between Member States and sometimes limited administrative capacities, also contributes to a high level of administrative burden. As a result, businesses, and particularly businesses involved in cross-border trade and investment, often face high **compliance costs**,[181] **estimated at €49 billion in 2020 for CIT**, while the effectiveness of the tax administration in Member States varies widely and there is still room for further development of digitalisation and transparency.

Table 2: EAVA – Summary table

	2020	G7/OECD agreement + limited BEFIT and reinforced and extended cooperation	G7/OECD agreement + ambitious BEFIT and reinforced cooperation	Ambitious scenario – EU treasury, QVM and administered CIT at EU level
CIT gap (billion €)	154	111	99	74
Reduction in CIT gap compared to the baseline (A)	-	43	55	80
Compliance costs (billion €)	49	39	36	30
Reduction in compliance costs compared to the baseline (B)	-	10	13	19
EAV (A+B)	-	53	68	99
Likelihood	-	Likely	Likely	Unlikely
Driver or possible game changer	-	International momentum, high CIT gap in a time of challenged public finances	International momentum, high CIT gap in a time of challenged public finances	Realisation of the relative complexity, cost and lack of effectiveness of other options/ Treaty change/ Renewed EU ambition

Source: EPRS.

181 S. Barrios, D. d'Andria and M. Gesualdo, Reducing tax compliance costs through corporate tax base harmonisation in the European Union, JRC Working Papers on Taxation and Structural Reforms No 2/2019.

Recent analysis of the policy option to address the CIT gap[182] confirmed that there is still room for faster convergence between Member States towards best practices. There is, notably, large untapped potential for further simplification, for more effective administration, for digitalisation, for higher transparency and for better enforcement.
The EAVA study discussed a series of policy options that could be included in the BEFIT proposal and quantified more precisely the potential economic impact attached to various scenarios based on these policy options. The results give an evaluation of the reduction in the CIT gap and in the amount of compliance costs in different scenarios. The results confirm that complexity remains by far the greatest factor behind both the CIT gap and the high level of compliance costs for businesses.

More specifically, the **first scenarios (G7/OECD agreement plus a limited BEFIT and reinforced and extended cooperation)** showed European added value (EAV) of around €53 billion. This breaks down into a reduction of around €43 billion in the CIT gap and a reduction of €10 billion in compliance costs for businesses. There was slightly higher EAV of around €68 billion for a **second scenario of a G7/OECD agreement plus an ambitious BEFIT and reinforced cooperation**. This breaks down into a higher reduction in the CIT gap of approximately €55 billion and a reduction of almost €13 billion in compliance costs for businesses.

Finally, greater EAV of €99 billion would be generated by the **most ambitious scenario of an EU treasury, qualified majority voting (QMV) and CIT administered at EU level**. This breaks down into a greater reduction of around €80 billion in the CIT gap and a greater reduction in the compliance costs for businesses of €19 billion. The most ambitious scenario of an EU treasury and CIT administered at EU level is, however, still rather unlikely to gather sufficient support at the current juncture, as it would require substantial Treaty changes. It can be concluded that the two other alternatives are more likely to be implemented in the coming period.

European Parliament position

The Parliament adopted and repeatedly expressed its strong support for updated, standardised and publicly accessible ownership registers of companies, foundations, trusts and similar legal arrangements, for transparent rules to regulate intermediaries, such as lawyers and accountants, for incentives to refrain from engaging in tax evasion and tax avoidance, and for a common and credible international definition of what constitutes an offshore financial centre, tax haven, secrecy haven and high-risk country.

The Parliament has also recently stressed the need for a review of the EU listing process of non-cooperative jurisdictions for tax purposes to improve its transparency, the criteria used, and the effectiveness of associated defence measures. On January 2021, it adopted a resolution[183] on 'reforming the EU list of tax havens' which calls for the creation a new framework for the assessment of national corporate tax systems.

On 29 April 2021, the Parliament adopted an own-initiative report on 'Digital Taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax'. It stressed that digitalisation and globalisation of the economy have created new challenges to the international

182 S. Beer, R. de Mooij and L. Liu, International corporate tax avoidance: A review of the channels, magnitudes, and blind spots, Journal of Economic Surveys, 2019, pp. 1-29; M. Alvarez-Martinez et al., How large is the corporate tax base erosion and profit shifting? A general equilibrium approach, Economic Systems Research, 2021.

183 European Parliament resolution of 21 January 2021 on reforming the EU list of tax havens.

tax system and that new business models and forms of value creation can lead to no or low taxation, market distortions and tax uncertainty, and therefore called for a reform of international tax rules.

On February 2022, the Parliament adopted proposals to address harmful tax schemes. It asks for specific action on reducing the debt equity bias in corporate taxation, which makes equity financing less interesting, on whether some Member States are distorting competition by artificially lowering their marginal effective tax rates, and on addressing the abuse of tax incentives for research and development where such activities have little to do with increasing spending on research or development and instead are about profit shifting and aggressive tax planning. On May 2022, the Parliament approved a Commission proposal implementing the recent international agreement on a global minimum corporate tax rate of 15 % and a timeline and an implementation deadline of 31 December 2022 with the intention of swiftly applying the law.

Commission and Council responses so far

In July 2020, the Commission published, building upon the BEPS 2.0, a new tax package for fair and simple taxation. This package seeks to ensure cooperation between tax authorities, and between EU Member States and third countries, and to reinforce the fight against tax fraud.[184] The action plan for fair and simple taxation supporting the recovery contains 25 initiatives to be implemented between now and 2024. 'Realigning taxing rights with value creation' and 'setting a minimum level of effective taxation of business profits' are two of the main initiatives set out in the action plan concerning CIT, along with the increase in transparency and the exchange of tax data. Similarly, an EU cooperative compliance framework would be necessary to enhance cooperation between different tax authorities throughout the Union.[185]

The communication on tax good governance in the EU and beyond sets out recommendations to strengthen transparency and promote fair taxation. To tackle harmful tax competition, the communication sets out improvements to the list of non-cooperative jurisdictions, reform of the code of conduct, expanding its scope, and recognition of the role of taxation in ensuring the implementation of Agenda 2030.[186] The revision of the DAC (DAC7) aims to enhance the way digital platforms exchange tax-related information, and should strengthen the transparency of the current

[184] Anti-Tax Avoidance Package, European Commission website. For a review of the four pillars, see:

ATAD I: Directive 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

Recommendation on Tax Treaties: Commission Recommendation on the implementation of measures against tax treaty abuse, C(2016) 271 final, January 2016.

ACD: Proposal for a Council Directive amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, COM(2016) 25 final, 2016/0010(CNS), European Commission, January 2016.

Communication on an External Strategy for Effective Taxation, COM(2016) 024 final, European Commission, January 2016.

[185] Communication on An Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy, COM(2020) 312 final, European Commission, July 2020.

[186] Communication on tax good governance in the EU and beyond, COM(2020) 313 final, European Commission, July 2020.

tax framework.[187] In December 2021, the Commission presented a proposal[188] on preventing shell companies from misusing their structure for tax purposes ('Unshell').

Following up on the G7/OECD agreement, the Commission published a new communication on business taxation for the 21st century[189] and announced its plan to deliver its BEFIT proposal – business in Europe: framework for income taxation – in 2023. The main objective is to reform the tax system to reflect global discussions and challenges.

According to this proposal, profits for large businesses would be consolidated under a common and single tax rulebook. A directive will be proposed for the implementation of pillar one, while the transposition of pillar two will modify existing provisions in the ATAD Directive and might provide momentum to bring forward the proposal pending for recasting the Interest and Royalties Directive (IRD).

Most recently, a public country-by-country reporting scheme was discussed to ensure transparency of big multinationals (turnover threshold of €750 million), even those that are not based in the EU; the Council recently approved a requirement on disclosure of the income they pay and other related tax issues – for instance, in its recommendation on the domestic treatment of losses.[190] A directive on fighting tax avoidance through shell companies is to be implemented in the next two years (which will constitute ATAD III).[191]

All these measures build on the tax action plan for fair and simple taxation supporting the recovery, explained above. The Council continues to express its support[192] for measures aiming at greater corporate transparency for big multinationals,

Looking forward

The Commission will present, by 2023, a new framework for business taxation in the EU, with the aim of reducing administrative burdens, removing tax obstacles and creating a more business-friendly environment in the single market. BEFIT will replace the pending proposal for a Common Consolidated Corporate Tax Base, which will be withdrawn. The Commission has also launched a broader reflection on the future of taxation in the EU, and a Tax Symposium on the 'EU tax mix on the road to 2050' took place in November 2022.

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187 Proposal for a Council Directive amending Directive 2011/16 on administrative cooperation in the field of taxation, COM(2020) 314 final, European Commission, July 2020.

188 Proposal for a Council Directive laying down rules to prevent the misuse of shell entities for tax purposes and amending Directive 2011/16/EU, COM(2021) 565 final, European Commission, December 2021.

189 Communication on Business taxation for the 21st century, COM(2021) 251 final, European Commission, May 2021.

190 Council approves greater corporate transparency for big multinationals, Council press release, 3 March 2021.

191 Inception impact assessment: Fighting the use of shell entities and arrangements for tax purposes, European Commission, May 2021.

192 Council approves greater corporate transparency for big multinationals, Council press release, 3 March 2021.

7. Combating value added tax (VAT) fraud

Potential benefit: €41 billion per year

Key proposition

The global expansion of value chains, the rapid diffusion of technologies and the digitalisation of the economy are increasingly highlighting unaddressed loopholes and policy gaps in the regulation and administration of VAT. The economic consequences of this relative lack of effective administration of the VAT regime have been well documented, particularly regarding its relative complexity, fragmentation and high level of compliance costs. Moreover, following the 2008 financial crisis, a number of high profile frauds came to light. A number of sophisticated abuses, such as cases related to **missing trader** and **carousel schemes**, have attracted a lot of attention and contributed to calls for an end to complacency and for effective reform in this area.

The Commission recognises the need to proceed with an overall modernisation of the VAT system. The objective of the reform in the proposal of 2018[193] is to create a **definitive VAT system**, based on the principle of taxation in the country of destination.[194] Regarding trading of goods, this would bring the practice more in line with what has already been in force since 2015 in the field of the provision of services that are taxed in the place where the service is provided.[195] The proposal has yet to be agreed unanimously by the Member States.

However, EU action in this area would be welcomed, as the budgetary losses from cross-border VAT fraud are still estimated at around €50 billion per year on average.[196] More broadly, the VAT gap for the EU as a whole, including cross-border VAT evasion and fraud, has been estimated at around €120 billion in 2020,[197] almost equivalent to the entire annual EU budget. A recent and comprehensive European added value assessment (EAVA) study by EPRS[198] for the FISC Subcommittee on Tax Matters, estimated that further action in this area could bring **between €41 billion and €47 billion per year**.

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193 Proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States, COM(2018) 329, European Commission, May 2018.

194 See European Parliament, Legislative train schedule, Proposal for a Council Directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States, September 2022.

195 For a detailed description, see C. Remeur, Detailed technical measures for the definitive VAT system for cross-border goods trade, EPRS, June 2019.

196 M. Lamensch and E. Ceci, VAT fraud: Economic impact, challenges and policy issues, Policy Department for Economic, Scientific and Quality of Life Policies, October 2018.

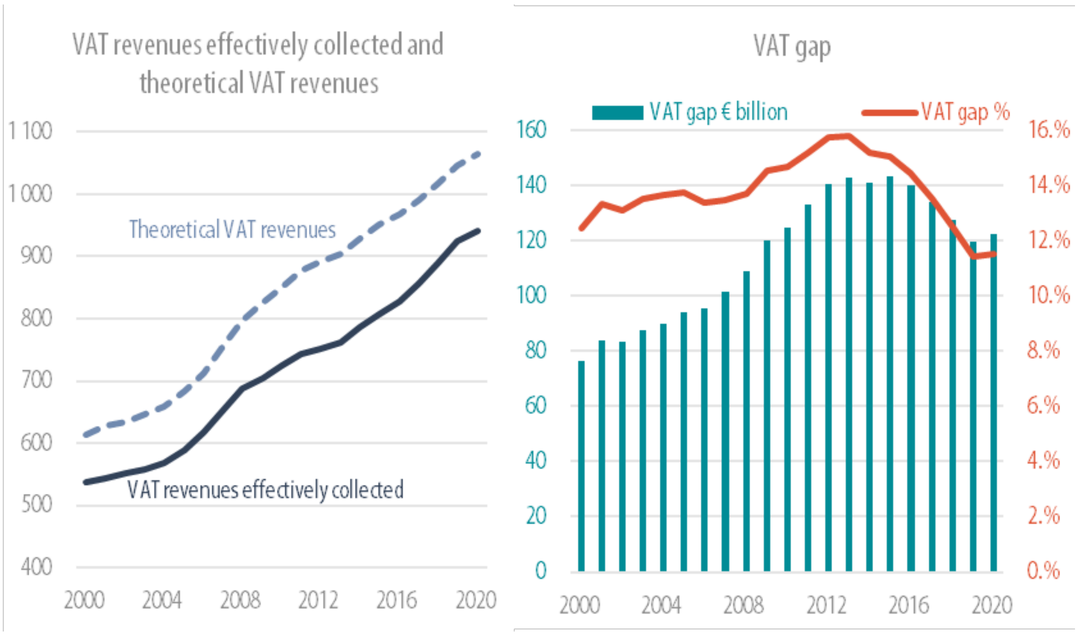
197 Study and reports on the VAT Gap in the EU-28 Member States – 2020 final report, European Commission, September 2020.

198 J. Saulnier and M. M. Garcia Munoz, Fair and simpler taxation supporting the recovery strategy – Ways to lower compliance costs and improve EU corporate income taxation, EPRS, September 2021.

More detailed analysis of the potential benefit

VAT is an indirect consumption-based tax that applies to almost all goods and services within the EU. VAT is therefore a key source of revenue for Member States, and in 2020 VAT raised around €940 billion, which corresponds to around 6 % of EU GDP or 17 % of Member States' total tax revenues. One of the EU's own resources is also based on VAT (around 12 % of the EU budget).[199] The current challenging economic situation, where a large amount of debt has been accumulated at Member State level to address the negative impact of the COVID-19 pandemic and the consequences of the war in Ukraine, is again renewing interest in addressing potential VAT revenue losses. This is even truer as the EU will also need to increase its own resources to reimburse the disbursements made under the Next Generation EU (NGEU) recovery plan.

Figure 8: Evolution of VAT revenues and VAT gap



Source: Author's own estimation based on data from DG TAXUD and Eurostat.

From a macro perspective, the Commission's Directorate General for Taxation and Customs Union (TAXUD) has recently produced two comprehensive reports[200] on the calculation and the decomposition of the VAT gap at Member State and EU level. Using a similar methodology, Figure 8 presents updated calculations on the evolution of the VAT revenues effectively collected, of theoretical VAT revenues and of the VAT gap. It shows that, since 2000, VAT revenues effectively collected have constantly increased.

Interestingly, from 2015 VAT revenues were collected more effectively. As a result, the VAT gap, which reached a maximum of more than €140 billion in 2015, began to decrease significantly to **a**

199 J. Saulnier and M. M. Garcia Munoz, Fair and simpler taxation supporting the recovery strategy – Ways to lower compliance costs and improve EU corporate income taxation, EPRS, September 2021.

200 See G. Poniatowski et al., Study and reports on the VAT Gap in the EU-28 Member States – 2019 final report, European Commission, September 2019, and Study and reports on the VAT Gap in the EU-28 Member States – 2020 final report, European Commission, September 2020.

VAT gap of €120 billion in 2020.[201] This decline in the VAT gap since 2015 could be expected to be directly linked to the effort undertaken during and after the sovereign debt crisis to improve public finances and to improve tax collection. It has also to be analysed in view of the results of all the recent actions undertaken at joint EU and Member State level to tackle tax fraud and tax evasion.

The VAT system has undergone profound modernisation in recent years.[202] It is, however, still subject to a series of potential regulatory gaps and loopholes that undermine its effectiveness and efficiency. In particular, complex and fragmented organisation of the VAT tax system at Member State level continues to create opportunities for potential tax abuse and uncertainty. It also severely complicates the work of tax authorities, as the complex information exchanged is not always comparable and requires additional investigation capacities that are not always available in all Member States. The traditional VAT enforcement mechanism based on tax audits and reporting of aggregated data is also not always sufficient to combat fraud. More frequent reporting could be an option to enhance the current mechanism, while full digitalisation of reporting would greatly facilitate this endeavour. Finally, the effectiveness of the tax administration in Member States varies widely. This unnecessarily increases complexity, which hinders cross-border trade, and as a result businesses, in particular businesses doing cross-border trade, often face high compliance costs, **estimated at €31 billion in 2020 for VAT**.

Recent analysis on the policy option to address the VAT gap confirmed there is still room for faster convergence between Member States towards best practices.[203] There is, notably, large untapped potential for further simplification, more effective administration, digitalisation, higher transparency and better enforcement. The EAVA study discussed a series of policy options that could be implemented and quantifies more precisely the potential economic impact attached to various scenarios based on these policy options. The results evaluate the reduction in the VAT gap and in the amount of compliance costs in different scenarios, and confirm that complexity remains by far the greatest factor behind both the VAT gap and the high level of compliance costs for businesses.

The study found European added value (EAV) of €41 billion for the scenario of extended cooperation – exchange of information + One Stop Shop (OSS). This breaks down into a reduction of around €33 billion in the VAT gap and a reduction of almost €8 billion in compliance costs for businesses. There is a slightly higher EAV of around €47 billion for the scenario of extended cooperation – definitive VAT regime + OSS. This breaks down into a higher reduction of around €39 billion in the VAT gap and a reduction of almost €8 billion in compliance costs for businesses. Finally, it found a higher EAV of €73 billion for the most ambitious scenario of an EU treasury, qualified voting majority (QVM) and VAT administered at EU level. This breaks down into a higher reduction of around €61 billion in the VAT gap and a higher reduction of €12 billion in compliance costs for businesses.

The most ambitious scenario of setting up an EU treasury and administering VAT at EU level is, however, unlikely to gather sufficient support at the current juncture, as it would require pursuit of substantial Treaty change. As the launch of the definitive VAT regime is delayed, the evaluation emphasises the potential for a scenario of extended cooperation through reinforced exchange of information and an OSS used to its full extent. However, the extent to which all Member States are

[201] It is important here to recall that the estimate takes account of revenues emerging from VAT rules for cross-border sales of e-services. The estimate also incorporates potential mistakes, bankruptcies, insolvencies, the impact of the shadow economy and other unexplained factors.

[202] E. Binder, VAT gap, reduced VAT rates and their impact on compliance costs for businesses and on consumers, EPRS, September 2021.

[203] M. Karaboytcheva, Addressing the VAT gap in the EU, EPRS, December 2020.

likely to coordinate a concerted move towards greater cooperation on tax matters, as is sometimes assumed, remains to be demonstrated at this stage. Finally, the analysis shows that new obligations imposed with a view to fighting tax fraud and reducing the VAT gap do not necessarily increase the compliance costs for businesses if they are accompanied by progress in digitalisation and reductions in complexity, while also ensuring that tax administration is effective and transparent and that enforcement of the rule of law is robust.

Table 3: EAVA – Summary table (billion € per year)

	2020	Extended cooperation – exchange of information + OSS	Extended cooperation – VAT definitive regime + OSS	Ambitious scenario – EU treasury, QVM and VAT administered at EU level
VAT gap (billion €)	120	87	81	59
Reduction in VAT gap compared to the baseline (A)	-	33	39	61
Compliance costs (billion €)	31	23	23	18
Reduction in compliance costs compared to the baseline (B)	-	8	8	12
EAV (A+B)	**-**	**41**	**47**	**73**
Likelihood	**-**	**Likely**	**Likely**	**Unlikely**
Driver or possible game-changer	-	High VAT gap in times of challenge for public finances	High VAT gap in times of challenge for public finances	Realisation of the relative complexity, cost and lack of effectiveness of other options/ Treaty change/ Renewed EU ambition

Source: EPRS.

European Parliament position

The Parliament has repeatedly encouraged the Commission to focus on addressing the lack of tax coordination within the EU, in particular the difficulties faced by SMEs, as a result of the complexity of different national VAT regulations. The Parliament gave its opinion on the definitive VAT regime proposal in its resolution of February 2019.[204]

[204] European Parliament resolution of 12 February 2019 on the proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member State.

More recently,[205] the Parliament put forward proposals for fairer and simpler taxation to help the economic recovery. The report calls on the Commission to act in order to substantially reduce the VAT gap. It emphasised the need to assess how to best extend this automatic exchange of information and the need to ensure that tax incentives do not distort the single market. Finally, the report calls to strengthen the EU's network of anti-fraud experts, Eurofisc, by providing it with sufficient resources to effectively carry out joint risk analyses, coordinate investigations and cooperate with the EU Anti-Fraud Office (OLAF), Europol and the newly set up European Public Prosecutor's Office, particularly to investigate VAT fraud.

Commission and Council responses so far

In 2018, a series of proposals amending EU VAT regulations were adopted through directives and regulations.[206] In 2020, the Commission proposed a new tax package containing an action plan for fair and simple taxation supporting the recovery,[207] with the objective of adopting a common VAT system that is simpler, fairer and effective at tackling cross-border fraud. The plan presents a set of 25 actions to support the economic recovery and to ensure sufficient public revenue in the EU. Reinforced cooperation has, for instance, been developed with the VAT Forum,[208] the VAT Expert Group[209] and, in 2019, with the launch of the Transaction Network Analysis (TNA), a data mining tool to enhance the exchange of information on cross-border transactions between tax authorities.[210]

The tax package also contains a communication on tax good governance in the EU and beyond;[211] the purpose is to review progress made in enhancing tax good governance in the EU, as well as externally, and to suggest areas for improvement. Finally, the tax package contains a legislative proposal to revise the Directive on Administrative Cooperation (DAC),[212] which would introduce an automatic exchange of information between Member States' tax administrations for income/revenues generated by sellers on digital platforms and would strengthen administrative cooperation through the clarification of existing rules.

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205 Report with recommendations to the Commission on fair and simple taxation supporting the recovery strategy (EP follow-up to the July Commission's Action Plan and its 25 initiatives in the area of VAT, business and individual taxation).

206 Regulation 2018/1541 of 2 October 2018 amending Regulations (EU) No 904/2010 and (EU) 2017/2454 as regards measures to strengthen administrative cooperation in the field of value added tax; Implementing Regulation 2018/1912 of 4 December 2018 amending Implementing Regulation (EU) No 282/2011 as regards certain exemptions for intra-Community transactions; Directive 2018/1910 of 4 December 2018 amending Directive 2006/112/EC as regards the harmonisation and simplification of certain rules in the value added tax system for the taxation of trade between Member States.

207 Communication on An action plan for fair and simple taxation supporting the recovery strategy, COM(2020) 312 final, European Commission, July 2020.

208 The VAT Forum is a platform where different stakeholders discuss improvements to VAT legislation in a cross-border environment – Commission Decision on renewing the mandate of the EU VAT Forum, C(2018) 4422 final, July 2018.

209 The VAT Group of Experts is composed of experts and organisations in the field of taxation to assist the European Commission on this area – see VAT Expert Group, European Commission website.

210 VAT Fraud: New tool to help EU countries crack down on criminals and recoup billion, Press release, European Commission, 15 May 2019.

211 Communication on Tax Good Governance in the EU and beyond, COM(2020) 313 final, European Commission, July 2020.

212 Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation, COM(2020) 314 final, European Commission, July 2020.

Looking forward

The discussion on the definitive VAT system remains one of the priorities in the area of VAT, and the assessment of the proposal on is still ongoing. Improvements to the current VAT system, which will remain in place until an agreement is reached on the definitive regime, are being pursued as envisaged in the action plan. In June 2022, it was reported that Member States agree that this dossier still requires thorough technical analysis before the final policy choices are made.

Chapter 2 – Green transformation

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
8	**Transformation of EU energy systems**	€294 billion per year	Higher potential growth, level of trade in clean technologies and FDI, productivity gains Completion of the single energy market, with carbon pricing reflecting polluter pays principle Lower and converged energy prices	Redistribution of energy transformation gains to support most vulnerable groups – social inclusion in the transformation Higher employment Higher income convergence across the EU Higher purchasing and consumption power Less climate change-related deaths and health problems (e.g. due to extreme heat, floods and rising ocean levels)	Decrease in GHG emission levels from industry, energy and transport sectors Avoiding worst climate change effects on the environment Lower pollution levels Biodiversity revival	Environmental human rights protected Elimination of energy poverty Right to health Environmental human rights respected	Mainstreaming of a high level of environmental protection and improving the quality of the environment throughout EU and national policies Benefits from public investment in climate adaptation Promoting a high level of consumer protection, safety and more sustainable corporate and consumer behaviour globally
9	**Averted climate change impacts**	€125 billion per year	Benefits from public investment in climate adaptation	Higher purchasing and consumption power Higher employment Less climate change-related deaths and health problems (e.g. due to	Avoid worst climate change effects on environment Biodiversity revival	Reduced negative impact on fundamental rights such as the right to life, right to property, right to food security, right to safe drinking water and sanitation, right to health, right to housing, right to self-determination, and	Saved cultural and architectural heritage

				extreme heat, floods and rising ocean levels)		right to work and development Environmental human rights respected	
10	**EU-driven global deforestation**	€0.5 billion per year	A level-playing field and increased competitiveness for EU companies, while respecting sustainable value chains	Higher level of consumer protection through transparency of value chains Indigenous peoples' rights respected Secure livelihoods for people whose lives depend on different forest resources	Decrease in GHG emissions due to deforestation Biodiversity revival, including pristine forests	Reduced negative impact on fundamental rights such as the right to life, right to self-determination, right to housing, right to work and development, right to respect for private and family life, and right to food security Environmental human rights respected	Sustainable corporate and consumer behaviour globally
11	**Improving environmental quality through efficient environmental expenditure**	€20 billion per year	Savings in public environmental budgets due to more efficient public spending Better coordination of public environmental spending between all governance levels	Less pollution-related deaths and health problems	Lower pollution levels Biodiversity revival	Right to life, right to health (e.g. less cases of death due to air pollution) Environmental human rights respected	Mainstreaming of a high level of environmental protection and improving the quality of the environment throughout EU and national policies Better coordination of environmental policies between regional, national and European level
Total		**€439.5 billion per year**					

8. Transformation of EU energy systems

Potential benefit: €294 billion per year

Key proposition

EU energy transformation is ongoing and there is no turning back from it as Member States decided together to fulfil the EU's international commitments as well as lead common efforts to become the world's first carbon-neutral continent by 2050. Although goals and objectives are set, **there is no guarantee that the unprecedented and challenging transition that needs to happen in less than three decades will be successful**. Recent events, such as the global rise in fossil fuel prices and Russia's war of aggression against Ukraine, added an additional layer to the many challenges of the EU decarbonisation process. The results of a cost of non-Europe (CONE) report presented in this section give a long-term perspective of potential impacts of some key aspects of the EU energy transformation, considering, in particular, those that could be best addressed at EU level.[213]

The CONE report assessed, in particular, **what should still be done together by the Member States at EU level to ensure a successful transition that leaves no one behind, brings economic benefits and ensures EU competitiveness**. The analysis' time horizon is 2050 and it is important to look at the long-term energy system transformation over several decades, as many costs need to be borne before 2030 and the greatest benefits will be seen between 2030 and 2050.

The results for 2030 show that long-term application of an ambitious budgetary and regulatory policy, accompanied by social measures at EU level, could bring €294 billion per year (2.1 % higher GDP) in economic benefits compared to the baseline, and that they will be even higher by 2050, reaching €734 billion per year (4 % higher GDP) (Figure 9).[214] The benefits from social measures would ensure a fair transformation by redistributing carbon tax revenues and thus increasing consumers' purchasing power.

The EPRS analysis was carried out before the global surge in energy prices and Russia's invasion of Ukraine, but the modelling already included a decrease in fossil fuel imports from third countries to the EU that could bring at least €41 billion per year in benefits by 2030. If the current high energy prices were taken into consideration, this amount would be much higher.

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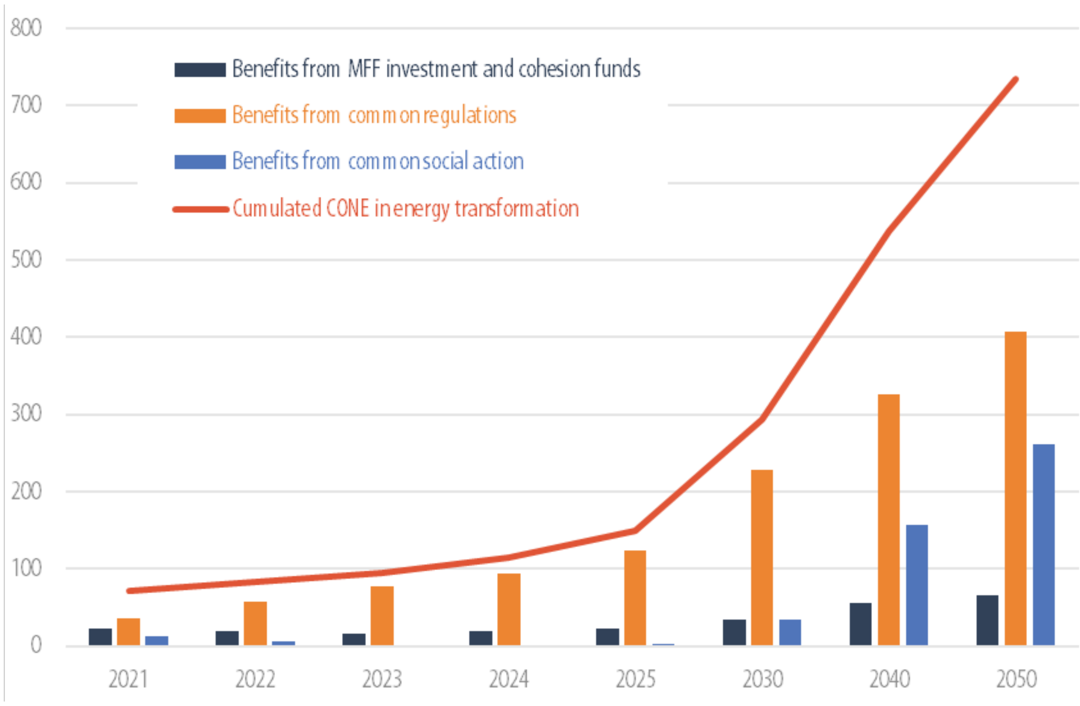
[213] A. Heflich and J. Saulnier, EU energy system transformation – Cost of Non-Europe, EPRS, 2021.

[214] For the results relating to benefits stemming from EU budgetary and financing action, see sub-chapter 24. Research and development will play a crucial role in deployment and use of technologies on which decarbonisation of the energy system depends and which are not yet widely available.

Figure 9: Cost of non-Europe (CONE) in EU energy system transformation – benefits of ambitious and united EU approach (€ billion)



Source: EPRS.

More detailed analysis of the potential benefit

The CONE report on energy transformation was prepared at the request of the Parliament's Committee on Industry, Research and Energy. Its aim was to estimate the cost of inaction at EU level in relation to some aspects of the decarbonisation of energy systems and to indicate potential priority EU-level policy actions that would bring the highest European added value. For this purpose, an external study was commissioned and EPRS complemented its results with its own calculations presented in the CONE report.[215]

The CONE report identified financial, societal, policy and energy system-related challenges that lie ahead of a successful transformation of EU energy systems. In terms of key **problems in the energy system**, the EU needs to rapidly deploy clean energy technologies and, in parallel, phase out fossil fuel-based power generation. To be successful with this challenge, addressing the **financial challenge** would be key, because many of the necessary enabling technologies needed in the transformation are not yet widely available and require unprecedented public investment (that goes beyond the usual budgetary terms), which would allow commercialisation at scale.

Moreover, **regulatory challenges** would need to be overcome as well, as until recently carbon pricing signals were not strong and coherent enough (though the recent surge in the price of fossil fuels made fossil-based energy production much more expensive), which made running such power production economically viable. Finally, the **social risks** of the transformation would need to be addressed to eliminate energy poverty in Europe and avoid social stratification.

[215] See the Annex to the EPRS cost of non-Europe report: O. Hoogland et al., Cost of non-Europe in the area of energy, EPRS, 2021.

In the CONE report, **EPRS has simulated an ambitious EU net zero energy transformation pathway** that is based on some key assumptions.[216] Among them, the carbon permits price in ETS modelled by the Commission in the climate target plan[217] (MIX scenario) until 2050 is increased by 20 % (in 2030 the allowance is assumed to cost €74, rising to €289 in 2050); carbon taxation in all non-ETS sectors is assumed to be introduced from 2030 and continues to 2050; coal phase-out between 2022 and 2030 happens according to announced national policies, and from 2031 it is assumed that all countries envisage a phase-out of coal and other fossil-fired power unless connected to carbon capture and storage; renewables investment is boosted with 30 % feed-in premiums and energy efficiency investment augmented by 20 % from the values modelled by the Commission in the climate target plan (MIX scenario); it is assumed that, from 2030, Member States ban new fossil-fuelled internal combustion engines in cars, and ban fossil-fuelled boilers from 2050.

These assumptions are made to reflect an ambitious and united EU-level policy that effectively introduces and enforces regulatory and budgetary means for the transformation, while at the same time addressing the social risks that the changes bring. This means, for example, that the net zero scenario assumes the EU will extend up to 2050 the same climate-related budgetary means that were earmarked for the EU 2021-2027 budget.[218] We also assume that the additional net revenues generated by EU ETS auctioning and carbon pricing are recycled to cushion negative effects on citizens and businesses.

As a result, in the net zero scenario, EU energy system greenhouse gas emissions (GHG) decrease to net zero in 2050 with the remaining emissions (~250 MtCO2, see Figure 10) expected to be absorbed by land use, land use change and forestry. This trajectory means an almost 43 % reduction of CO_2 emissions in 2030 compared to the baseline, which is consistent with a reduction of 62 % of GHG emissions below 1990 levels. If compared with the baseline (continuation of the status quo), and with a fictional scenario of fragmentation (FRAG) of EU climate and energy policy, **the net zero scenario is most successful in decreasing CO_2 emissions by 2050**. The baseline assumes that the current status quo prevails, with current policies continued but no new adoption of targets, which excludes the Fit for 55 Package[219] and REPowerEU.[220] The (counterfactual) fragmented approach scenario assumes that, from 2020, Member States would start to have their own climate policy, with limited effective implementation of common regulations and without further increases in common EU budgetary resources.

Looking in more detail at other impacts of such unprecedented efforts at EU level, **an ambitious EU budget**[221] **up to 2050 could bring €33 billion per year in 2030** and double that in 2050 (Figure 10), due to EU climate- and energy-related investments and cohesion funds. Importantly, not all benefits will occur straight away, with some – like the ones stemming from the MFF and the ones related to ambitious energy efficiency regulations – becoming substantial only after 2030 (Figure 10).

[216] For details of the E3ME modelling and assumptions made, see O. Hoogland et al., op. cit., Section 3.3 'Modelling of policy package to evaluate the cost of non-Europe', p. 57.

[217] European Commission, Impact assessment accompanying the Communication on Stepping up Europe's 2030 climate ambition, SWD(2020) 176 final.

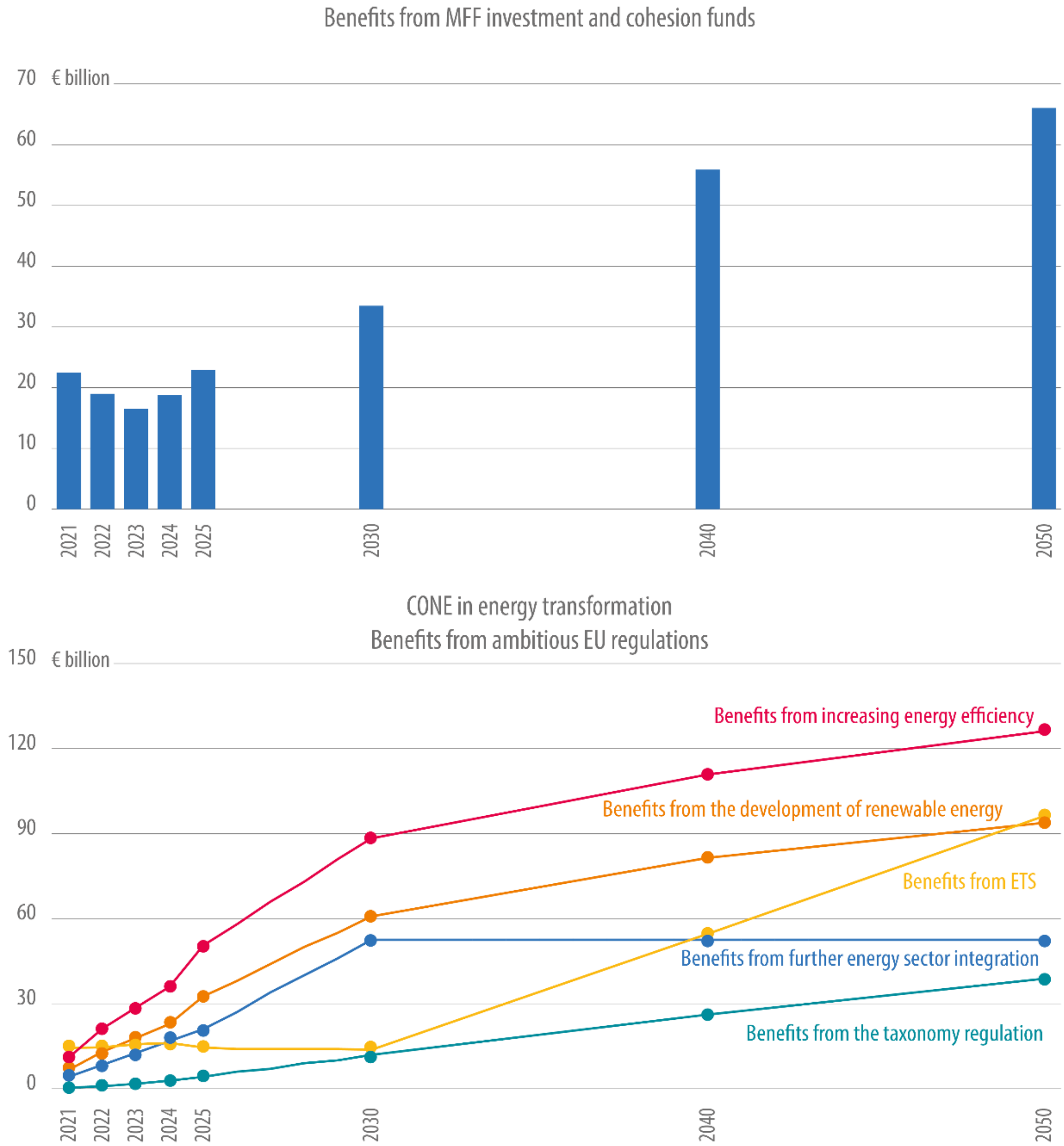
[218] This amount does not include NextGenerationEU funds (which are described in sub-chapter 21) or the MFF R&D spending (addressed in sub-chapter 24).

[219] European Commission, Press release, European Green Deal: Commission proposes transformation of EU economy and society to meet climate ambitions, 14 July 2021.

[220] European Commission, Press release, REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition, 18 May 2022.

[221] The CONE report assumes an ambitious EU budget continuing current MFF allocations for 2021-2027 until 2050.

Figure 10: Impact (benefit) of ambitious EU budget and EU regulations (right) up to 2050



Source: EPRS.

The CONE report also estimates that substantial economic and competitiveness **benefits could arise for the EU economy thanks to common regulatory instruments amounting to a total of €227 billion per year in 2030 and €407 billion per year in 2050** compared to the baseline (Figure 10). The main positive impacts would be due to an ambitious and effective regulatory action related to energy efficiency measures (€88 billion in 2030 and €126 billion in 2050), deployment of and switching to renewable energy (€61 billion in 2030 and €94 billion in 2050), and further energy sector integration (€53 billion in 2030 and in 2050) (Figure 10). Savings on fossil fuel imports due to increasing renewable energy production and the higher energy efficiency of the EU economy constitute an important part of these benefits, amounting to €41 billion in 2030 and €63 billion in 2050. EU ETS and the Taxonomy Regulation [222] would bring benefits through standard-setting and

[222] In the CONE report, the benefits of a common taxonomy are based on the European Commission Communication on EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal, COM(2021) 188 final, its impact assessment (SWD(2021) 0152 final), and the EU Technical Expert Group on Sustainable Finance's Taxonomy Technical Report, 2019.

coordinated action by Member States. The extension of EU ETS to buildings and the transport sector, and an increase in carbon emission prices, could bring €14 billion per year in 2030 and €96 billion per year in budgetary resources in 2050 due to the trading of emission allowances compared to the baseline. The benefits of a common taxonomy, coming from savings on the long-term interest rate of non-carbon, could amount to €12 billion in 2030 and €39 billion in 2050.

One of the keys to successful decarbonisation of the European economy will be addressing the **social challenges**, of which one of the key challenges is the rising price of fossil-based energy while some consumers and businesses have not yet transited to decarbonised energy. Putting a price on carbon through ETS will continue to ensure that this transition occurs in an efficient and transparent way. At the same time, fairness through appropriate EU budgetary intervention should ensure that the most vulnerable consumers are not left behind.

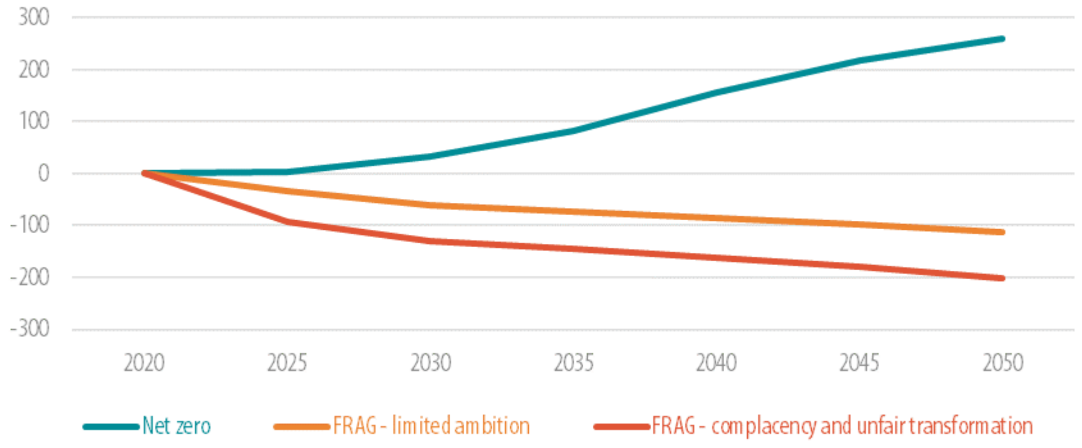
Another social aspect concerns employment losses in some local and regional economies in fossil fuel-mining regions, and along their value chains, which should be addressed through appropriate and transparent use of EU funds. Social acceptance of ambitious climate and energy action which might imply some behavioural changes should be incentivised, while the quality and availability of alternatives should be improved. Despite these negative regional and sectoral impacts, overall the energy transformation is expected to bring a **positive employment impact** in the long run (up to 2050). According to EPRS estimations in the CONE report, the employment impact should increase in the following decades – by 0.9 % in 2030, equivalent to nearly 2 million additional jobs, and 1.1 % in 2050, with over 2.1 million new jobs created compared to the baseline. Moreover, our findings regarding the net zero decarbonisation scenario show a **positive convergence impact**[223] of relevant EU cohesion policies compared to the baseline, which confirms findings by other studies.[224]

Finally, EPRS estimated that the cost of non-Europe of a fair energy transformation would be the highest of all the impacts mentioned above – from **€33 billion in 2030 (0.2 % GDP), it could grow to €261 billion in 2050 (1.4 % GDP)** (Figure 11). These potential benefits could only be realised in the net zero decarbonisation scenario due to an ambitious and united policy of redistribution of carbon pricing through EU cohesion policy. A potential positive employment and convergence impact would increase the purchasing and consumption power of EU consumers. Importantly, the social benefits would materialise in the medium to long term, being more modest in the first decade of the transformation. On the contrary, the social impacts would be negative for the fragmentation scenario (no more advances in EU integration on climate and energy action) and in the even more challenging scenario of a return to complacency at EU level and Member States transforming their energy systems in a non-cooperative way.

[223] The convergence index is measured by the interquartile difference in terms of real income between the first and the fifth quintile and converted into a base 100 in the 2021 index.

[224] See European Commission, Growing regions, growing Europe: Fourth report on economic and social cohesion, 2007.

Figure 11: Impact of a fair transformation towards net zero



Note: FRAG denotes fictional scenario of fragmentation and no more new EU climate and energy policy from 2020.

Source: EPRS.

European Parliament position

The Parliament has been adopting an **ambitious stance towards accelerating energy system transformation** and increasing related EU targets. It has been vocal on all aspects of energy transformation and its related challenges, including through EU-level action. In relation to the financing challenges of the transformation, it has advocated for an increase of EU-level financing to close the investment gap, help finance the transformation to a carbon-neutral economy and ensure a just transformation across all EU regions.[225] The Parliament supported the, eventually adopted, 30 % climate mainstreaming in the EU budget.[226] The Parliament has also been concerned with addressing socio-economic costs of the transition and was at the origin of a now-created Just Transformation Fund.[227]

During the adoption of the landmark EU Climate Law[228], which makes the EU commitment to carbon neutrality by 2050 legally binding, the Parliament has advocated for a target of a 60 % GHG emissions reduction by 2030 compared to 1990 (a rise from the previous target of 40 %), instead of the targets of at least 50 %, and then at least 55 %, proposed by the Commission.[229] Consequently, the Parliament has strongly supported the package of proposals put forward by the Commission throughout 2021 (the 'Fit for 55 package' and the 'gas package') to update EU climate and energy legislation in line with the new, higher GHG reduction target by 2030.

More recently, in the context of Russia's invasion of Ukraine, its socio-economic impacts and its impact on the pathway of the European Green Deal, the Parliament has been advocating for a united

225 European Parliament resolution of 15 January 2020 on the European Green Deal (2019/2956(RSP)).

226 European Parliament resolution of 15 May 2020 on the new multiannual financial framework, own resources and the recovery plan (2020/2631(RSP)); European Parliament resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020 (2020/2732(RSP)).

227 European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement (COM(2018) 0322 – C8-0000/2018 – 2018/0166R(APP)).

228 Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law').

229 The final agreement between the Parliament and the EU Member States' governments envisages an 'at least 55 %' emission reduction by 2030.

EU position.[230] Among other things, it has called for a coordinated design at EU level for taxing windfall profits of energy companies, which could be a source of revenue for Member States to finance mitigation of social and economic consequences for the EU of the war in Ukraine.[231] In the same resolution, in the context of strengthening EU energy security, the Parliament has also called for the creation of a 'Strategic Autonomy Fund for Europe', which would finance cross-border energy projects, renewables and energy efficiency, recycling, farming and industry.

While legislating on key EU laws that increase the ambition of EU emission reductions by 2030, the Parliament voted to ban sales in the EU of cars and vans with combustion engines from 2035.[232] In the wake of the war in Ukraine and the EU's commitment to become independent of energy imports from Russia,[233] the Parliament has also adopted a position advocating for **an ambitious EU renewable energy target** in final energy consumption of 45 % by 2030[234] and a **higher energy efficiency target** of a 40 % reduction in final energy consumption by 2030.[235] While reflecting on the revision of the EU emission trading system (EU ETS), the Parliament supported the **establishment of an emission trading scheme for the building and transport sector** (although postponing its application to private users until 2029), supported a steeper emission reduction pathway for EU industry (by phasing out free allowances for industries more quickly) and included the maritime transport sector in the system.[236]

The Parliament voted in favour of establishing a share of the EU ETS auctioning revenue that will become an EU own resource in the EU budget. EU ETS revenues from both the EU and national budgets should be fully used for climate action. To improve the socially just transition, the Parliament supported the Modernisation Fund to modernise energy systems in less wealthy EU Member States. The Parliament also backed the Commission's proposal to establish a Social Climate Fund, which is meant to combat energy and mobility poverty of EU households, micro-enterprises and vulnerable transport users.[237]

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[230] European Parliament, Rising energy prices and market manipulation on the gas market, Newsletter of 7-10 March 2022 – Strasbourg plenary session.

[231] European Parliament resolution of 19 May 2022 on the social and economic consequences for the EU of the Russian war in Ukraine – reinforcing the EU's capacity to act (2022/2653(RSP)).

[232] Amendments adopted by the European Parliament on 8 June 2022 on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 2019/631 as regards strengthening the CO2 emission performance standards for new passenger cars and new light commercial vehicles in line with the Union's increased climate ambition (COM(2021) 0556 – C9-0322/2021 – 2021/0197(COD)). The matter was referred back for interinstitutional negotiations to the committee responsible, pursuant to Rule 59(4), fourth subparagraph (A9-0150/2022).

[233] European Council conclusions, 24-25 March 2022.

[234] This is consistent with the Commission's revised proposal put forward in the REPowerEU plan in May 2022 (see more details in the section below): Amendments adopted by the European Parliament on 14 September 2022 on the proposal for a directive as regards the promotion of energy from renewable sources (COM(2021) 0557 – C9-0329/2021 – 2021/0218(COD)).

[235] This is slightly more ambitious than the Commission's revised proposal put forward in the REPowerEU plan in May 2022 (see more details in the section below): Amendments adopted by the European Parliament on 14 September 2022 on the proposal for a directive on energy efficiency (recast) (COM(2021)0558 – C9-0330/2021 – 2021/0203(COD)).

[236] Amendments adopted by the European Parliament on 22 June 2022 on the proposal for a directive concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757 (COM(2021) 0551 – C9-0318/2021 – 2021/0211(COD)). See also European Parliament, Press release, Climate change: Parliament pushes for faster EU action and energy independence, 22 June 2022.

[237] Amendments adopted by the European Parliament on 22 June 2022 on the proposal for a regulation of the European Parliament and of the Council establishing a Social Climate Fund (COM(2021) 0568 – C9-0324/2021 – 2021/0206(COD)).

Commission and Council responses so far

At the beginning of its mandate, the Commission presented the European Green Deal, which was in line with the indications previously given by EU leaders to build a climate-neutral, green, fair and social Europe.[238] The Commission provided evidence that, if the EU does not step up its efforts to reduce emissions until 2030, it would be harder and less efficient to stay on the decarbonisation pathway in the following decades.[239] In consequence, it has put forward **a legislative package to align EU policies with the goal of reducing emissions by at least 55 % by 2030** (the Fit for 55 package). In addition, continuing the completion of the EU internal gas market and to align the gas sector with the European Green Deal objectives, the Commission put forward a gas package to boost green gas production in Europe.[240]

The Commission has also adopted two delegated regulations, one of them on **EU taxonomy** in relation to sustainable investments supported by the Parliament.[241] The second regulation was more controversial because it included certain nuclear and gas activities as transitional activities.[242] Importantly, the Commission has also **updated the state aid guidelines** to align them with the European Green Deal and related regulatory changes.[243]

In the wake of rising energy prices and Russia's war against Ukraine, the Commission also proposed a toolbox of measures to support vulnerable energy consumers,[244] as well as a plan on how to end the EU's fossil fuel dependence on Russia as soon as possible. In May 2022, the Commission had to issue a communication on 'Short-Term Energy Market Interventions and Long Term Improvements to the Electricity Market Design' that allowed Spain and Portugal to adopt **measures to lower electricity prices in a crisis**.[245] This fragmentation could have been prevented if there had been more systematic stress-testing of EU regulations against disruptive scenarios instead of mainly assessing impacts of ideal (best-case) scenarios.

In the same vein, and observing that its current planning was not sufficient and not well designed, in May 2022 the **Commission proposed an emergency REPowerEU plan**, with a new level of ambitious action to ensure secure and affordable energy in times of crisis. The plan requires both regulatory and financial acceleration for the purpose of energy system decarbonisation and security of supply adjustments to make the plan of reducing to zero fossil fuel imports from Russia feasible. The plan proposed to accelerate the EU energy transformation even further than the Fit for 55 package that is still being legislated upon.[246] It proposes to increase the 2030 renewable energy

238 EU leaders signed off an EU strategic agenda for 2019-2024, with one of its four priorities being building a climate-neutral, green, fair and social Europe: European Council, A new strategic agenda 2019-2024.

239 European Commission, Impact assessment accompanying the Communication on Stepping up Europe's 2030 climate ambition, SWD(2020) 176 final.

240 European Commission, Commission proposes new EU framework to decarbonise gas markets, promote hydrogen and reduce methane emissions, Press release, 15 December 2021.

241 The first Commission delegated regulation on climate mitigation and adaptation is applicable since 1 January 2022, Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021.

242 The second Commission delegated regulation is applicable since 1 January 2023, Commission Delegated Regulation of 9 March 2022, C/2022/0631 final.

243 European Commission, State aid: Commission endorses the new Guidelines on State aid for Climate, Environmental protection and Energy, Press release, 21 December 2021.

244 European Commission, Tackling rising energy prices: a toolbox for action and support, COM(2021) 660 final.

245 European Commission, Short-Term Energy Market Interventions and Long Term Improvements to the Electricity Market Design – a course for action, COM(2022) 236 final.

246 The cut-off date of this analysis being 15 September 2022.

target from 40 % to 45 % and the 2030 energy efficiency target from 9 % to 13 %. It also envisages various measures that will diversify EU fossil fuel imports and, at the same time, lower EU demand for such imports. It aims, among other things, to speed up deployment of solar and wind energy in the EU by simplifying permitting procedures, increasing deployment of hydrogen electrolysers, boosting biogas production, improving buildings' energy efficiency through faster market deployment of heat pumps and increasing renovations rates, and even proposes changing EU citizens' behaviour to reduce fossil fuel consumption.

According to the Commission's analysis, up-front investment needed to complementing the Fit for 55 package is estimated at €300 billion by 2030 (and €210 billion by the end of 2027). The Commission assumes that this can simply be mobilised from existing programmes, funds and recovery funds; it therefore largely remains to be seen how these ambitious new targets will be achieved in practice without new common financing and with new budgetary constraints for Member States looming on the horizon as a result of inflation and the war in Ukraine. Moreover, in July 2022, after EU leaders asked for EU-level solutions to be prepared for potential further gas supply disruptions in relation to Russia's war on Ukraine, the Commission proposed an emergency law targeting EU gas consumption.[247] As a result, EU energy ministers adopted a regulation on a voluntary reduction of natural gas demand by 15 % between 1 August 2022 and 31 March 2023.[248]

Looking forward

Energy transformation is a challenge to be realised by several generations. Politically it is a very difficult task, as many costs need to be borne at the beginning of the transformation and some of the greatest benefits will be only realised in the later decades (see Figures 9, 10 and 11).

EPRS calculations of the potential impacts of non-action at EU level (cost of non-Europe) confirm this as well as the recent shocks. For example, the collapse of fossil fuel supply from Russia, something which could have been better anticipated, will now incur entirely on the EU high up-front costs, from which the EU would be able to benefit only in the long term. From that point of view, all recent crises that have impacted the transformation of the energy system, from the COVID-19 pandemic to surging energy prices and Russia's war on Ukraine, have confirmed that **regular and systemic stress-testing of different policy assumptions and disseminating results to policymakers would improve the resilience and preparedness of the energy transformation**.

Also, recent disruptive events have confirmed that an affordable, secure and sustainable energy system cannot be built **if one or more key challenges and trade-offs (economic, social, environmental, security of supply) is not well addressed.**[249] For example, current measures to accelerate independence from Russia's fossil fuels, such as delaying phase-out and increasing the operating hours of coal-fired power stations, aggravate the environmental challenge while concentrating on security of supply. The former will have to be rebalanced as soon as possible, otherwise there is a risk that the transition might not stay on track for carbon neutrality by 2050.

Current record high energy prices make it even more difficult for vulnerable consumers to participate in the energy transformation, as their purchasing power is shrinking. If this mounting

[247] Proposal for a Council regulation on coordinated demand reduction measures for gas, COM(2022) 361 final, European Commission; European Council conclusions, 30-31 May 2022; European Council conclusions, 23-24 June 2022.

[248] For details, see Council of the European Union, Council adopts regulation on reducing gas demand by 15% this winter, Press release, 5 August 2022.

[249] A. Heflich and J. Saulnier, Towards carbon neutrality through transformation of the EU energy system, EPRS, July 2022.

social and economic challenge is not addressed in a systemic way at EU level but only through temporary solutions, there is a risk of decreasing convergence in the EU and stronger social and economic disparities between EU Member States. In this context, on the one hand EU leaders stressed the importance of putting in place coordinated European contingency measures and called on the Commission to propose solutions to remedy energy price affordability, but on the other deep divisions remain between Member States on what solutions to implement to better future-proof EU electricity and gas markets.[250]

Relations with other external energy providers than Russia also remain a challenge, where EU-level action could help attenuate potential risks – for example, through common EU purchases of energy sources.[251] Ensuring transparent and fair energy prices in Member States is also a difficult endeavour that necessitates long-term solutions to prevent windfall profits at the expense of EU consumers and businesses.

Moreover, as soon as the legislative work on the 2030 climate and energy policy targets finishes, **preparation of further energy transformation steps beyond 2030 will have to start**. As the EU Climate Law envisages, an EU-wide climate target for 2040 will be set around mid-2024 (at the latest within six months of the first global stocktake referred to in Article 14 of the Paris Agreement).[252] This means that the outgoing Commission (whose term will finish in December 2024) will make a legislative proposal. The EU Climate Law envisages that this proposal will be assessed, including **costs of inaction**.[253] About the same time, a new European Parliament will be elected and the proposal will surely be one of its first legislative priorities.

Finally, it is of the utmost **importance that the EU leads by example at international level** and advocates in multilateral fora for global climate neutrality efforts by 2050. The EU should consider more enhanced cooperation on some of its climate and energy policies, such as emission trading, with like-minded countries. For example, creating a **transatlantic CO_2 emission trading zone** could establish a credible price signal and show a commitment to long-term climate policy, burden-sharing and multilateralism.[254] Although issues related to the external dimension of EU climate and energy policies remained outside the EPRS cost of non-Europe analysis in this field, they are of paramount importance because climate change cannot be mitigated only by the EU acting alone.

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[250] European Council conclusions, 30-31 May 2022; S. Anghel and R. Torpey, Outcome of the special European Council meeting of 30-31 May 2022, EPRS, June 2022; Euractiv, Brussels' plan to curb gas use faces opposition from EU countries, 21 July 2022.

[251] The European Commission proposed the establishment of an EU energy purchase platform in its Communication on REPowerEU: Joint European Action for more affordable, secure and sustainable energy (COM(2022)108 final), a voluntary cooperation mechanism to secure gas, liquid natural gas (LNG) and hydrogen supplies – an initiative advocated by Parliament several years ago. The EU Energy Platform was established on 7 April 2022 after an endorsement from EU Heads of State or Government endorsed at the European Council on 25 March 2022.

[252] See Article 4 (3) of the European Climate Law.

[253] The first global stocktake should finish in November 2023.

[254] C. Flachsland, R. Marschinski and O. Edenhofer, To link or not to link: benefits and disadvantages of linking cap-and-trade systems, Climate Policy, 9:4, 2009, pp. 358-372; R. Dellink et al., Towards global carbon pricing: Direct and indirect linking of carbon markets, OECD Journal: Economic Studies, Vol. 2013/1, 2014.

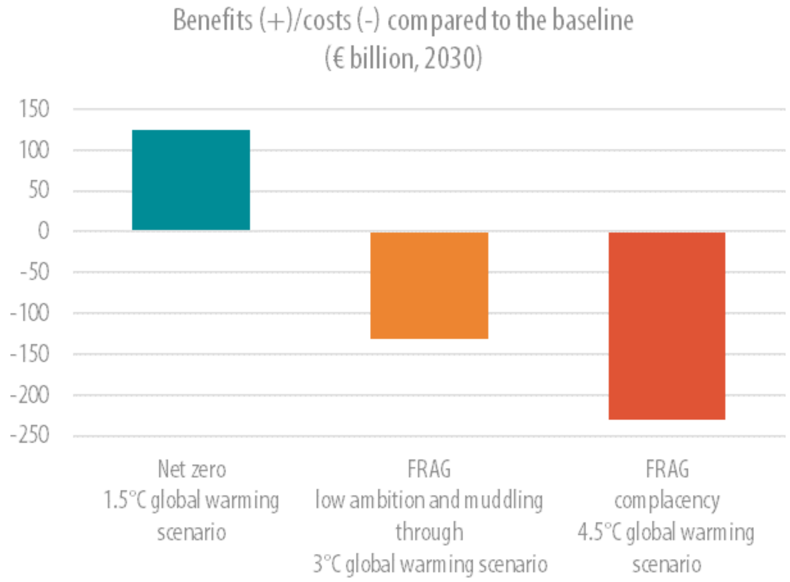
9. Averted climate change impacts

Potential benefit: €125 billion per year

Key proposition

The recent EPRS cost of non-Europe (CONE) report,[255] building on the Commission's Joint Research Centre (JRC) projections,[256] finds that **a united and ambitious EU climate action mitigating climate change could reduce potential costs to the European economy and citizens of climate change by nearly €125 billion per year in 2030** and by almost €200 billion per year in 2050 (Figure 12). This amount corresponds to averted costs of extreme climate events as well as welfare losses.[257] Such a scenario **could only materialise if the EU, together with the rest of the world, pursues rapid decarbonisation** that limits warming to 1.5° Celsius by the end of the century. These results represent averted costs in a carbon neutrality scenario – a 1.5° Celsius scenario – compared to a 2° Celsius global warming scenario in 2100 ('the baseline').

Figure 12: Impact of extreme climate events in different climate change scenarios compared to the baseline (2° Celsius global warming scenario)



Note: FRAG denotes fictional scenario of fragmentation and no more new EU climate and energy policy from 2020.

255 A. Heflich and J. Saulnier, EU energy system transformation – Cost of Non-Europe, EPRS, 2021.

256 L. Feyen, J. Ciscar, S. Gosling, D. Ibarreta and A. Soria (eds.), Climate change impacts and adaptation in Europe: JRC PESETA IV final report, Publications Office of the European Union, 2020. PESETA IV projects economic impacts of climate change on several economic sectors of the EU based on bottom-up analysis. The JRC considers seven impact categories in its calculation: coastal floods, river floods, drought, windstorms, agriculture, energy, and mortality. To avoid overlaps, EPRS calculations presented in this sub-chapter, and in the quoted cost of the non-Europe report on EU energy system transformation, account only for the first four (coastal floods, river floods, drought, and windstorms) as well as for welfare losses.

257 The calculation of impacts presented in this sub-chapter does not include potential further reduction of costs due to adaptation. On the benefits of adaptation against extreme climate events, see JRC, PESETA IV, op.cit., as well as European Commission, Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change, SWD(2021) 25 final, 24 February 2021.

Source: EPRS.

In the Paris Agreement, the international community, with the EU as a front-runner, committed to maintaining the temperature rise this century to well below 2° Celsius and to continuing efforts to limit it to 1.5° Celsius above pre-industrial levels. The EU has made an internal binding commitment in the EU Climate Law that it will become a carbon neutral continent by 2050.[258] Both documents also require Member States to make efforts to increase resilience and reduce vulnerability to climate change. Meanwhile, a recent IPCC report indicates that the continuation of current climate policies and implementation of commitments made until October 2021 make it likely that global warming will exceed 1.5° Celsius in the 21st century unless rapid and deep mitigation and adaptation efforts are undertaken.[259] It is still possible to reverse this trend if there is an acceleration of effective climate action in the coming decade.[260]

The impacts of climate change provoke extreme weather events, such as windstorms, droughts, and coastal and river floods. These events are already occurring, but in higher warming scenarios their frequency would increase even further, provoking sea-level rise-induced migration, and abandonment of farmland, notably in Southern Europe.[261] This would lead to significant economic losses, as well as fatalities. **Scientists estimate that the more the global temperature increases, the higher the costs might be.** Apart from mitigation efforts, on which we focus in the previous sub-chapter, research shows that investment in adaptation to climate change can also decrease the magnitude of future damage and reduce related costs.[262]

This sub-chapter should be read together with the one on transformation of EU energy systems (sub-chapter 8) to have a more comprehensive picture of the impact of no ambitious and united EU action in energy and climate policies up to 2050. Contrary to the regulatory, budgetary and social impacts of transforming the EU energy system to a zero emission one, presented in the previous sub-chapter, calculations presented in this sub-chapter relate only to measuring the impacts of adverse effects of climate change that occur due to damage provoked by extreme climate events. Mitigation solutions are mainly addressed in sub-chapter 8, whereas here the focus is on climate adaptation that has the potential to greatly reduce the bill for the effects of climate change.

More detailed analysis of the potential benefit

Based on the 2021 CONE report,[263] EPRS estimated that, in a mid-century perspective, the potential benefits of staying on track for 1.5° Celsius warming, thanks to ambitious climate change mitigation

[258] Regulation 2021/1119 of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (European Climate Law).

[259] IPCC, Climate Change 2022: Mitigation of Climate Change – Summary for Policymakers. The policies and commitments considered as insufficient to limit the warming to 1.5 Celsius are the ones adopted to 11 October 2021.

[260] See sub-chapter 8 (Transformation of EU energy systems) on potential costs and benefits of EU action in decarbonising the EU energy system.

[261] K. van Ginkel et al., Environ. Res. Lett. 15 023001, 2020.

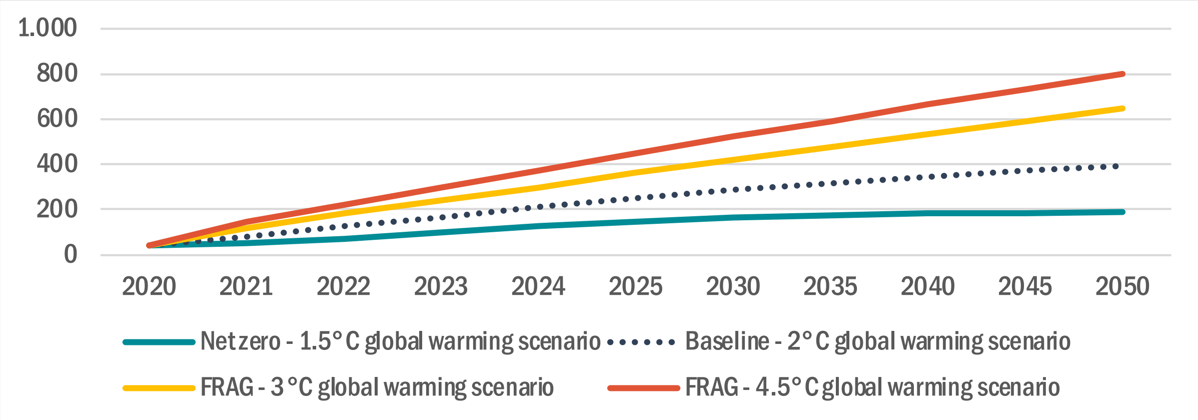
[262] The calculation of impacts presented in this sub-chapter does not include potential reduction of costs due to adaptation. Different research findings on the benefits of adaptation are quoted in the European Commission Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change, SWD(2021) 25 final, 24 February 2021.

[263] A. Heflich and J. Saulnier, EU energy system transformation – Cost of Non-Europe, op. cit., and A. Heflich and J. Saulnier, Towards carbon neutrality through transformation of EU energy system, EPRS, July 2022.

action, are even higher than in 2030, and amount to **€203 billion saved per year in 2050 in terms of extreme weather events and welfare** compared to the baseline.

A low-ambition, 'muddling through' scenario of a 3° Celsius temperature rise that is associated with a fictional scenario of fragmentation (FRAG) and no more new EU climate and energy policy from 2020, is estimated to incur a €422 billion cost per year in 2030 that would rise to €648 billion in 2050 (Figure 13). An extreme scenario of 4.5° Celsius climate change, which also envisages a fictional scenario of fragmentation (FRAG) and no more new EU climate and energy policy from 2020, would be the most disastrous in terms of economic costs, provoking a €521 billion loss per year in 2030, and €801 billion per year in 2050.

Figure 13: Extreme climate event costs for the EU-27 in different climate change scenarios, € billion per year



Note: FRAG denotes fictional scenario of fragmentation and no more new EU climate and energy policy from 2020.

Source: EPRS.

The discussed costs would result from coastal and river flooding of human settlements and economically important areas that exist along the European coastline and rivers. They would also be due to windstorms damaging constructions and causing fatalities. Drought-related costs are already largely materialising; they originate because of adverse effects in many sectors, e.g. crop failure, reduced public water supply, reduced power supply due to cooling water shortages, and shipping interruptions. For some countries, especially those located in Mediterranean and Atlantic regions of Europe, these costs could represent a considerable proportion of GDP.[264]

On the one hand, the impacts presented should be considered as a lower bound, as there are many other impacts besides coastal floods, river floods, drought and windstorms, which are not considered here due to the scope and because they are more difficult to assess in monetary terms. For example, some environmental impacts, such as degradation, loss of habitats and loss of biodiversity, are very significant but not easily calculated and monetised.[265] These additional adverse impacts could potentially raise the overall costs of climate change.

On the other hand, some costs could be substantially lowered only if an ambitious adaptation policy is pursued, as proposed in the EU adaptation strategy.[266] For some of the extreme climate impacts – especially river and coastal flooding – the JRC has estimated that, under the high emission scenario

[264] European Commission, EU Science Hub, Droughts.

[265] L. Feyen, J. Ciscar, S. Gosling, D. Ibarreta and A. Soria (eds.), Climate change impacts and adaptation in Europe: JRC PESETA IV final report, Publications Office of the European Union, 2020.

[266] European Commission, Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change (COM(2021) 82 final)

of a 3° Celsius temperature rise in 2100, adaptation could save up to 90 % of annual coastal flood damage.[267] Damage cost reduction is lower in lower warming scenarios, although it still confirms that adaptation benefits outweigh their costs.

Importantly, based on JRC estimates, climate impacts seem to have a north-south divide – although this kind of simplistic division always needs to be treated with caution – in terms of regional distribution of welfare losses in the EU. Up until warming of 2° Celsius, northern European regions could benefit from rising temperatures in some aspects (e.g. longer tourist season and shorter heating season) as opposed to southern regions, where economic losses due to climate change impacts are several times higher. Available scientific evidence suggests that some adverse effects of climate change will continue to happen even if the temperature rise is stabilised by the end of this century. Findings also show that climate impacts affect different social groups differently, with vulnerable groups being most often disadvantaged.[268]

European Parliament position

Climate change has been recognised by the EU as an existential threat,[269] and fighting climate change is one of the main political priorities for the Parliament. At the beginning of its 9th term, the Parliament declared a climate emergency and called on the Commission, the Member States and all global actors to take immediate and ambitious action to limit global warming to 1.5° Celsius before it is too late.[270] The Parliament asked the Commission to assess the impact of EU policies and the EU budget on climate change, as well as reform-relevant policies, to be in line with EU climate priorities. The Parliament has supported ambitious mitigation measures, including increasing the 2030 EU climate and energy targets to ensure the EU stays on a trajectory of achieving climate neutrality by 2050. At the same time, the Parliament has expressed the importance of adaptation measures that, along with mitigation, could significantly reduce the potential negative impacts described above.

In a resolution on the EU strategy on adaptation to climate change, the Parliament advocated for EU-level action to build resilience to adverse impacts of climate change, which respect no borders.[271] Although adaptation action needs to be taken regionally and locally, the necessary funding and solutions can be developed and disseminated at EU level. The Parliament called in the resolution to accelerate efforts on climate adaptation in Europe and internationally, because it is not only in the EU's economic interest, but is also imperative for the public's well-being. The resolution, adopted before the Commission published the adaptation strategy,[272] proposed binding and quantifiable goals for climate adaptation at EU and Member State level. The Parliament stressed the importance of using sustainable nature-based adaptation solutions and green infrastructure, and even proposed to classify the latter as critical infrastructure for programming, funding and investment purposes. In the resolution, the Parliament also called on the Commission to propose an EU strategy to combat desertification within the framework of the adaptation strategy. The Parliament supported an increase in financing for climate adaptation at all governance levels, and

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[267] See e.g. Figures 19 and 20 in L. Feyen et al., op. cit.

[268] See G. Erbach et al., EU climate action policy: Responding to the global emergency, EPRS, March 2021; European Environmental Agency, Europe's changing climate hazards, November 2021.

[269] European Council, A new strategic agenda 2019-2024, Press release, 20 June 2019

[270] European Parliament resolution of 28 November 2019 on the climate and environment emergency (2019/2930(RSP)).

[271] European Parliament resolution of 17 December 2020 on the EU strategy on adaptation to climate change (2020/2532(RSP)).

[272] European Commission, Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change (COM(2021) 82 final).

called for an improvement in earmarking EU funding for climate in order to be able to distinguish mitigation and adaptation spending. The Parliament also recognised a role for the EU in closing knowledge and research gaps on adaptation, increasing awareness raising and helping Member States to share best practices and collaborate on building resilience to climate change.

Regarding the international context, the Parliament stressed that, along with mitigation efforts, the new EU adaptation strategy should promote and develop adaptation solutions with third countries, especially those that are most vulnerable to the impacts of climate change.

Commission and Council responses so far

The EU has been addressing climate change impacts through its regulations and coordination measures, as well as its funding for climate mitigation and adaptation, for several decades now. The current Commission has made fighting climate change and promoting sustainable development a flagship project, and has adopted a European Green Deal that lays out regulatory and other measures to achieve climate neutrality by 2050 and do no significant harm to the environment. The new EU long-term budget for 2021-2027 was adapted to the climate challenge and includes a record 30 % mainstreaming of climate mitigation and adaptation measures, while over a third of the post-COVID recovery funds for EU Member States has to be spent on climate action.

In 2021, the Commission also adopted **a new EU climate adaptation strategy** that sets a vision until 2050, building on and addressing the gaps in the previous strategy dating from 2013.[273] However, contrary to the call from the Parliament, the strategy does not set any binding targets for the Member States. Firstly, the strategy envisages that the so-far missing data and risk analysis will be improved and, for this purpose, enhances Climate-ADAPT as a European platform for adaptation knowledge.[274] Secondly, it strives to help Member States speed up the development and rolling out of adaptation solutions. Thirdly, it focuses on streamlining climate adaptation into all policies, and fourthly, it aims to step up the EU's international action for climate resilience.

EU environment ministers adopted conclusions supporting the strategy in June 2021 and invited the Commission to work with Member States on the proposed integration of climate adaptation into macro-fiscal policies.[275] In February 2022, the ministers committed to EU climate diplomacy as a priority and called to accelerate international efforts to address the climate financing gap, and especially to support middle and low-income countries.[276]

Looking forward

It remains to be seen in the current decade, which is considered as crucial for avoiding the worst impacts of climate change, how ambitiously EU Member States will proceed with mitigation and adaptation efforts. Meanwhile, investment in adaptation from the EU budget and EU funds,

273 European Commission, Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change (COM(2021) 82 final).

274 Climate-ADAPT.

275 Council of the European Union, Conclusions on forging a climate-resilient Europe – the new EU Strategy on Adaptation to Climate Change, 9419/21.

276 Council of the European Union, Climate Diplomacy: Council calls for accelerating the implementation of the Glasgow COP26 outcomes, Press release, 21 February 2022.

although it increased seven-fold in the previous decade, has so far been disproportionately low compared to the needs and to the investment in mitigation.[277]

There is still untapped potential for European added value in climate adaptation investment in the EU to reduce the potential negative impacts of climate change. Adaptation projects do not attract as much private sector investment as climate mitigation projects because they often require high up-front finance, lack a steady stream of revenue and provide long-term, non-financial benefits beyond the duration of the project that are difficult to assess economically. For this reason, support from public investment is crucial.[278] Faced with constrained public finances, the prospects are not encouraging, while there is still no momentum to ensure common EU budgetary resources above the current 1 % of GNI.

Although research finds that the **negative impacts of extreme climate events on renewable energy production (wind, solar and hydro) could not derail the EU energy transformation towards carbon neutrality**, they could result in 'higher costs and different regional energy mixes, unless adaptive measures are deployed such as increased plant efficiencies, replacement of cooling systems and fuel switches'.[279] However, it remains to be seen how these findings hold in a situation of extremely high energy prices. Recent record high energy prices in the EU revealed weaknesses in the common energy market and prompted short-term competition policy solutions such as Spain and Portugal's 12-month exemption from EU electricity price-setting rules. This confirms a need for systematic future thinking and stress-testing of the rules and policies ruling the EU energy market to avoid future shifting of the burden of the energy transformation to EU consumers and businesses.

Finally, **international cooperation is of the utmost importance to address loss and damage caused by climate change**.[280] Without ambitious global emission reductions, accompanied by investment in adaptation, the most vulnerable countries will pay the highest price of climate change. If climate impacts provoke social and economic instability outside Europe, the EU will still feel its consequences.[281] These spillover effects that are felt in Europe are partly due to our interconnected world, especially when it comes to trade in agricultural and non-agricultural commodities, infrastructure and transport, geopolitics and security risks, finance and human migration. Research indicates that Europe would be mostly affected by transboundary effects of climate change in the Americas and in Asia. Political complacency and a lack of will to tackle problems that generate benefits only in a long-term perspective (and necessitating certain costs in the short term), as well as no preparedness for less favourable global conditions, threaten the EU's resilience to climate change-induced future shocks.

[277] See European Court of Auditors, Special Report 22/2021: Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment, and European Investment Bank, Investment Report 2020/2021, Building a smart and green Europe in the COVID-19 era – Part II: Investing in the transition to a green and smart economy, Chapter 4: Tackling climate change: Investment trends and policy challenges.

[278] Ibid.

[279] European Commission, Impact assessment report on Forging a climate-resilient Europe – The new EU Strategy on Adaptation to Climate Change (COM(2021) 82 final).

[280] L. Jensen, Understanding Loss and Damage: Addressing the unavoidable impacts of climate change, EPRS, July 2022.

[281] See G. Erbach et al., EU climate action policy: Responding to the global emergency, EPRS, March 2021.

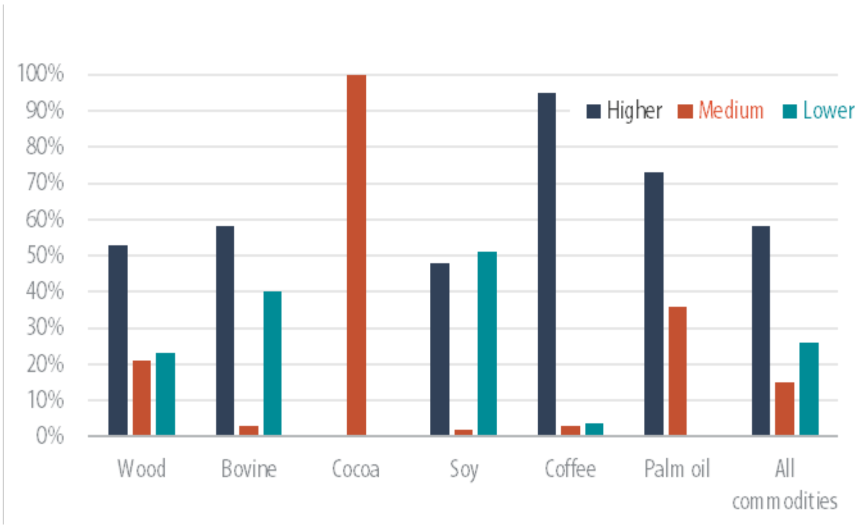
10. EU-driven global deforestation

Potential benefit: €0.5 billion per year

Key proposition

By importing goods such as palm oil, soy, beef, cocoa, coffee, maize and rubber, as well as the trade in wood, the **European Union gives rise to global deforestation and forest degradation** that are advancing at an alarming rate.[282] The damage is due to an increasing need for more pastures and agricultural land, which is gained by deforestation and forest degradation.[283] This practice is especially common in tropical and subtropical regions that are home to some of the most valuable ecosystems, such as tropical primary forests of the highest irreplaceable value because of their undisturbed, natural state and their potential for potential for carbon capture and storage. It is estimated that, from 2008 to 2017, the EU was responsible for nearly 20 % of global tropical deforestation embedded in imports of commodities such as wood, palm oil, soy, cocoa, coffee and beef.[284]

Figure 14: Deforestation risk of commodity imports to the EU between 2015 and 2019



Source: European Commission, Impact assessment on minimising the risk of deforestation, 2021.

[282] It is estimated that, without action and if the current rate of deforestation continues, undisturbed forests in humid regions will disappear entirely by 2050. See European Commission, Impact assessment on minimising the risk of deforestation and forest degradation associated with products placed on the EU market, SWD(2021) 326 final, Part 1/2, p. 6.

[283] For details on drivers of deforestation and forest degradation, see: Chapter 1 in A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment, EPRS, September 2020; Chapters 2 and 3 in European Commission, Impact assessment on minimising the risk of deforestation and forest degradation associated with products placed on the EU market, SWD(2021) 326 final, Part 1/2.

[284] European Commission, Impact assessment on minimising the risk of deforestation and forest degradation associated with products placed on the EU market, SWD(2021) 326 final, p. 17.

The **current EU legislative framework addresses the problem only partly and important gaps remain unaddressed**.[285] Moreover, national and corporate efforts have so far brought mixed results in eliminating deforestation risk from EU supply chains. Also, the problem is broader than environmental protection, because deforestation is often linked with land grabbing and illegal logging.[286] In particular, indigenous populations are at risk of losing access to forest resources, which are key for their culture, heritage and subsistence. This happens in countries with a weak rule of law where land tenure rights are often not respected.

In view of the above, **common EU action** in this field could not only **contribute to world forest protection** but also **create a level playing field** for all players on the EU internal market, as well as bringing social benefits. It could also allow the EU to lead by example and become a model on the global scale in tackling the problem. Moreover, it could ensure coherence between different EU policies and values – environmental protection, fighting global warming, transformation to a decarbonised energy system, sustainable agriculture and development, protection of human rights, ensuring peace and security, and supporting good governance and the rule of law.

To address this complex issue, the European Parliament called in 2020 for EU-level action in this field. In November 2021, the European Commission proposed an EU regulation to address the regulatory gap (see more details below).[287] At the time of finalising this manuscript, the European Parliament and the Council had reached a provisional political agreement on an EU regulation on deforestation-free supply chains.[288]

Research by EPRS, supporting the European Parliament's report with recommendations to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation, revealed that **an effective EU-level regulation containing a mandatory due diligence mechanism could substantially curb deforestation** in tropical and sub-tropical zones.[289] The subsequent impact assessment report for the Commission's proposal for a regulation also confirmed these findings.[290]

An EPRS analysis of the possible introduction of EU-wide mandatory due diligence for imports of only the three main forest-risk commodities – palm oil, soy and beef – revealed that **EU-driven deforestation could be lowered by up to 62 % between 2020 and 2030** compared to the baseline of a status quo scenario.[291] This could be translated to up to **45.7 million metric tonnes of**

285 For details, see Chapter 2 in A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment, EPRS, September 2020. Council of the European Union, Council and Parliament strike provisional deal to cut down deforestation worldwide, Press release 6 December 2022.

286 See e.g. Human Rights Watch, Rainforest Mafias: How Violence and Impunity Fuel Deforestation in Brazil's Amazon, September 2019.

287 European Parliament resolution of 22 October 2020 with recommendations to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation (2020/2006(INL)), and Proposal for a regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010, COM(2021) 706 final, European Commission.

288 Council of the European Union, Council and Parliament strike provisional deal to cut down deforestation worldwide, Press release, 6 December 2022.

289 A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment, EPRS, September 2020, and its Annex: Cambridge Econometrics (2020).

290 European Commission, Impact assessment on minimising the risk of deforestation..., op. cit.

291 The absolute difference from the baseline in cumulative deforestation between 2020 and 2030 would be 160 197 hectares. The absolute difference from the baseline in cumulative CO_2 emissions (2020-2030) would be 45 775 855 tCO2. These calculations represent a potential upper bound of a decrease in deforestation and associated emissions compared to the baseline. This policy option assumed that the effectiveness of the mandatory due diligence increases over time, starting at an estimated 70 % at its entry into force in 2023. By 2030, it is assumed that 100 % of EU imports

CO_2 emissions not emitted to the atmosphere during that decade compared to the baseline. Monetising this result with an assumption of a carbon price of €100 per CO_2 tonne[292] could generate €4.6 billion over the next 10 years – an average of **€460 million in annual savings for the EU economy** by 2030.

More detailed analysis of the potential benefit

EPRS's estimate of the impact of a mandatory due diligence system applied to placing palm oil, soy and beef on the EU market to prevent deforestation needs to be treated as a lower bound of the potential EU added value. The analysis assumes that some EU imports are already deforestation-free (especially when coming from certified sources) and therefore have no impact on EU-driven deforestation.[293] Even if, in reality, certification systems and labels might not be 100 % effective, this is an optimistic underlying assumption that is also reflected in the EPRS analysis' baseline scenario. Moreover, an EU-level mandatory due diligence instrument is assumed to be highly efficient, with a 70 % reduction in deforestation risk at the entry into force of such system at EU level and with 100 % effectiveness – completely eliminating deforestation from EU imports and supply chains from 2030 onwards.[294]

The Commission has also assessed the impact of a proposed EU-level intervention to prevent deforestation, based on mandatory due diligence with a benchmarking system for producing countries and listing operators breaching the deforestation-free criteria in relation to EU imports of wood, palm oil, soy, cocoa, coffee and beef. Based on an evaluation of EU timber regulations, the Commission assumed the effectiveness of mandatory due diligence for the five above-mentioned commodities at 29 %.[295] On these grounds, the Commission estimated, compared to the baseline, that such a system would save at least 72 000 hectares per year from deforestation and forest degradation once the regulation attained full effectiveness in 2030.[296] This would mean nearly 32 million metric tonnes less of CO_2 emitted into the atmosphere that can be translated into at least €3.2 billion in economic savings per year.[297] This estimate can be treated as an upper bound of European added value in this field compared to the EPRS estimations, due to different underlying assumptions (mainly due to less optimistic assumptions of the impact of existing deforestation-mitigating tools). Moreover, the EPRS estimate is lower as its baseline focuses only on the additional potential future deforestation.

Some benefits of EU-level intervention to remove deforestation risk from EU supply chains are more difficult to quantify. EU action is, for example, expected to have a **positive impact on forest ecosystems and their biodiversity**. Other benefits are likely to stem from the country benchmarking system linked with due diligence that the Commission proposed. On the demand side, it could **benefit operators** sourcing commodities and products from low-risk deforestation

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and supply chains will be free from the risk of deforestation. See details in A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment, op. cit.

292 European Commission, Impact assessment on minimising the risk of deforestation..., op. cit., see section 6.1.1. Environmental impacts.

293 A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit. – see Chapter 3.2.1 (Main assumptions for the quantitative assessment of policy options).

294 For details, see A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit. – see Chapter 3.4 (Policy option 1: Mandatory due diligence for forest-risk supply chains).

295 European Commission, Impact assessment on minimising the risk of deforestation..., op. cit., Chapter 6.1.1.

296 European Commission, Impact assessment on minimising the risk of deforestation..., op. cit., Chapter 6.1.1.

297 Ibid. The Commission assumes a carbon price of €100 per tonne of CO_2 for the period up to 2030.

countries that compete with operators that do not make such an effort. Common EU action could also increase corporate transparency, from which **consumers and other actors such as NGOs and academia could benefit**. On the supply side, this regulation could benefit low-risk deforestation countries and increase their exports as well as being an incentive to improve the environmental sustainability of their supply chains.

Important social benefits in producing countries are also expected. They will be driven by reducing the risk of unsustainable use of forests and their resources, on which many local communities heavily depend. Other potential positive social impacts include: strengthening land tenure, local communities' governance, protection of indigenous people and workers' rights, etc.[298]

Common EU action to clean EU supply chains from commodities and products that carry a deforestation risk will entail some **economic costs for EU market operators**. Available evidence indicates that the initial costs of due diligence would be higher than the recurrent costs, especially for those operators that do not have any such mechanism in place yet.[299] Nevertheless, the Commission assumed in its impact assessment that, already, 20 % of imports of the six forest-risk commodities under the considered scope of the regulation are sourced from low deforestation-risk countries (see Figure 14).[300] Under the proposed system, these imports would be subject to simplified due diligence, which would drive down the due diligence costs for EU business.[301]

Costs for public authorities are mainly associated with setting up the benchmarking system and processing information as well as enforcing the regulation. The Commission proposed to handle setting up the benchmarking scheme. Enforcement costs will be borne by competent national authorities that will execute the checks, especially related to imports from high deforestation-risk countries.

Costs of compliance for producers in third countries will depend on the commodity and country. Higher volumes of some commodities are produced more sustainably and their traceability system is more transparent (wood) than others (cocoa). It is assumed that the compliance costs incurred both by operators placing products on the EU market and by third-country producers might either be absorbed, as the regulation will level the playing field, or this increase can be passed on to consumers through an increase in prices.[302]

European Parliament position

The European Parliament has been advocating for better protection of world forests. In 2020, it adopted a resolution with a recommendation to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation, in which it called for a mandatory due diligence system.[303] Subsequently, it supported the Commission's proposal for a regulation on the making available on the Union market as well as export from the Union of certain commodities and products

298 European Commission, Impact assessment on minimising the risk of deforestation..., op. cit.; A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit.

299 Ibid.

300 Ibid.

301 Ibid.

302 For details, see European Commission, Impact assessment on minimising the risk of deforestation..., op. cit. and A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit.

303 European Parliament resolution of 22 October 2020 with recommendations to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation (2020/2006(INL)).

associated with deforestation and forest degradation.[304] However, in its amendments to this proposal, the Parliament wanted to extend the scope of the regulation and include swine, sheep, goats and poultry, as well as maize, rubber, charcoal and printed paper products (in addition to coffee, cocoa, palm oil, soya, beef and wood, as proposed by the Commission).[305]

Members also called on the Commission to review the scope and to analyse the effectiveness of the regulation no later than a year after its entry into force. The scope was also extended when it comes to economic operators as, according to the Parliament, financial institutions should provide financial services only after ensuring that there is no more than a negligible risk that their services contribute to deforestation, forest degradation or conversion. The Parliament decided that operators should take responsibility for their compliance with the regulation and support vulnerable stakeholders in their supply chain (e.g. smallholders, indigenous peoples and local communities). Operators should also make sure that the products they trade on the EU market were made without breaches of human rights and with respect for indigenous peoples. The Parliament has also underlined the importance of ambitious EU global action in this context and has advocated for improvements in EU trade policy, including robust clauses on deforestation. It has also called on the Commission to 'establish a platform covering the forest areas worldwide, featuring a range of tools to enable all parties to quickly move towards No-Deforestation across supply chains'.

Commission and Council responses so far

The problem of global deforestation due to international trade in commodities has been addressed at EU level since the early 2000s.[306] Nevertheless, products coming from deforested land were continuously imported to the EU, increasing the EU's impact on deforestation and forest degradation.

In 2019, the Commission presented a communication on stepping up EU action to protect and restore the world's forests, and it confirmed in the European Green Deal communication that it wants to address the problem of deforestation and forest degradation at EU level.[307] In November 2021, the Commission put forward a proposal for an EU regulation addressing EU-driven deforestation and forest degradation.

For decades, some EU Member States have also been acting in parallel at international forums and have become signatories to declarations aiming to eliminate deforestation from supply chains.[308] Only a few EU countries have developed legislative measures that address supply chains' exposure to deforestation risk. Some Member States stated in their national strategies and guidelines that action at EU level would be desirable to tackle the problem of EU-imported deforestation.

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304 Proposal for a regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010, COM(2021) 706 final, European Commission.

305 Amendments adopted by the European Parliament on 13 September 2022 on the proposal for a regulation of the European Parliament and of the Council on making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010 (COM(2021) 0706 – C9-0430/2021 – 2021/0366(COD)).

306 See Chapter 2.2 (EU-level framework addressing global deforestation) in A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit.

307 Communication on stepping up EU action to protect and restore the world's forests, COM(2019) 352 final, and Communication on The European Green Deal, COM(2019) 640 final, European Commission.

308 See Chapter 2.3 (Action at EU Member-State level addressing global deforestation) in A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation, op. cit.

In relation to the proposed by the Commission on EU-level regulation in 2021, the EU environmental ministers agreed on a common approach in June 2022.[309] They did not change the proposed scope, but made 'a number of additions to the list of products derived from the six commodities'. The ministers have also strengthened provisions regarding the protection of human rights.

The Council also wants a clear definition of terms such as 'deforestation' and 'forest degradation' in the absence of internationally recognised definitions of such terms.

Looking forward

Many risks are associated with this planned EU intervention, such as effective implementation and enforcement, and leakage of forest-risk commodities to markets with looser environmental requirements. The regulation on eliminating deforestation risk from EU imports and exports is only a demand- side measure and it needs to be supported by other actions. Therefore, addressing the problem at its source in producing countries and strengthening measures such as supporting third countries in adopting sustainable agriculture practices which stop deforestation and forest degradation are necessary. This requires mainstreaming of deforestation-free practices in different EU policies as well as ensuring their coherence.

[309] Council of the European Union, Proposal for a Regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation, general approach, 10284/22.

11. Improving environmental quality through efficient environmental expenditure

Potential benefit: €20 billion per year

Key proposition

Despite five decades of common environmental protection policy that has been led at both EU and Member State level, and despite the EU being a global leader in setting environmental standards, many challenges remain in environmental protection.[310] Moreover, recent research[311] shows that the EU natural environment is in a dire state and that there is a rapidly closing window of opportunity to avoid irreversible change, especially to biodiversity and ecosystems.[312] Significantly improving the quality of the natural environment[313] in Europe will require not only a revision of current environmental protection rules but also action in EU budgetary, trade, taxation, competition and international relations policies, so that polluting activities are not outsourced, are economically profitable and that free riding behaviour is avoided.

The EU has started to recognise these risks and challenges[314] and formulated its new approach of sustainable growth in the European Green Deal, set environmental spending targets in the multiannual budget (MFF), and defined more detailed objectives for environmental protection in the 8th Environmental Action Plan.[315] Nevertheless, given budgetary constraints in many Member States, and a situation of almost permanent crises, one cannot be sure that the EU's ambition to transition to a green and sustainable economic model will be maintained and be successful.

Recent research by EPRS confirms that, to credibly support the EU's ambitious environmental goals, the investment gap in EU environmental protection needs to be addressed.[316] One way to address this challenge is to **improve the quality of public environmental spending** in the EU. With its research, EPRS aims to contribute with evidence to the discussion on efficient governmental expenditure.

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[310] L. Squintani, Study on the harmonisation of EU environmental law, DG IPOL, European Parliament, February 2022, and European Commission, The costs of not implementing EU environmental law study: final report, Directorate-General for Environment, 2019.

[311] A. Heflich and J. Saulnier, Improving the quality of public spending in Europe – Green transformation, EPRS, 2022.

[312] EEA, SOER & European Environment Agency, The European environment – state and outlook 2020: Knowledge for transition to a sustainable Europe; IPCC Sixth Assessment Report, Climate Change 2022: Impacts, Adaptation and Vulnerability; L. Squintani, Study on the harmonisation of EU environmental law, op. cit.

[313] The environmental quality of a country can be assessed through some indicators. One example of such an assessment, whose data is used by the above-mentioned EPRS study, is the Environmental Performance Index (EPI) prepared by the Yale Center for Environmental Law & Policy.

[314] See the new strategic agenda 2019-2024 adopted by EU leaders in 2019.

[315] The six key objectives are: (i) achieving greenhouse gas reductions by 2030 and climate neutrality by 2050; (ii) enhancing EU adaptation to climate change; (iii) accelerating the circular economy; (iv) pursuing a zero-pollution ambition; (v) protecting, preserving and restoring biodiversity and enhancing natural capital; (vi) reducing environmental and climate pressures due to production and consumption.

[316] A. Heflich and J. Saulnier, Improving the quality of public spending in Europe – Green transformation, op. cit.

The study estimated a budgetary waste rate in EU Member States' environmental budgetary spending. The results showed that more efficient use of resources by Member States could bring **between €20 billion and €26 billion of additional** public environmental spending per year for environmental goals in the EU.[317]

More detailed analysis of the potential benefit

Among the key challenges related to achieving the set objectives, apart from ambitious regulations (e.g. mandatory nature restoration targets[318]), better implementation,[319] strong enforcement and monitoring of EU environmental laws,[320] is the **issue of mobilising adequate resources for environmental protection** to address the existing investment gap.[321]

The budgetary waste rate approach developed by EPRS has been recently applied to analyse the quality and governance of EU public environmental spending.[322] It assumes that the current low level of budgetary capacity in the EU (representing only 1 % of the EU-28's gross national income, or around €140 billion) and the large amount of inefficiency in spending at Member State level requires a reflection on the quality and governance of public expenditure.[323] The approach checks if some national-level spending could be spent more efficiently and bring more added value at EU level.

Building upon this approach, a recent study by EPRS analysed Member States' budgetary spending on the environment. In a four-step economic analysis, a budgetary waste rate of Member States' national environmental expenditure is established. As a first step, theoretical efficiency of spending is established with data envelopment analysis (DEA), by using Member States' environmental expenditure as input and their rank in the Environmental Performance Index (EPI) as an outcome.[324]

In the second step, another layer of analysis is added, as it is unlikely that the calculated theoretical efficiency materialises in full. Thus, the study conducts a complementary economic analysis (a complementary DEA), which reveals that between 33 % and 43 % less budgetary resources could be used to achieve the same level of environmental protection. Considering the total amount of EU Member States' public environmental expenditure, more efficient use of resource by Member States

317 The data used in this research relies mainly on Eurostat, which classifies 'expenditure for environmental protection' as 'outlays and other transactions related to: inputs for environmental protection activities (energy, raw materials and other intermediate inputs, wages and salaries, taxes linked to production, consumption of fixed capital); capital formation and the buying of land (investment) for environmental protection activities; users' outlays for buying environmental protection products; transfers for environmental protection (subsidies, investment grants, international aid, donations, taxes earmarked for environmental protection, etc.)'.

318 See the proposal for a regulation on nature restoration, COM(2022) 304 final, European Commission.

319 Bad implementation of EU environmental law is costing the EU €55 billion a year: European Commission, The costs of not implementing EU environmental law study..., op. cit.

320 See: European Commission, Environmental Implementation Review.

321 Commission Staff Working Document, Identifying Europe's recovery needs, accompanying the Communication on Europe's moment: Repair and Prepare for the Next Generation, SWD(2020) 98 final, and M. Nesbit, K. Whiteoak, E. Underwood et al., Biodiversity financing and tracking: final report, European Commission, Directorate-General for Environment, 2022.

322 A. Heflich and J. Saulnier, Improving the quality of public spending in Europe – Green transformation, op. cit.

323 J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, October 2020.

324 EPI is an index developed by the Yale Center for Environmental Law & Policy. It is composed of performance indicators across 10 issue categories, ranking 180 countries on environmental health and ecosystem vitality. For details, see Z. Wendling, J. Emerson, D. Esty, M. Levy, A. de Sherbinin et al., 2018 Environmental Performance Index, New Haven, CT: Yale Center for Environmental Law & Policy.

could bring between €20 billion and €26 billion of savings in additional public environmental spending per year for environmental goals for the whole EU.

In a third step, the study analyses any potential returns-to-scale or cross-border spillover effects that could explain differences in Member States' structural organisation and preferences. The results of this step confirm that scale effects could be better exploited if some national environmental spending would be shifted to EU level. Results also confirm that significant spillover effects exist that could be internalised by allocating the spending to EU level.

The fourth, and tentative, step goes further into the analysis and concentrates on two subdomains of public environmental expenditure, on **wastewater** and on **ambient air, soil, groundwater protection as well as noise abatement.**[325] Results for the first subdomain of national wastewater expenditure indicate a theoretical budgetary waste rate of 69 %, meaning that there is a certain level of inefficiency in national budgetary spending on these abatement measures. A further check of spending shows potential for scale effects and cross-border spillover effects, meaning that there could be an argument for more direct EU action in this area. Results regarding national expenditure on ambient air, soil and groundwater protection as well as noise abatement indicate a 38 % theoretical budgetary waste rate. However, a further partial analysis did not find either positive scale effects of moving this spending to EU level, or spillover effects that could be internalised. One could argue the case for further research on EU-level budgetary action in this field.

Interestingly, recent research on biodiversity spending in the EU shows that the investment gap for environmental protection can be higher than initially estimated.[326] A difference between future financing needs and allocated expenditure in the field of biodiversity revealed an approximate gap in Member States' and EU spending of €18.6 billion per year for the period 2021-2030. This can be translated to a €9.6 billion annual gap in the EU MFF spending on biodiversity over the period.[327]

European Parliament position

The European Parliament has, for decades, advocated for ambitious environmental policies. In the current 9th legislature, the Parliament has supported the European Green Deal proposed by the Commission. The Parliament supported higher EU spending on the environment in the EU multiannual budget for 2021-2027, including a mainstreaming target of 30 % and a biodiversity mainstreaming target of 7.5 % (from 2024) and afterwards of 10 % (between 2026-27).[328] At the same time, the Parliament called for a stronger tracking methodology of this mainstreaming, as the European Court of Auditors revealed its shortcomings in the previous budgetary term.[329]

325 For details, see the Classification of the Functions of Government (COFOG) terminology that Eurostat is using.

326 Commission Staff Working Document, Identifying Europe's recovery needs..., op. cit.

327 Assuming a 52 % contribution from the MFF in total (EU, Member States and private level) EU biodiversity spending over 2021-2030. Based on: M. Nesbit, K. Whiteoak, E. Underwood et al., Biodiversity financing and tracking: final report, European Commission, Directorate-General for Environment, op. cit.

328 European Commission, The 2021-2027 EU budget – What's new?.

329 European Court of Auditors, Special Report 09/2022: Climate spending in the 2014-2020 EU budget – Not as high as reported.

The Parliament has also been a strong supporter of increasing the EU's own resources, including its green resources, and has been stressing that they are key not only in supporting the EU's economic recovery but also in realising its climate and environmental political priorities.[330]

While stating its position on the 8th EU Environment Action Programme to 2030, the Parliament called for better monitoring, assessment and reporting of environmental indicators in national environmental budgets.[331] In other recent resolutions, the Parliament called on EU Member States to provide for adequate financial resources that should accompany improvements in implementing relevant EU legislation on the EU water sector, the use of soil and when it comes to air pollution.[332]

Commission and Council responses so far

The EU strategic agenda for 2019-2024, adopted by European leaders in 2019, set, as one of its four strategic priorities, 'building a climate-neutral, green, fair and social Europe'.[333] It acknowledges that succeeding in the green transition will depend, among other efforts, 'on significant mobilisation of private and public investments' and that climate action will need to be pursued in parallel with environmental protection and reduction of pollution levels. Moreover, by adopting the current EU budget and the EAP by 2030, EU governments committed themselves to mainstreaming climate and the environment in EU spending and to making the best use of green budgeting and financing tools. Nevertheless, it remains to be seen if this will lead to tangible results in terms of improved environmental quality in the EU.

The European Green Deal strategy, one of the Commission's key political priorities, aims to achieve EU climate neutrality by 2050, together with the aim of 'living well, within the limits of our planet'.[334] This is an unprecedented challenge, coupled with an ambition of further economic development decoupled from resource use. Moreover, the ambition of zero pollution for 2050[335] is in line with the 'do no significant harm' principle,[336] meaning achieving a toxic-free environment.

The European Green Deal also mainstreams climate and environmental protection in EU policies and the EU budget. Among the many goals of this green agenda, the Commission aims to help EU governments to green their budgets by improving budget practices and align them to deliver on climate and environmental policies.[337]

[330] European Parliament resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020 (2020/2732(RSP)).

[331] Position of the European Parliament adopted at first reading on 10 March 2022 with a view to the adoption of Decision (EU) 2022/… of the European Parliament and of the Council on a General Union Environment Action Programme to 2030. At the time of writing, the decision has not yet been published in the Official Journal, but the position adopted by the European Parliament reflects the compromise agreement reached between the co-legislators.

[332] European Parliament resolution of 17 December 2020 on the implementation of the EU water legislation (2020/2613(RSP)); European Parliament resolution of 28 April 2021 on soil protection (2021/2548(RSP)); European Parliament resolution of 25 March 2021 on the implementation of the Ambient Air Quality Directives: Directive 2004/107/EC and Directive 2008/50/EC (2020/2091(INI)).

[333] European Council, A new strategic agenda 2019-2024.

[334] This was a motto of the 7th EAP – The new general Union Environment Action Programme to 2020. Many goals of this plan were not achieved by the EU.

[335] European Commission, Communication on a Pathway to a Healthy Planet for All EU Action Plan: 'Towards Zero Pollution for Air, Water and Soil', COM(2021) 400 final.

[336] As laid out in Article 17 of the EU Taxonomy Regulation.

[337] European Commission, Supporting the Implementation of Green Budgeting Practices among the EU Member States.

The Commission has also redefined the monitoring of progress of EU environmental and climate goals defined in the 8th Environment Action Programme by proposing headline indicators to measure progress.[338] One of the indicators is about how much Member States spend on environmental protection (expenditure of households, governments and corporations). As spending more does not necessarily mean spending better, it is important that this indicator is set among 25 others that will be able to reflect environmental quality and progress in fighting global warming.

Looking forward

It remains to be seen if EU environmental protection objectives will be fulfilled by 2030 or whether many will remain unachieved, as was the case regarding the 2020 goals.[339] Also, as different crises unfold it remains to be seen what trade-offs between environmental goals and other priorities the EU will make.[340] There is a risk that, without EU leadership, the investment gap in environmental protection will not be closed. Moreover, there is a risk that the record resources for environment and climate that are and will be mobilised in the current EU budget and EU recovery funds might not be spent efficiently and effectively. In this context, there is a need for a deeper reflection on the quality of public spending.

[338] Communication on the monitoring framework for the 8th Environment Action Programme: Measuring progress towards the attainment of the Programme's 2030 and 2050 priority objectives, COM(2022) 357 final, European Commission.

[339] The evaluation of the 7th EAP revealed that, despite the biggest progress in achieving the goal of a resource-efficient, low-carbon economy, the goals linked to protecting nature, as well as all the goals related to environment and health, will probably not be met. See European Commission, Report on the evaluation of the 7th Environment Action Programme, COM(2019) 233 final.

[340] An illustration of such a trade-off, to be decided upon, is the proposal by the Commission in the REPowerEU plan to exempt some investment in the Recovery and Resilience Plans from the 'do no significant harm' principle when immediate security of energy supply is at stake. See the proposal for a regulation amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulation (EU) 2021/1060, Regulation (EU) 2021/2115, Directive 2003/87/EC and Decision (EU) 2015/1814, COM(2022) 231 final, European Commission. See also the European Court of Auditors Opinion 04/2022 on the matter.

Chapter 3 – Digital transformation

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
12	**Provision of digital services**	€22.5 billion per year	Fair competition on the digital market More opportunities for smaller businesses Boost in EU cross-border digital trade Increased innovation among EU businesses	Positive impact on consumer choice Increased online safety and protection of users against illegal offerings Better quality of services, leading to consumer surplus Protection of minors and vulnerable groups in online sphere	Negative impact due to digital footprint of services Protection against products not fulfilling EU rules related to energy consumption and environment	Protection of users against illegal online activities, harmful content More safeguards for users Safer and more secure electronic identification in public and private sphere, resulting in enhanced protection of personal data	Reduced information asymmetry between citizens and large platforms Increase in transparency and accountability of decisions by large platforms Better information assistance to citizens living in another EU country and businesses operating cross-border
13	**Digital transition of SMEs**	€163 billion per year	Scale-up of European SMEs Enhanced innovation and competitiveness	Positive impact on social inclusion via training, up-skilling and re-skilling Closing the digital skills gap	Lower impact due to adoption of newest technologies	Adoption of higher quality and better designed technologies, ensuring respect for fundamental rights	Closing the digital gap between large companies and SMEs Key role in delivering the EU's digital transformation
14	**Cybersecurity and data governance**	€97 billion per year	Less cyber-crime and decrease in costs related to cyber incidents	Enhanced trust in digital products and technologies by citizens Reduction of information asymmetries	Potentially positive due to the use of the latest and more sustainable technologies	Less incidents, including data breaches	Increased resilience of critical infrastructure

			Higher trust, resulting in higher uptake of digital technologies by businesses					Safer and more secure products with digital components
15	**Regulating the platform economy**	€47 billion per year	Increased wages Better consumer protection More level playing field among companies	Improved working conditions and wages Improved health, including mental health, of workers Avoid race to the bottom on working conditions and taxation	Potential negative impact due to increased use of ICT	Improved access to social protection for workers Reduce abuses by algorithmic management	
16	**Ethical and liability aspects of artificial intelligence**	€34.5 billion per year	New job creation Boost in EU competitiveness on global scale Promotion of innovative business models	Increased social acceptance of new technologies Ensuring consumer protection	Potential positive impact on environment due to harmonised rules on sustainability of AI systems	Enhanced protection of fundamental rights due to harmonised liability rules	Reduction in regulatory fragmentation and increased legal certainty Potential positive impact on third countries' jurisdictions
17	**Data transfers and privacy of communications**	€20 billion per year	Increase in EU trade in services with third countries Less additional costs due to legal uncertainty for companies engaged in data transfers with third countries	Enhanced transparency Higher public trust due to enhanced privacy framework and protection against illicit use of spyware software	Not significant with regard to suggested actions	Enhanced privacy of communications Stronger protection of fundamental rights and freedoms Protection of personal data due to safer use of digital technologies	Potential positive impact on third countries' jurisdiction on data protection Protection of democracy via enhanced rules on privacy
Total		**€384 billion per year**						

12. Provision of digital services

Potential benefit: €22.5 billion per year

Key proposition

The digital transition represents one of the EU's key ambitions, while digital technologies are already profoundly transforming our economy and society. The EU's digital strategy strives to empower citizens and businesses, while enhancing Europe's digital sovereignty and standard setting. In March 2021, the Commission presented a vision for Europe's transformation by 2030, including targets for digitalisation of public services: 80 % of citizens to have access to and use digital identity and online provision of key public services for all European citizens and businesses.[341] Several EU funding programmes, including the Digital Europe Programme, Horizon Europe and the Recovery and Resilience Facility, bring together more than €150 billion to fund digital technologies for businesses, citizens and public administrations.[342]

This sub-chapter identifies gaps and barriers in the status quo in provision of digital services, identifies policy measures and estimates potential impacts they could have on EU citizens and the EU economy as a whole. The analysis focuses on the following selected aspects:[343] establishing a single digital gateway and electronic identity; introducing common rules on provision of digital services, including updated e-commerce rules and online content moderation.

The quantitative analysis builds on the outcomes of the European added value assessment of the Digital Services Act (DSA), and on the Commission's estimations regarding a single digital gateway and digital identity. A more detailed assessment of the selected areas points to potential benefits for the EU's economy and citizens of around **€22.5 billion per year.**[344] In addition to quantitative benefits, the analysis also identified important non-quantifiable social impacts as well as a positive impact on fundamental rights.

More detailed analysis of the potential benefit

The growth of e-commerce has brought significant benefits to consumers, including a wider choice and lower prices. The 2021 data from Eurostat show that 74 % of individuals in the EU purchased goods or services online during the year preceding the survey, while 32 % of online shoppers purchased their goods from another EU country and 21 % from a non-EU country, demonstrating an important cross-border dimension of e-commerce.[345] The retail market has been growing and

341 Proposal for a decision establishing the 2030 Policy Programme Path to the Digital Decade, COM(2021) 574 final, European Commission, 15 September 2022.

342 Open Adoption Data: How to Make the Digital Compass a Success, a blog by the Lisbon Council, published on 5 July 2021.

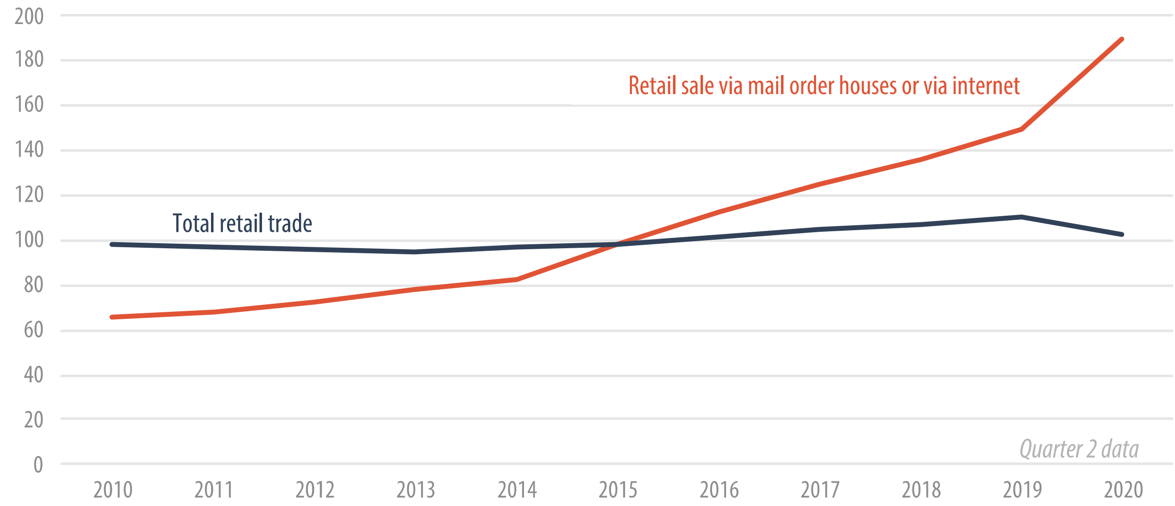
343 This sub-chapter looks into a sub-section of the digital single market to avoid overlapping impacts of other EU policy measures addressed in other sub-chapters of this publication under 'Digital transformation'.

344 The 2019 version of the Mapping identified the potential benefits of €110 billion for the entire digital single market. The present sub-chapter focuses on selected key areas.

345 E-commerce statistics for individuals: data from January 2022, consulted in July 2022.

transforming a lot in recent years. Between 2014 and 2020, the annual growth of digital retail was over 14 %, compared to the overall rate of growth in total retail trade, which amounted to only 1 %. See Figure 15 for more details.

Figure 15: Evolution of retail trade in the EU (2015=100)



Source: N. Lomba and T. Evas, [Digital Services Act: European added value assessment](), Annex 1, EPRS, 2020. Based on Eurostat data.

In 2019, cross-border e-commerce in the EU amounted to €143 billion, with online marketplaces accounting for 59 % of the market and expected to account for 65 % by 2025.[346] The estimated revenue of the e-commerce sector in the EU was €453.8 billion in 2022 and the number of users is likely to grow to 319 million by 2025.[347] As the online market has been rapidly changing in recent years, the need to update the E-Commerce Directive rules from 2000, covering the provision of cross-border online services, has become very pertinent.

A 2020 EPRS study[348] identified 22 gaps and risks that affect provision of online services in the EU and proposed policy options to address them. The study identified four policy packages: consumer protection provisions,[349] content management, provisions to facilitate competition in online platform ecosystems, and measures to enhance enforcement and coherence.

The study estimated that the potential benefits of implementing measures to address these gaps would lead to a €76 billion increase in GDP from 2020 to 2030 and the creation of 82 000 new jobs. Table 4 provides a more detailed overview of the suggested policy measures and their projected benefits.

346 Proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), COM(2020) 842 final, European Commission, 15 December 2020.

347 eCommerce – EU-27, Statista, consulted in July 2022.

348 N. Lomba and T. Evas, Digital Services Act: European added value assessment, EPRS, October 2020.

349 In the context of this sub-chapter, the term 'consumer protection' is used to address the problem of limited and uneven protection of digital services users (businesses and citizens).

Table 4: Overview of estimated potential benefits of new e-ecommerce rules

Policy aspect/measure	Potential benefit (billion € per year)
Enhanced consumer protection and harmonised e-commerce rules	4.7
A framework for content management and curation that guarantees protection of rights and freedoms	2.9
Total impact	**7.6**

Source: Compiled by the author based on T. Evas and N. Lomba.

The Commission assumes that introducing harmonised rules covering the provision of digital services would lead to significant cost reductions for EU businesses. Cost savings could amount to €400 000 for a medium-sized enterprise present in three Member States and up to €4 million for the same scale of company present in 10 countries. In broader terms, new rules have the potential to boost cross-border digital trade by 1-1.8 %, amounting to between €8.6 billion and €15.5 billion.[350]

Given the significant information asymmetry between citizens and large platforms, as well as insufficient transparency and accountability of decisions, an EU regulatory action could lead to significant social impacts (ensuring online safety and protection of users against illegal offerings) and fundamental rights impacts (protection against illegal online activities and additional safeguards).[351]

When looking at the broader picture of ensuring fair competition in digital markets, the Commission estimated the opportunity cost of the digital market to reach €1.76 trillion in 10 years. This estimation is based on an assumption that the lack of EU action to address internal market fragmentation would reduce the positive trend in online cross-border trade by 10 %.[352] Introducing an EU-wide regulatory framework and ensuring proper functioning of the digital single market would lead to effective competition, boosting trust, innovation and growth, and is estimated to yield benefits of €92.8 billion up to 2025.[353] Based on the assumption that intervention at EU level would reduce competitive asymmetries between gatekeeper online platforms and other platforms, the consumer surplus could amount to €13 billion up to 2025, corresponding to a 6 % increase compared to the baseline.[354] Fair competition would lead to greater innovation among small businesses, leading to increased quality of services that would ultimately benefit consumers.

Creation of the single digital gateway in 2018 marked an important stepping stone in accessing online information, procedures and assistance for EU citizens and business across borders. The Commission and the Member States have been developing a network of national portals known as

350 European Commission, Impact assessment accompanying the proposal on a Single Market For Digital Services (Digital Services Act), SWD(2020) 348 final, 15 December 2020.

351 Impact assessment accompanying the proposal on a Single Market For Digital Services, op. cit.

352 Executive summary of the impact assessment report accompanying the proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), SWD(2020) 364 final, European Commission, 15 December 2020.

353 Cross-border e-commerce in Europe was worth €143 billion in 2019, with 59 % of this market being generated by online marketplaces. This is projected to increase to 65 % in 2025. Source: Cross-border ecommerce Europe worth €143 billion, Ecommerce News Europe, Press release from 24 September 2020, consulted in July 2022.

354 Proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), COM(2020) 842 final, European Commission, 15 December 2020.

'Your Europe', and by the end of 2023 EU citizens and businesses should be able to access 21 online procedures in all EU countries.[355]

A single digital gateway would streamline and expand information and assistance, bringing substantial benefits to citizens and businesses. Potential benefits for citizens amount to a reduction of 60 % of the 1.5 million hours spent looking for information or researching their obligations when living in another EU Member State. For businesses expanding their activities across borders, substantial savings in terms of research and assistance could range from €4 billion to €48 billion per year. Submission of documents digitally could bring an additional €7 billion in cost savings.

The COVID-19 pandemic has only accelerated the process of digitalisation in both the public (governments) and private spheres (large online platforms), requiring the use of digital credentials. In this respect, the Commission has conducted a review of the current regulatory framework on electronic identification schemes (eIDAS Regulation) that aims to enhance the provision of cross-border and cross-sector digital public and private services. The Commission estimates that creating a European Digital Identity personal Wallet App[356] would lead to benefits of €3.9 billion to €9.6 billion per year; benefits for citizens and companies include strengthening the protection of personal data, less administrative burdens, convenience and user-friendliness. The Wallet would enable a high level of security for authentication and direct engagement in transactions, ranging from eHealth to social media.[357] This could ultimately represent a key step towards creating a genuine EU citizenship.

Table 5: Overview of estimated potential benefits related to a digital gateway and identity

Policy aspect/measure	Potential benefit (billion € per year)
Establishing and implementing a single digital gateway	11 - 55
Creation of a European digital identity	3.9 - 9.6

Source: Compiled by the author, based on SWD(2017) 213 final and SWD(2021) 124 final.

European Parliament position

In October 2020, the Parliament adopted two legislative initiative resolutions with recommendations to the Commission regarding the Digital Services Act: a resolution on improving the functioning of the single market and another on adapting commercial and civil law rules for commercial entities operating online. The former stressed the need to update the eIDAS Regulation from 2014 to reflect the development of virtual identification technologies and ensure the effectiveness of the DSA.[358]

355 The single digital gateway and Your Europe website, European Commission, consulted in September 2022.

356 A personal digital wallet would allow citizens to store identity data, and store and exchange information provided by governments or trust services.

357 Commission Staff Working Document accompanying the proposal for a regulation as regards establishing a framework for a European Digital Identity, SWD(2021) 124 final, 3 June 2021.

358 European Parliament resolution of 20 October 2020 with recommendations to the Commission on the Digital Services Act: Improving the functioning of the Single Market (2020/2018(INL)).

Following the Commission proposal from December 2020, the Parliament adopted amendments to the proposal, calling for stricter rules on content moderation, transparency and consent for targeted advertising to protect minors and vulnerable groups. Members of the Parliament have also requested exemptions from certain obligations for micro and small enterprises.[359] The Parliament agreed on a series of amendments to the DMA proposal, including amending its scope by increasing the quantitative thresholds for companies to €8 billion in annual turnover. The Parliament also favours giving end-users the option to opt out from pre-install applications at any time.[360]

Commission and Council responses so far

As a follow-up to the Parliament's resolution with a recommendation to the Commission on improving the functioning of the Single Market (2020/2018(INL)),[361] the Commission presented the two legislative proposals on digital services (DSA) and markets (DMA) on 15 December 2020, noting 'a high degree of convergence' between the resolution and the proposal.[362]

The DSA proposal addresses the societal and economic impact of online service providers by setting standards on the provision of their services, respecting the EU's fundamental rights. Under the new rules, it would be the responsibility of online platforms to take measures to protect their users from illegal content, goods and services. Large platforms would also need to be subject to algorithmic accountability and allow Member States and the Commission to access their algorithms. Platform users will be able to report abusive, misleading or illegal content and platforms will need to react quickly. Online marketplaces will need to verify that the information provided by traders is reliable.[363]

The Council agreed on a set of changes to the Commission's proposal on the DSA, including clarifications of the scope of the regulation. Member States also asked to extend the scope to online search engines, to improve the protection of minors in the online environment, for additional obligations for online marketplaces and search engines and, importantly, requested stricter rules for large online platforms.[364] The Council and the Parliament reached a political agreement on 23 April 2022. Following the request from the Parliament and the Council, the Commission also presented a proposal for establishing a framework for European digital identity,[365] addressing an increasing demand for electronic identity solutions.

The DMA would address economic imbalances on the online market and unfair business practices by large platforms, also designated as gatekeepers, banning certain unfair business practices by large platforms and obliging large messaging services to open up to smaller platforms. The Act will also empower the Commission to launch an investigation and impose sanctions in case of non-

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359 Amendments adopted by the Parliament on the proposal for a regulation for a Digital Services Act, 20 January 2022.

360 Amendments adopted by the Parliament on the proposal on contestable and fair markets in the digital sector, 15 December 2021.

361 European Parliament resolution of 20 October 2020 with recommendations to the Commission on the Digital Services Act: Improving the functioning of the Single Market (2020/2018(INL)).

362 Commission reply to the 2020/2018(INL), 15 December 2020.

363 Proposal for a regulation on a Single Market for Digital Services, COM(2020) 825 final, European Commission, 15 December 2020.

364 General approach on a Regulation on a Single Market for Digital Services (Digital Services Act), 13203/21, Council of the European Union, 18 November 2021.

365 The proposal is a revision of the currently applicable Regulation 910/2014 on electronic identification and trust services for electronic transactions in the internal market (eIDAS).

compliance.[366] In November 2021, the Council suggested shortening the time of gatekeeper designation and improving the criteria. Member States also called for provisions that would enhance the right of users to unsubscribe from core platform services.[367] The Council and the Parliament reached a political agreement on 25 March 2022.

Looking forward

The DSA will be applicable 15 months after entry into force, or from 1 January 2024.[368] Very large online platforms will be subject to new obligations four months after their designation and notification to the provider concerned. The Commission will assess the regulation and present a report to the Parliament and the Council by three years after its entry into force, at the latest.[369] To avoid disproportionate burdens, the Commission should also assess the impact on SMEs and evaluate the scope of the services covered within three years after its application.[370]

In the case of the DMA, the regulation will become directly applicable in the Member States six months after its entry into force. Gatekeeper platforms will have six months to ensure compliance with new obligations. The Commission will evaluate, review and report on the implementation of the regulation every three years. In addition, the Commission may review the status of a gatekeeper and therefore reconsider the designation decision upon request or its own initiative.[371]

Under the new eIDAS Regulation, each Member State will issue a European Digital Identity Wallet within 12 months after its entry into force to ensure that all natural and legal persons in the EU have access to cross-border public and private services. The Commission, in close cooperation with Member States and relevant stakeholders, will prepare a toolbox to support uniform implementation of the new European digital identity framework.[372]

Although the single digital gateway is applicable from December 2020, certain obligations on the cross-border availability of procedures and the use of a 'once only' system will apply as of December 2023. The regulation obliges the Commission to review its application every two years, starting from December 2022.[373]

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366 Proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), COM(2020) 842 final, European Commission, 15 December 2020.

367 General approach on the proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), Council of the European Union, 13801/21, 16 November 2021.

368 Whichever comes later.

369 Proposal for a regulation on a Single Market for Digital Services, compromise text by the Council from 15 June 2022.

370 European Parliament resolution of 5 July 2022 on a Single Market for Digital Services (2020/0361/COD).

371 Agreement on the Digital Markets Act, General Secretariat of the Council, 8722/22, 11 May 2022.

372 Proposal for establishing a framework for a European Digital Identity, COM(2021) 281 final, European Commission, 3 June 2021.

373 Regulation 2018/1724 on a single digital gateway.

13. Digital transition of SMEs

Potential benefit: €163 billion per year

Key proposition

Digital technologies are having a profound impact on our economy and society and this trend will likely continue in the years to come. Artificial intelligence (AI) itself has the potential to increase the EU's GDP by 10-11 % by 2030.[374] The information and communication technology (ICT) sector is the key enabler of digital transformation, and its size in the EU amounted to €541 billion in value added in 2018 and 5.4 million jobs, placing the EU in third position globally, following the US (€801 billion and 4.5 million jobs) and China (€706 billion and 15.9 million jobs).[375]

Table 6 provides an overview of where the EU stands in achieving the 2030 targets outlined in the Path to the Digital Decade, giving guidance to EU policymakers on priority areas to be tackled. Achieving these targets will be crucial to accelerate the transformation towards an EU digital economy and society.

Table 6: EU 2030 digital targets and status quo

Ambition	EU 2030 target	Status quo in 2022
ICT specialists	20 million	9 million
Basic digital skills	80 % of population	54 % (aged 16-74)
5G coverage	100 %	66 %
Tech uptake by businesses	75 % to use cloud/AI/big data	8 % (AI) and 14 % (big data)
Digitalisation of SMEs	90 % of EU SMEs to have at least a basic level of digitalisation	55 %

Source: Digital Economy and Society Index 2022.

This sub-chapter provides two levels of analysis: firstly, an analysis of the potential benefits of digital transformation as such and, secondly, focusing on the digital transition of SMEs. The analysis builds on the outcomes of the cost of non-Europe report on digital transformation, prepared by the European Added Value Unit of EPRS in January 2022. EPRS estimations show that the potential benefits of EU action supporting the digitalisation of SMEs, could increase GDP by **€163 billion per year**.[376] Such policy measures could enhance innovation and competitiveness, achieve a higher level of digital skills and produce positive social effects, including bridging the digital gap.

374 Sizing the prize: What's the real value of AI for your business and how can you capitalise?, Price Waterhouse Coopers, 2017.

375 The 2021 PREDICT Key Facts Report, prepared by the Joint Research Centre, 2021.

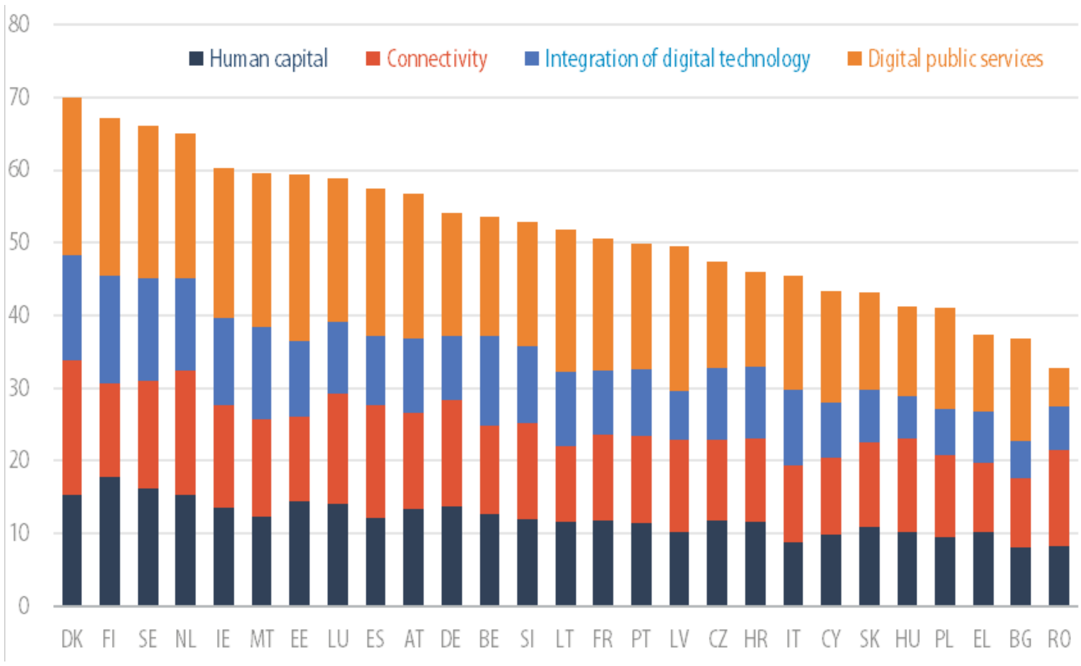
376 The estimated impact ranges from €109 billion to €217 billion. Taking a cautious approach and considering the political feasibility and digital ambitions, we assume a middle value of €163 billion could be achieved per year.

More detailed analysis of the potential benefit

To achieve the EU's digital transformation, the Commission estimates the need for further investment of €75 billion per year in the ICT sector and €42 billion in education and digital skills for workers.[377] The Recovery and Resilience Facility (RRF), set to allocate at least 20 % for digitalisation, could have the potential to bridge this gap and bring the EU closer to achieving its ambitious digital agenda. So far, Member States have dedicated 26 % of their spending to the digital transition. The RRF has a capacity of €127 billion to support digital reforms.[378]

The Digital Economic and Society Index (DESI) allows for a better understanding of the current state of play of digital transformation in the EU. It provides useful insights, combining indicators on human capital, connectivity, integration of digital technology and digital public services. According to the 2021 Index, the EU scores just above 50 weighted score points, with a considerable digital divide between Member States, as shown in Figure 16.

Figure 16: 2021 Digital Economy and Society Index



Data source: DESI 2021, European Commission.

The 2022 EPRS report on the cost of non-Europe[379] analyses the potential benefits of further EU action to support digitalisation. It focuses on five key gaps and barriers that hamper the digital transformation: gaps in data governance, cybersecurity concerns, shortage of digitally skilled workers, lack of investment and access to capital, and the gap between large companies and SMEs.

The cost of not taking further action at EU level could reach €599 billion in 2025. It is likely to grow over time and reach €1.3 trillion by 2033. The cost represents a difference between the baseline scenario, reflecting the expected evolution of the EU economy in the absence of any further EU

[377] Shaping the digital transformation in Europe, study prepared for DG CNECT, European Commission, September 2020.

[378] Recovery and Resilience Facility website, European Commission, consulted in September 2022.

[379] N. Lomba, L. Jančová and M. Fernandes, Digital transformation – Cost of Non-Europe, EPRS, January 2022.

policy changes, and the ideal state scenario, where all gaps and barriers are tackled. These estimations are comparable to other sources.

According to the Commission, digital technologies have the potential to contribute to an additional cumulative GDP of €2.2 trillion[380] in the EU by 2030, representing growth of 14.1 % compared to 2017, after offsetting investments and other costs.[381] AI itself is estimated to contribute to GDP growth of between 9.9 % and 11.5 % by 2030.[382]

To address the identified gaps and barriers and the associated economic and non-economic impacts, the EPRS report also puts forward three broad policy options: enhancing cybersecurity and trust in digital technologies, strengthening research, development and innovation for digital transformation, and developing a digital policy for SMEs. Each of the policy options is unique and could be implemented as a stand-alone policy measure. However, they are also complementary and one policy option could be strengthened by adding some elements from another policy option(s).

Table 7: Estimated benefits of selected policy options

Policy option	Potential benefits in terms of GDP, per year by 2033	Gaps covered
(1) Enhancing trust in digital technologies*	Ranging from €174 billion to €260 billion	All identified gaps except for the one related to data governance
(2) Strengthening R&D&I**	Ranging from €26 billion to €52 billion	Shortage of digitally skilled workers, lack of investment, gap in digitalisation of SMEs
(3) Digital policy for SMEs	Ranging from €109 billion to €217 billion	All identified gaps except for the one related to data governance

*Impacts assessed in the context of cybersecurity and data governance (sub-chapter 15).
**Impacts assessed in a broader context of research and innovation (sub-chapter 24).
Source: O. Batura et al., The Cost of Non-Europe on Digital Transformation, Annex to the main report, 2021.

The remaining part of this section focuses on the potential benefits of enhanced support at EU level for digitalising SMEs. Across the EU, there are 23 million SMEs, constituting the backbone of the EU economy.[383] However, the digitalisation of SMEs remains key, as they struggle the most and are less likely to digitalise due to lack of access to financial resources.[384] The gap in targets for digitalisation of SMEs is quite significant (55 % achieved, out of a target of 90 %) and shows the need for further EU-wide support. In March 2020, the Commission adopted an SME strategy for a sustainable and digital Europe. The strategy builds on three pillars: capacity building and support for the two transitions, reducing regulatory burdens and improving market access, and access to finance.

To quantify the potential benefits of implementing EU measures to support digitalisation of SMEs, a computable general equilibrium model was used. The 2022 EPRS report assumes that the proposed EU measures can eliminate the gaps and barriers to a certain extent only, as they need to be complemented by actions at Member State level and their impact also depends on the level and the

380 The GDP simulation covers the period 2017-2030 and the EU-28, including the United Kingdom.

381 Shaping the digital transformation in Europe, final report for DG CNECT, European Commission, September 2020.

382 Sizing the prize: What's the real value of AI for your business and how can you capitalise?, Price Waterhouse Coopers, 2017.

383 Annual report on European SMEs 2021/2022: SMEs and environmental sustainability, European Commission, April 2022.

384 Who is prepared for the new digital age? Evidence from the EIB Investment Survey, European Investment Bank, 2020.

speed of uptake of digital technologies. The reduction of the impact that the gaps and barriers have on the EU economy can also be interpreted as added value of EU action.

Applying a cautious approach, the potential benefits of EU measures targeted at SMEs could lead to an increase in GDP ranging from €109 billion to €217 billion per year. Considering the high level of political feasibility and ambition at both EU and national level and bearing in mind possible overlaps in terms of impacts,[385] a middle value of **€163 billion** could be a realistic estimation. Policy support has the potential to help SMEs adopt digital solutions by, for example, providing guidance or public financial support. When designing tools for SMEs, policymakers should consider the availability of relevant digital solutions that meet the specific needs of SMEs and that fit their business processes. Often, SMEs are not able to develop their own digital solution and there are hidden costs of adoption.[386]

European Parliament position

The Committee on Industry, Research and Energy (ITRE) requested the European Added Value Unit in the EPRS to prepare a study on the cost of non-Europe in the digital transformation. Policy measures to support the digitalisation of SMEs were a subject of particular interest when presenting the study in February 2022.

The European Parliament has been repeatedly highlighting the need to better target the needs of SMEs. In its 2020 resolution, MEPs called for the adoption of an SME action plan. MEPs have called on the Commission and Member States to work towards simplification of rules and procedures and better regulation for SMEs, including setting up a roadmap with binding targets and indicators to measure the reduction of administrative burdens. The resolution also calls for more targeted technical and administrative assistance at both EU and national level, and for a single digital point for all financing opportunities and support schemes for SMEs to be established.[387]

In broader terms, the 2021 resolution on digital education policy asks to address the existing digital divide by improving digital literacy for lower-skilled or marginalised groups and for persons with disabilities. MEPs also noted a digital skills gender gap of 11 % and underscored the need for gender mainstreaming in education, skills and digitalisation policies.[388]

Commission and Council responses so far

Digital transition is one of the key objectives of the European Commission, hand-in-hand with a green transformation. The Commission first set out a vision and ambitious objectives in the communication on Shaping Europe's Digital Future[389] in February 2020 and then in the Digital Compass,[390] proposing concrete targets and avenues for Europe's digital transformation by 2030.

385 Some overlaps might be expected, for example in reducing the impact of the cybersecurity gap, which is present (to a different extent) under both policy options 1 and 3. Implementation costs are not considered in the calculations.

386 Annual report on European SMEs 2021/2022: SMEs and environmental sustainability, European Commission, April 2022.

387 European Parliament resolution of 16 December 2020 on a new strategy for European SMEs.

388 European Parliament resolution of 25 March 2021 on shaping digital education policy (2020/2135(INI)).

389 Communication on Shaping Europe's Digital Future, COM(2020) 67 final, European Commission, February 2020.

390 Communication on the 2030 Digital Compass: the European way for the Digital Decade, COM(2021) 118 final, European Commission, March 2021.

Building on the Digital Compass, the Commission has also introduced a robust governance framework in the form of a Path to the Digital Decade[391] to ensure that the EU achieves the targets towards a digital transformation. The EU digital vision for 2030 builds on four points: digital skills, digital public administrations, secure and sustainable digital infrastructures, and digital transformation of businesses.

In January 2022, the Commission presented a Declaration on European Digital Rights and Principles, supporting solidarity, inclusion and participation, and which aims to empower individuals while increasing safety, security and sustainability of the digital public space.[392] In July 2022, the Commission adopted a New European Innovation Agenda to help position the EU as a leading player on the global innovation agenda, including improving access to finance for start-ups, setting up regulatory sandboxes, measures to attract talent and policy support to Member States.[393]

The COVID-19 pandemic has revealed structural vulnerabilities in global supply chains – including for semiconductor chips, which play a crucial role in achieving the ambitious digital transformation. In December 2020, 22 Member States signed a joint declaration, committing to work together to enhance the EU's capacities in semiconductor technologies.[394] In February 2022, the Commission presented a package of legislative and non-legislative measures, including a proposal for a regulation on establishing a framework of measures to strengthen Europe's semiconductor ecosystem (Chips Act).[395] The Act aims to develop a thriving semiconductor ecosystem and enhance supply chain resilience, including predicting and responding to any future disruptions.

Looking forward

To monitor the performance and the progress towards the 2030 ambitions set out in the Digital Compass, the Commission will publish the European State of the Digital Decade Report for the European Parliament and the Council on an annual basis.[396] The report will present the progress to date, using the DESI index, and make targeted recommendations to Member States. To specifically address digital skills, the Commission will present two non-legislative initiatives: a recommendation on improving the provision of digital skills in education and training, and a recommendation on the enabling factors for digital education, envisaged for the first quarter of 2023.

391 Proposal for a decision establishing the 2030 Policy Programme 'Path to the Digital Decade', COM(2021) 574 final, European Commission, September 2021.

392 Communication on Establishing a European Declaration on Digital rights and principles for the Digital Decade, COM(2022) 27 final, European Commission, 26 January 2022.

393 Communication on a New European Innovation Agenda, COM(2022) 332 final, European Commission, July 2022.

394 Joint declaration on processors and semiconductor technologies, 7 December 2020.

395 Proposal for a regulation on establishing a framework of measures for strengthening Europe's semiconductor ecosystem (Chips Act), COM(2022) 46 final, European Commission, 8 February 2022.

396 Proposal for a decision establishing the 2030 Policy Programme 'Path to the Digital Decade', COM(2021) 574 final, European Commission, 15 September 2021.

14. Cybersecurity and data governance

Potential benefit: €97 billion per year

Key proposition

The ongoing digital transition and growing dependency on digital systems are having a profound impact on the EU's economy and society. Eurobarometer shows that 76 % of Europeans used the internet on a daily basis in 2019, compared to 65 % back in 2015. The COVID-19 pandemic has only exacerbated this trend and prompted public administrations, businesses and citizens to speed up the uptake of digital tools. In 2020, the number of connected devices reached 30.4 billion, and this number is expected to increase to 200 billion in 2030.[397]

The increased uptake of digital technologies in daily life also makes users more exposed to new challenges the online environment brings, including cyber threats. The growing number of cybercrime activities reflects this trend. In 2020, there was an exponential increase in malware attacks (by 358 %) and ransomware attacks (by 435 %) globally.[398] The European Agency for Cybersecurity (ENISA) reported 304 significant malicious attacks against critical sectors in 2020, more than double the 146 incidences in 2019.[399] Across the EU, more than half of respondents feel well informed about the risks of cybercrime, but with considerable differences between EU countries (ranging from 30 % in Bulgaria to 80 % in Denmark).[400] Importantly, recent cases of the illegal use of Pegasus spyware revealed that suboptimal product security might lead to exploiting vulnerabilities in devices such as mobile phones.

This sub-chapter analyses various policy actions related to cybersecurity and their potential impacts such as reducing cybercrime, making critical infrastructure and sectors more resilient, and making products with digital elements more secure. As part of its proposal on cybersecurity requirements for products with digital elements, the Commission estimated potential benefits of introducing cybersecurity rules for digital devices of at least **€97 billion per year**, corresponding to a reduction in costs related to cyber incidents. Making digital devices safer would also lead to more transparency towards users, in particular for vulnerable groups, and greater protection of data and privacy.

More detailed analysis of the potential benefit

The global **cost of cybercrime** has increased from €2.7 trillion in 2015 to €5.5 trillion in 2020. The COVID-19 pandemic has led to greater dependency on digital technologies and cyber criminals have exploited this trend.[401]

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397 2021 Strategic Foresight Report, the EU's capacity and freedom to act, September 2021.

398 The Global Risks Report 2022, World Economic Forum, 2022.

399 Serious cyberattacks in Europe doubled in the past year, new figures reveal, as criminals exploited the pandemic, Press release from 10 June 2021, CNN.

400 Special Eurobarometer 499 on Europeans' attitudes towards cyber security, European Commission, January 2020.

401 Cybersecurity, our digital anchor, Joint Research Centre, 2020.

According to the 2021 report by ENISA, public administration was among most targeted sectors (198 cyber incident cases), followed by digital services providers (152), the general public (151) and the healthcare sector (143).[402] When it comes to critical service providers, 185 incidents were reported in 2019, increasing to 559 in 2022, where malicious actions constituted 30 % of all reported incidents.[403] Cybersecurity incidents often affect personal data and research shows that **data breach costs** increased by 13 % between 2020 and 2022.[404]

The 2022 EPRS study on the cost of non-Europe in digital transformation analyses potential benefits related to enhancing cybersecurity, safe and secure exchange of data and increasing trust in digital technologies. Current gaps in cybersecurity standards and data governance result in legal uncertainty and therefore have a negative impact on the uptake of digital technologies by businesses and citizens. Potential measures to address these gaps could include the following: development of cybersecurity standards for AI and 5G,[405] creation of a framework for safe and secure data exchange and adjusting existing rules on liability and responsibility for digital technologies.[406] The study estimates that such measures could lead to a GDP increase ranging from **€174 billion to €260 billion** per year.[407] The estimation comes from an assumption that more secure digital technologies will lead to increased trust and faster adoption by businesses and citizens.

It also needs to be noted that any upcoming cybersecurity certification by ENISA remains voluntary, unless otherwise specified by EU or Member States' regulations. The success of the proposed measures would therefore also depend on the level of uptake of such standards by the industry. Higher use of digital technologies would lead to positive social benefits, including more equal opportunities and increased social inclusion.

The Commission published an impact assessment accompanying the proposal on horizontal cybersecurity requirements for products with digital elements. The assessment estimates a significant reduction in costs for businesses when it comes to cybersecurity incidents. This builds on an assumption that cybersecurity rules could lead to a reduction in incidents by 20-33 % and thus reduce costs related to these incidents by the same percentage.[408] The cost reduction would depend on the scope of products covered by the new rules. In the case of horizontal regulatory intervention for tangible and critical intangible products, cost reduction estimates range from **€97 billion to €158 billion per year**. Should all intangible products with digital elements fall under the scope of the proposed regulation, the reduction in cyber incident costs could range between **€180 billion and €290 billion** annually.[409] New cybersecurity rules should make digital devices more secure and reduce the risk of incidents leading to data breaches, such as those related to the illegal use of Pegasus spyware.

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402 ENISA Threat Landscape 2021, October 2021.

403 Ciras incident reporting, 2021, consulted in July 2022.

404 Cost of a data breach 2022: a million-dollar race to detect and respond, IBM, consulted in August 2022.

405 ENISA is in charge of developing such schemes. Currently, there are three schemes are under development by ENISA covering: ICT products, cloud services and 5G networks. Source: ENISA website, consulted in September 2022.

406 O. Batura et al., The Cost of Non-Europe on Digital Transformation, Annex to the main report, November 2021.

407 N. Lomba, L. Jančová and M. Fernandes, Digital transformation – Cost of Non-Europe, EPRS, January 2022.

408 Due to the lack of aggregated estimates on cybersecurity incidents at EU level, the study used available data on cyber incident costs in Germany from 2020 and extrapolated these for the whole EU, using the respective GDP share.

409 European Commission, Impact assessment accompanying the proposal for a regulation on horizontal cybersecurity requirements for products with digital elements, SWD(2022) 282 final (1/3), 15 September 2022.

Available literature and data highlight the following trends that might affect the implementation of the above measures and determine their success:

- The **shortage of cybersecurity professionals** – currently estimated at 3.5 million globally, of which there is a shortage of 136 000 in Europe alone – should be addressed by attracting more talent in the short term and aligning education with market needs and radical technological development.[410]
- The **lack of investment** represents another obstacle to ensuring safety of digital devices and systems. ENISA finds that EU organisations invest less in cybersecurity measures, on average by 41 %, than the US.[411]
- **Increased vulnerability to cybercrime:** data show that 95 % of cyber incidents include human error.[412] Policymakers should focus on teaching basic digital skills such as using a strong password; recognising malicious activities online and understanding how personal data is collected and used is a key step in improving the security of citizens.

These challenges are part of a bigger picture of digital transformation, the lack of ICT professionals on the labour market (nine million ICT specialists compared to the 20 million target by 2030) and the lack of basic digital skills among EU citizens (54 % of citizens compared to the EU target of 80 %).[413] Addressing these gaps will be an important precondition to achieving the vision of an EU digital economy and society by 2030.

European Parliament position

In its resolution on the cybersecurity strategy, the Parliament sets out its vision of 'secure by design' for all internet-connected products that are resilient to cyber incidents and quickly patched in case vulnerabilities are detected, and supports the Commission's plan to set horizontal requirements for hardware and software. The Parliament highlights the following challenges to be tackled: closing the digital skills gap via efforts in education and training, elimination of the gender gap, and better support for SMEs, including access to funding and training.[414]

MEPs highlight the need to overcome the current level of fragmentation of the EU's cyber architecture and call for a common cyber policy, relying on substantial EU cooperation on cyber capabilities. They recommend creating a Joint Cyber Unit to improve information sharing, enabling a rapid information network. Finally, the resolution calls to improve coordination with the EU's civilian Computer Emergency Response Team to protect the networks of all EU institutions and bodies.[415]

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410 Cybersecurity is too big a job for governments or businesses to handle alone, Press release from 3 May 2021, World Economic Forum, 2021.

411 NIS Investments Report 2020, ENISA, December 2020.

412 After reading, writing and arithmetic, the 4th 'r' of literacy is cyber-risk, Press release from 17 December 2020, World Economic Forum, 2020.

413 Digital Economy and Society Index 2022.

414 European Parliament resolution of 10 June 2021 on the EU's Cybersecurity Strategy for the Digital Decade.

415 European Parliament resolution of 7 October 2021 on the state of EU cyber defence capabilities.

Commission and Council responses so far

To address new challenges brought by the ongoing digital transformation as well as the consequences of the COVID-19 pandemic, the Commission, together with the High Representative of the Union for Foreign Affairs, presented a new **EU cybersecurity strategy** in late 2020. The strategy proposes a set of measures and actions to boost the EU's cyber resilience: [416]

- Revision of the NIS Directive to increase the resilience of critical public and private sectors (referred to as the NIS2 Directive proposal). The enhanced framework could lead to potential benefits of €11.3 billion over a 10-year period.[417]
- Proposal for a critical entities resilience directive, covering 10 sectors.[418] Improving the resilience of critical infrastructure by setting harmonised minimum requirements across the EU and close alignment with the NIS Directive will help reduce compliance costs for Member States.
- Creation of a network of AI-powered security operations centres, serving as an 'EU cybersecurity shield'.
- Establishment of a Joint Cyber Unit to improve cooperation between the EU and Member States to prevent, deter and respond to cyber-attacks, including law enforcement;
- Development of an EU external cyber capacity building agenda to increase the cyber capacity of third countries.
- Completing the implementation of the EU 5G Toolbox measures.

In March 2022, the Commission also presented a proposal for a regulation to establish common cybersecurity measures across the EU institutions and bodies, aiming to increase their resilience and capacity to respond in case of an incident.[419]

Cybersecurity threats touch upon multiple dimensions, including disinformation, energy security and electoral interference. As noted by the High Representative of the European Union for Foreign Affairs and Security Policy, Josep Borrell, cyber-attacks are geopolitical and bear a strong **security dimension**. The EU's approach to cybersecurity aims to reap the benefits of digital technologies but also ensure resilience against cyber threats.[420]

In March 2020, during the French Presidency of the Council, Member States adopted a political declaration calling for an intensification of cooperation in the area of cybersecurity, responding to the worsening situation in Ukraine as well as increased levels of cyber threats within the EU. The declaration calls to increase the resilience of EU telecommunications networks, to improve

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416 Joint communication on the EU's Cybersecurity Strategy for the Digital Decade, JOIN(2020) 18 final, European Commission, 2020.

417 Impact assessment report accompanying the proposal for a directive on measures for a high common level of cybersecurity across the Union, SWD(2020) 345 final, part 1, 16 December 2020. The estimated benefits would correspond to reduced costs of cybersecurity incidents. Systematic and structural changes to the NIS framework (policy option 3) could lead to potential benefits of €11.3 billion over a 10-year period, compared to €8.3 billion in case of limited changes to the current framework (policy option 2).

418 Energy, transport, banking, financial market infrastructure, health, drinking water, waste water, digital infrastructure, public administration and space.

419 Proposal for a regulation laying down measures for a high common level of cybersecurity at the institutions, bodies, offices and agencies of the Union, COM(2022) 122 final, European Commission.

420 Cyber diplomacy and shifting geopolitical landscapes, speech by HR/VP Josep Borrell at the EU Cyber Forum, September 2020.

cybersecurity and to step up the fight against disinformation campaigns.[421] In May 2022, the Council decided to extend its decision concerning the restrictive regime against cyber-attacks threatening the EU and its Member States, including cases of significant effects against third countries, until 2025.[422] In the Council conclusions from June 2022, Member States called for an EU Hybrid Toolbox, setting a 'framework for a coordinated response to hybrid threats and campaigns affecting the El and its partners'.[423] The Council also calls for the creation of the Foreign Information Manipulation and Interference Toolbox (FIMI toolbox) to better detect and respond to threats.

Looking forward

This sub-chapter provides an overview of recent initiatives aimed at boosting cybersecurity and resilience for EU industry and citizens. While some of them are already adopted (resilience of critical entities) or agreed upon (political agreement reached on the NIS2 proposal), others will be subject to institutional negotiations with the Parliament and the Council. Once adopted, Member States will need to transpose new requirements in their national legislation. The Commission has also set up a plan for monitoring and impact evaluation and committed to carry out a review and report to the Parliament and the Council after 36 months of its application.

At EU level, the European cyber crises liaison organisation network (EU-CyCLONe) will be established, responsible for coordinating the management of large-scale cybersecurity incidents at operational level and information exchange across the EU. ENISA will be responsible for having an overview of the implementation, preparing a report on the state of cybersecurity and maintaining a registry of disclosed vulnerabilities.[424]

The 2022 standardisation strategy has set the objective of enhancing the EU's leadership in global standard-setting to promote values, resilience and the green and digital transformation.[425] Enhancing safety and security of digital technologies by developing and implementing industry standards will be an important element in advancing digital transformation.

[421] Member States United in Supporting Ukraine and Strengthening the EU's Telecommunications and Cybersecurity Resilience, Press release by the French Presidency from 9 March 2022.

[422] Council decision (CFSP) 2019/797 of 17 May 2019 concerning restrictive measures against cyber-attacks threatening the Union or its Member States, 18 May 2022.

[423] Council conclusions on a Framework for a coordinated EU response to hybrid campaigns, Press release, 21 June 2022.

[424] Council of the European Union, Compromise text of the proposal for a directive on measures for a high level of cybersecurity across the Union, 17 June 2022.

[425] Setting global standards in support of a resilient, green and digital EU single market, COM(2022) 31 final, European Commission, 2 February 2022.

15. Regulating the platform economy

Potential benefit: €47 billion per year

Key proposition

The digitalisation of the economy has been growing rapidly in recent years and has been exacerbated by the COVID-19 pandemic. The platform economy has been expanding and this development has given rise to challenges linked especially to working conditions and taxation but also to competition and consumer policy. As early as 2017, the European Parliament identified the need to intervene on employment, taxation and regulation within the digital single market.[426] However, the legislation is fragmented across Member States and this poses several challenges, notably hampering the upward convergence of working conditions of platform workers, and contributing to the risk of tax base erosion.

The benefits of EU action derive from its capacity to properly regulate the platform economy in three areas – working conditions, taxation, and competition and consumer protection within the single market – so that it guarantees proper standards of work and complies with tax and regulatory principles, thus avoiding harmful competition among Member States. Only some of the gains of this action are quantifiable, and they all belong to the first area of costs of the status quo, namely working conditions. They amount to about **€47 billion per year**.

More detailed analysis of the potential benefit

The platform economy is characterised by a triangular relationship, in which online services provided by the platform business are used by both the seller-users (suppliers) and the customer-users.[427] According to a 2016 cost of non-Europe report,[428] platforms may provide services (and therefore labour), or exchange assets, such as accommodation and cars (which in turn may overlap with labour, i.e. transport services).

The impact on **employment** is not easy to assess, since work is unbundled in tasks, performed and paid as such. 'Platform work'[429] is defined as a form of employment that uses an online platform to enable organisations or individuals to access other organisations or individuals to provide services in exchange for payment: the work is contracted out, jobs are broken down into tasks and services are provided on demand.

[426] European Parliament resolution of 15 June 2017 on a European Agenda for the collaborative economy (2017/2003(INI)).

[427] H. Hauben (ed.), K. Lenaerts and W. Wayaert, The platform economy and precarious work, Publication for the Committee on Employment and Social Affairs, DG IPOL, European Parliament, 2020.

[428] P. Goudin, The Cost of Non-Europe in the Sharing Economy: Economic, Social and Legal Challenges and Opportunities, EPRS, January 2016.

[429] Eurofound, Digital age, Employment and working conditions of selected types of platform work, September 2018.

According to the Commission, and based on a number of studies,[430] there are 28 million workers in the platform economy in the EU, of which about 7 million conduct platform work as their main activity.[431] The Commission reports that, according to a conservative estimate, there may be more than 500 active platforms, of which 155 are large enterprises.

Several studies have investigated problems related to working conditions[432] and some indicate that the work and incomes generated are not comparable to traditional jobs.[433] The Commission identified the major problems that can be addressed at the EU level: the risk of employment status misclassification (i.e. workers misclassified as self-employed, when they should classified as employees), issues related to algorithmic management (i.e. lack of accountability of management and information asymmetries between the worker and the platform), and issues related to transparency and data access for public authorities, leading to enforcement problems. Very low access to social protection is indicated as a major issue in several studies,[434] especially for workers dependent on the platform's revenues.

Specifically, misclassification of workers is identified as being a determinant of a series of detrimental impacts on workers,[435] among which are the following:

- 55 % of people working through platforms earn less than the net hourly minimum wage of their country;
- on average, people working through platforms spend 8.9 hours per week doing unpaid tasks (such as researching tasks, waiting for assignments, participating in contests to get assignments and reviewing work ads), against 12.6 hours doing paid tasks;[436]
- approximately 50 % of people working through online platforms suffer from clinical levels of social anxiety, well above the 7-8 % found in the general population;
- platforms representing 97 % of earnings (by platforms overall) in the EU do not pay contributions towards unemployment benefits.

The Commission's impact assessment[437] estimates that the impact of EU action could lead to reclassifying 4.1 million workers from self-employed to employees, leading some of them to earn the minimum wage, as currently they are earning less. This would lead to higher earnings overall for workers of about €484 million per year.[438]

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430 Impact assessment report accompanying the Proposal for a Directive of the European Parliament and of the Council on improving working conditions in platform work, SWD(2021) 396 final, European Commission, 2021.

431 For about 14 million, it is a secondary activity, and for 7 million it is marginal. See C. Urzì Brancati, A. Pesole and E. Fernández-Macías, New evidence on platform workers in Europe: Results from the second COLLEEM survey, EUR 29958 EN, Publications Office of the European Union, 2020.

432 Eurofound, ibid.

433 CEPS, Impact of digitalisation and the on-demand economy on labour markets and the consequences for employment and industrial relations, July 2017.

434 C. Forde et al., The Social Protection of Workers in the Platform Economy, DG IPOL, European Parliament, November 2017.

435 European Commission, Impact assessment report accompanying the proposal for a directive on improving working conditions in platform work, SWD(2021) 396 final.

436 See also V. Pulignano et al., Does it pay to work? Unpaid labour in the platform economy, ETUI Policy Brief, 2021.

437 European Commission, Impact assessment report accompanying the proposal for a directive on improving working conditions in platform work, SWD(2021) 396 final, 2021.

438 This potential gain is not considered to overlap with the one estimated in sub-chapter 30, since here the policy focuses on including more workers among those who could be covered by minimum wage policies, rather than improving the efficiency of minimum wage policies.

The Commission also estimates an increase in social protection coverage for workers that could translate into an additional €3.98 billion for Member States' budgets in taxes and social contributions. Platforms that already employ workers instead of self-employed people will benefit from a level playing field; companies that will have to reclassify workers are expected to incur costs (estimated at about €4.5 billion per year).

According to EPRS estimates, the impact of EU action on better working conditions[439] could reduce healthcare costs by about €2.9 billion per year[440] and improve the quality of life of workers (for an equivalent monetary value of €19.7 billion per year).[441] Moreover, EU action could reduce the amount of unpaid worktime, which could increase earnings by €24 billion per year.[442]

These results are summarised in Table 8.

[439] The better working conditions are assumed to apply to 4.1 million workers, who are expected to be reclassified, according to the Commission's IA. This could be interpreted as a lower bound. If better working conditions applied to all platform workers, gains would amount to €127 billion per year.

[440] This is calculated using A. Gustavsson et al., Costs of disorders of the brain in Europe, European Neuropsychopharmacology, 21, 2011, including 'direct health care costs' (all goods and services related to the prevention, diagnosis and treatment of a disorder; e.g. physician visits, hospitalisations and pharmaceuticals) and 'direct non-medical costs' (other goods and services related to the disorder, e.g. social services, special accommodation and informal care), for the case of anxiety. For an application of the same methodology, see also N. Lomba, M. Fernandes and C. Navarra, Combating Gender based Violence: Cyber Violence, EPRS, 2021. The individual cost obtained in this way is multiplied by the difference in the incidence of anxiety among platform workers and the incidence of anxiety in the general population.

[441] The methodology to estimate this equivalent monetary value is based on the 'value of a healthy life year' (VOLY) and the discount applied by different sicknesses (anxiety, in this case) based on the 2019 Global Burden of Disease Study. The disability weight has been computed as Years Lived with Disability (YLD) divided by the incidence of the disability in the population. The disability weight was then multiplied by the VOLY and the assumed duration of the disease (five years, thus the costs are discounted applying a 4 % discount rate). The same methodology was applied in N. Lomba et al., ibid, 2021.

[442] The number of hours is multiplied by the average hourly wage in the platform economy, as indicated in C. Urzì Brancati, A. Pesole and E. Fernández-Macías, New evidence on platform workers in Europe: Results from the second COLLEEM survey, EUR 29958 EN, Publications Office of the European Union, 2020 (it is assumed that a year is composed of 50 weeks).

Table 8: Summary table of potential impacts on working conditions

Actors	Impact	Monetised impact (€ million)	Source	Qualitative impact
Impact for workers	Improved wages up to minimum wage	484	EC impact assessment	Greater coverage of social protection, reduced legal costs to have the status of employee recognised
	Reduced healthcare costs (anxiety)	2 927	EPRS calculation	
	Improved quality of life (anxiety)	19 763	EPRS calculation	
	Earning increased because of reduction in unpaid hours	23 992	EPRS calculation	
Impact for Member States	Increased social contributions	3 980	EC impact assessment	
Impact for companies	Increased costs due to reclassifications	- 4 500	EC impact assessment	More level playing field for companies that already employ workers
TOTAL		**46 645**		

Source: Compiled by the author.

Regulation of the sector could improve gender equality in employment. There is evidence from the PHV and taxi sector of a persistent gender pay gap in the platform (or 'gig') economy[443] that could be partly related to issues of classification of workers' status and of algorithmic management.

Regarding **taxation**, as acknowledged by the Parliament,[444] the existing international taxation framework is no longer entirely relevant, being tailored to a less globalised economy and relying on the physical presence of businesses in a territory. The Commission estimates that digital businesses pay a lower effective tax rate than traditional ones.

Research finds that a significant share of FDIs is driven by the willingness to minimise tax obligations, rather than by genuine business activities; digital businesses can more easily move assets and activities across jurisdictions to avoid a taxable presence where taxes are higher. [445] Tax avoidance and profit shifting are therefore relevant issues exacerbated by the digital economy.

The OECD[446] has produced a framework for an agreement on taxation that not only involves platforms, but can also be relevant for the digital economy, of which platforms are a subset. The agreement has been endorsed by the G20 finance ministers and leaders, and rests on two pillars. Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries. Its scope

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443 C. Cook, R. Diamond, J. Hall, J. List and P. Oyer, The gender earnings gap in the gig economy: Evidence from over a million rideshare drivers, The Review of Economic Studies, 88(5), pp. 2210-2238, 2021.

444 European Parliament resolution of 29 April 2021 on digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax (2021/2010(INI)).

445 M. Szczepański, Taxing the digital economy: New developments and the way forward, EPRS, 2021.

446 Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, OECD, October 2021.

is limited to the largest and most profitable multinational enterprises with a global turnover above €20 billion and a level of profitability above 10 %. Pillar Two introduces a global minimum corporate tax at a rate of 15 % that would apply to all companies with an annual revenue above €750 million.

The OECD estimates that the measures under Pillar Two are expected to generate approximately US$150 billion in new tax revenues globally. The cost of non-Europe with regard to corporate taxation is addressed in sub-chapter 6.

Regarding the **single market implications** of the platform economy, they are partly covered under data, e-commerce and digital economy issues. Some specific aspects emerge in the case of accommodation and transport platforms. According to the Eurobarometer report of 2021[447] on short-term rentals, users prefer short-term rental booked via platforms because this type of accommodation is cheaper and it is an additional source of income for hosts. However, short-term rentals can have a negative impact on price and availability of housing, among other things. Moreover, analysis by CEPS highlights the need for sector-specific reforms for taxis.[448] The developments in the passenger transport-on-demand sector and emergence of new market players and business models have led to tensions and different legislative responses among Member States. Concerns are raised about the working conditions and social rights of drivers and the employment status of people working through platforms, especially drivers working on ride-hailing apps.

European Parliament position

As early as 2017, the Parliament[449] made recommendations on the collaborative economy, raising a number of issues, notably peer status definition and consumer protection, transparency in the rating system,[450] competition and tax compliance, especially regarding the need for a level playing field for platforms and traditional businesses in taxation, and labour market issues and workers' rights.

In preparation of the current Commission proposal (see below), the Parliament pushed to improve the **working conditions**[451] of platform workers in September 2021, as the European framework is unsatisfactory. The Parliament regrets the fact that EU legal instruments are often not applied to many platform workers because of their misclassification. It believes that social protection systems should apply to all workers, including the self-employed, and calls on the Member States to implement Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed, and to take measures to ensure the social protection of platform workers. In reaction to the Commission proposal, the report by the EMPL committee asks, among other things, to broaden the scope of the directive – to include all digital labour platforms operating in the EU (including, for example, crowdwork platforms) – and of the application of the (rebuttable) presumption of employment.

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447 Eurobarometer, Short-term rentals in the EU, October 2021.

448 CEPS, Europe's Collaborative Economy: Charting a Constructive Path Forward, November 2020.

449 European Parliament resolution of 15 June 2017 on a European Agenda for the collaborative economy (2017/2003(INI)).

450 On the risk of social exclusion related to the possible pervasiveness of the rating system, see also Europe Economics in The Cost of Non-Europe in the Sharing Economy, Annex I, EPRS, January 2016.

451 European Parliament resolution of 16 September 2021 on fair working conditions, rights and social protection for platform workers – new forms of employment linked to digital development.

Regarding digital work more broadly, which increased substantially with the COVID-19 pandemic, the Parliament calls in its resolution[452] with recommendations to the Commission on 'the right to disconnect' to consider the right to disconnect as a fundamental right that allows workers to refrain from engaging in work-related tasks outside working hours. Moreover, the Parliament called on the Commission[453] to consider presenting a legislative initiative to clarify occupational safety and health liabilities and responsibilities in relation to artificial intelligence systems and new ways of working. Artificial intelligence solutions in the workplace must be ethical and human-centric, transparent, fair and avoid any negative implications for workers' health and safety. Furthermore, the Parliament calls, in its resolution[454] on 'mental health in the digital world', on the Commission to propose a legislative initiative on the management of psychosocial risks and well-being at work in order to effectively prevent psychosocial risks in the workplace.

Regarding **taxation**, the Parliament has been a long-standing supporter of imposing fair taxes on the digitalised economy, which the current system often fails to do. In a resolution of April 2021, the Parliament called for a new and fairer allocation of taxing rights for highly digitalised multinationals and a revision of the traditional concept of permanent establishment, and stated that the scope of the new taxing rights should cover all large MNEs that could engage in Base Erosion and Profit Shifting Practices (BEPS). The Parliament responded with its legislative resolution of 19 May 2022 on the proposal for a directive on 'ensuring a global minimum level of taxation for multinational groups in the Union', supporting the recent international agreement on a global minimum corporate tax rate of 15 %, and advocates for quick implementation 'worldwide and by Member States by the end of 2023'. Moreover, the Parliament asks for the introduction of a review clause to guarantee that the application of this directive is subject to proper evaluation.

Following the threat of vetoes blocking the Council decision (see below), the Parliament asked[455] again for the adoption of the G20/OECD framework, expressing 'great concern [at] the fragmentation of national corporate tax rates within the EU, which can have a distorting effect on the single market and harm the EU economy'. It suggests that Member States consider switching to Qualified Majority Voting for this subject, as recommended by the Conference on the Future of Europe.

Regarding **single market implications**, the Parliament has argued that platforms should assume additional responsibilities for the activities of their workers and customers. After successful inter-institutional negotiations, the Parliament adopted the Digital Services Act and Digital Markets Act on 5 July 2022.

[452] European Parliament resolution of 21 January 2021 with recommendations to the Commission on the right to disconnect (2019/2181(INL)).

[453] European Parliament resolution of 9 February 2022 on A new EU strategic framework on health and safety at work post 2020.

[454] European Parliament resolution of 5 July 2022 on mental health in the digital world of work (2021/2098(INI)).

[455] European Parliament resolution of 6 July 2022 on national vetoes to undermine the global tax deal (2022/2734(RSP)).

Commission and Council responses so far

As part of the implementation of the European Pillar of Social Rights[456] concerning **workers' protection**, Directive (EU) 2019/1152[457] on transparent and predictable working conditions in the European Union addressing the availability of necessary information for workers was adopted in 2019. Member States have to transpose this Directive by 1 August 2022. In November 2019, the Council recommendation[458] on access to social protection for workers and the self-employed addressing the lack of social protection coverage for 'non-standard' workers and impacting platform workers was adopted as another milestone of the European Pillar of Social Rights.

In December 2021, the Commission presented, as a key initiative of the European Pillar of Social Rights Action Plan[459] and based on its Work Programme 2021,[460] a package[461] including a communication, a legislative proposal on 'improving the working conditions in platform work', as well as draft guidelines on working conditions for solo self-employed persons. The legislative proposal intends to ensure that people working through digital labour platforms can enjoy the labour rights and social benefits they are entitled to and receive additional protection as regards the use of algorithmic management. It focuses on the three areas mentioned above: the risk of employment status misclassification (by introducing, in some cases, a rebuttable presumption of employment), issues related to algorithmic management (e.g. on types and processes of decisions taken in this way), and issues related to transparency, data access for public authorities and monitoring, with the aim of guaranteeing minimum rights also for the non-misclassified. The proposal is under discussion by the Parliament and the Council.

Regarding **taxation**, on 22 December 2021 the European Commission proposed a directive ensuring a minimum effective tax rate for the global activities of large multinational groups to implement the recent global tax reform agreement, which aims to bring fairness, transparency and stability to the international corporate tax framework. The proposal follows closely the international agreement and sets out how the principles of the 15 % effective tax rate will be applied in practice within the EU. It includes a common set of rules on how to calculate this effective tax rate, so that it is properly and consistently applied across the EU. The proposal requires unanimity by Member States, following consultation of the Parliament. After some months where the decision was blocked because of lack of agreement by all Member States, an agreement in the Council was reached in December 2022.[462]

456 European Commission, The European Pillar of Social Rights, 2017.

457 Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union.

458 Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed.

459 Communication on The European Pillar of Social Rights Action Plan, European Commission, March 2021.

460 Communication on the Commission Work Programme 2021: A Union of vitality in a world of fragility, European Commission, October 2020.

461 European Commission, Proposals to improve the working conditions of people working through digital labour platforms, Press release, 9 December 2021.

462 Council reaches agreement on a minimum level of taxation for largest corporations, December 2022.

Regarding **single market implications**, the Digital Services Act[463] and Digital Markets Act[464] adopted in July 2022 set clear obligations for digital service providers, such as social media or marketplaces, to tackle the spread of illegal content, online disinformation and other societal risks. They also introduce rules for platforms that act as 'gatekeepers' in the digital sector.

Looking forward

The directive on platform work is currently under negotiation and the EMPL committee voted the report on 12 December 2022. Overall, two directives are expected to be approved, one protecting platform workers, and the other transposing the OECD taxation framework in the EU. These could be important steps in reducing the cost of non-Europe in this area, and both issues have a global component that the EU could support. While the taxation framework is already a step in the global direction, it could be further strengthened, and the digital platform work protections could be further developed in the ILO context.[465]

[463] Proposal for a regulation on a Single Market for Digital Services (Digital Services Act) and amending Directive 2000/31/EC, COM(2020) 825 final, European Commission.

[464] Proposal for a regulation on contestable and fair markets in the digital sector (Digital Markets Act), COM(2020) 842 final, European Commission.

[465] ILO, The role of digital labour platforms in transforming the world of work, World Employment and Social Outlook, 2021.

16. Ethical and liability aspects of artificial intelligence

Potential benefit: €34.5 billion per year

Key proposition

Artificial intelligence (AI), including data to power it, will be a key component of the ongoing digital transformation. AI and robotics generate opportunities for businesses and benefits for citizens, affecting all aspects of the economy and society.[466] The Commission has defined the EU's approach on AI around excellence and trust, including policy means to boost research and innovation, enhance skills and ensure safety and the protection of fundamental rights. The EU is well positioned to become a global leader in building alliances based on shared values and promoting ethical principles in AI.[467] Setting common rules on ethical aspects of AI could boost the internal market and become an important strategic advantage.

The EU has great potential due to its extensive pool of talent, as shown in Table 9. While the EU has more specialised researchers compared to the US or China, it accounts for only 7 % of the global amount of annual equity investment in AI. These data show that the EU struggles to translate the technical excellence into business opportunities, which is also demonstrated in the lower number of SMEs in the region.[468]

Table 9: AI and block chain, state of play in the EU, China and US (2021)

Metric	European Union	US	China
Number of AI and block chain SMEs	1 232 in EU-27	2 995	1 418
Number of AI researchers	43 064	28 536	18 232
Number of AI researchers per 1 million workers	172.9	173.1	23.2
Share of annual global financing in AI and block chain	7 % in EU-27	80 %	

Data source: Artificial intelligence, block chain and the future of Europe, European Investment Bank, June 2021.

This analysis seeks to quantify the potential benefits of harmonising rules on certain aspects of AI and is based on two publications by the EPRS: one on ethical aspects of AI and robotics and the other on the civil liability regime for AI. The overall benefit of setting a common EU framework covering measures related to the ethical framework, liability and insurance of AI, has been estimated to reach at least **€34.5 billion per year**.

466 European Parliament resolution of 20 October 2020 with recommendations to the Commission on a framework of ethical aspects of artificial intelligence, robotics and related technologies (2020/2012(INL)).

467 White Paper on Artificial Intelligence, COM(2020) 65 final, European Commission, 19 February 2020.

468 Artificial intelligence, blockchain and the future of Europe, European Investment Bank, June 2021.

More detailed analysis of the potential benefit

The rapid growth of the AI market, profoundly impacting the economy and society, poses a risk of delayed regulatory adjustments. The current regulatory framework and ethical principles are not flexible enough to adapt to the fast-changing technology and the use of AI in both the public and private sectors. This situation brings about numerous challenges: the absence of a common understanding and definition, exponential growth of the AI market, fragmentation of actions at national level as well as a lack of binding norms, hindering oversight and enforcement.

The 2020 EPRS analysis of the potential benefits of introducing an EU framework on **ethical aspects** in AI compares the net impact of taking action at EU level to coordinated action taken by Member States. The analysis provides both qualitative and quantitative assessments and estimates the potential benefits of common EU action on ethical aspects of AI at **€294 billion** in additional GDP, creating 4.6 million new jobs by 2030. The estimation is based on impacts over a 10-year period, comparing them to the status quo, where there is a lack of a comprehensive framework. Joint EU action is expected to generate a positive impact on the EU economy and citizens, as well as boost the EU's competitiveness on a global scale.

Should a common EU framework be implemented immediately, benefits could range from €182 billion to €244 billion within five years from now. The impacts of a harmonised ethical framework on AI would reach beyond quantitative terms, including greater social acceptance of new technologies or promoting innovative business models. There is also evidence that new standards developed at EU level have a positive impact on third countries' jurisdictions. A harmonised framework applicable across the EU Member States would increase legal certainty for both developers and users. [469]

When it comes to **civil liability regime and insurance**,[470] the current framework is based on the EU-wide product liability regime as well as national liability regimes that greatly diverge between countries. Common EU action on civil liability and insurance has the potential to facilitate the uptake of AI technologies, boost the competitiveness of the EU, encourage innovation, boost trust among citizens and reduce uncertainty for businesses. The potential benefits of having a common EU framework are estimated at **€54.8 billion** over a 10-year period by accelerating EU action on the level of investment in research and development in AI and robotics. This estimation represents a rough approximation, based on four selected sectors,[471] therefore representing a lower bound. If other impacts, such as those on health, the environment or users are taken into consideration, potential benefits could reach €498.3 billion by 2030.[472] EU action has the potential to reduce regulatory fragmentation and costs for producers of AI while ensuring a high level of consumer protection and a positive impact on fundamental rights.

Table 10 provides a brief overview of potential benefits in terms of GDP growth stemming from EU action addressing the above-mentioned aspects.

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[469] T. Evas, European framework on ethical aspects of artificial intelligence, robotics and related technologies, EPRS, September 2020.

[470] This analysis excludes autonomous vehicles, which are analysed in a separate study (separate part of this sub-chapter).

[471] The sectors covered are: transport/logistics (not autonomous vehicles), medical, hobby/entertainment, household/consumer products.

[472] T. Evas, Civil liability regime for artificial intelligence, EPRS, September 2020.

Table 10: Overview of estimated potential benefits

Policy measure	Impact on EU GDP (billion € per year)
Common EU framework on ethical aspects of AI and robotics	29
EU common action on liability and insurance, resulting from R&D acceleration	5.5
Total impact	**34.5**

Source: Compiled by the author, based on T. Evas, N. Lomba and A. Heflich.

When it comes to measures related to AI and digital technologies, particular attention should be paid to the impact on gender equality, as the current inequalities might be reflected, if not exacerbated, by using AI-powered systems. The EU is facing a shortage of women in science, technology, engineering and mathematics (STEM) in education and careers. While 51 % of the EU population[473] and 57.7 % of tertiary graduates are women,[474] they are largely underrepresented in the digital sector: they make up only one third of STEM graduates and represent only 19 % of ICT specialists.[475] The Digital Compass aims to achieve 20 million employed ICT specialists, focusing on the convergence on gender equality.[476]

The Parliament has called for reducing gender, social and cultural bias in AI technologies. Using unbiased data sets to train AI systems remains crucial to prevent discrimination and protect diversity.[477] Literature points to several possibilities to mitigate the gender bias in AI: using feminist data to fill data gaps, AI literacy training among gender experts and being aware of who is represented in data that is being fed into training AI systems.[478]

European Parliament position

The European Parliament adopted three resolutions on artificial intelligence, outlining recommendations to the Commission in the preparation of legislation on AI:

1. A legislative initiative report on a framework of ethical aspects of artificial intelligence, robotics and related technologies (rapporteur: Ibán García Del Blanco, S&D). The resolution calls for a framework based on safety, transparency and accountability, ultimately tailored to human needs and at the service of human beings. The Parliament called on the Commission to integrate a strong ethical approach in the preparation of the legislative proposal on AI. [479]

473 Gender statistics, Eurostat, 2021, data consulted in July 2022.

474 In which subjects do EU students graduate?, Eurostat, tertiary education statistics, data extracted in September 2020.

475 Women in Digital Scoreboard 2021, news article from 12 November 2021, European Commission.

476 Communication on the 2030 Digital Compass: the European way for the Digital Decade, COM(2021) 118 final, European Commission.

477 AI technologies must prevent discrimination and protect diversity, Press release, European Parliament.

478 When Good Algorithms Go Sexist: Why and How to Advance AI Gender Equity, Stanford Social Innovation Review, 31 March 2021.

479 European Parliament resolution of 20 October 2020 with recommendations to the Commission on a framework of ethical aspects of artificial intelligence, robotics and related technologies (2020/2012(INL)).

2. A legislative initiative report on a civil liability regime for artificial intelligence (rapporteur: Axel Voss, EPP). The Members called for a 'uniform, principle-based and future proof' legislative framework that would avoid fragmentation in the EU and allow benefits from the potential AI has to offer to society and the economy while avoiding possible misuse of AI systems.[480]
3. An own initiative report on intellectual property rights for the development of artificial intelligence technologies (rapporteur: Stéphane Séjourné, Renew Europe), underlining the main challenges the use of AI might pose in terms of copyright and intellectual property rights.[481]

To tackle the transversal nature of AI across different policy areas, a special Committee on Artificial Intelligence in a Digital Age (AIDA) was set up in June 2020. The Committee has been tasked with analysing the future impact of AI on the EU economy, innovation and technological development, as well as its potential challenges to fundamental rights, including personal data and the right to privacy.[482] Final recommendations by the AIDA Committee, adopted in May 2022, focus on opportunities that AI technology offers and the need for the EU to become a global leader in standard-setting to ensure that the use of AI will respect common values. The resolution outlines an AI roadmap for the EU for 2030.[483]

The proposal for the Artificial Intelligence Act falls under the joint responsibility of the Internal Market and Consumer Protection Committee (rapporteur: Brando Benifei, S&D) and the Committee on Civil Liberties, Justice and Home Affairs (rapporteur: Dragos Tudorache, Renew Europe). The Parliament aims to conclude the work on the file by March 2023.[484]

Commission and Council responses so far

Back in 2018, the Commission published an AI strategy[485] that addressed the socio-economic aspects alongside the increase of investment in new technologies. In 2019, the High-Level Group on AI, set up by the Commission, presented ethics guidelines for trustworthy artificial intelligence containing seven key principles: human oversight, technical robustness and safety, privacy and data governance, transparency, diversity, non-discrimination and fairness, societal and environmental well-being, and accountability.[486] Based on the guidelines and the outcome of a robust public consultation, the Commission published a **White Paper on AI**[487] outlining a European approach towards AI, combining a regulatory and investment approach with the objective of enhancing the uptake of AI, while addressing the risks associated with certain applications of the technology.

480 European Parliament resolution of 20 October 2020 with recommendations to the Commission on a civil liability regime for artificial intelligence (2020/2014 (INL)).

481 European Parliament resolution of 20 October 2020 on intellectual property rights for the development of artificial intelligence technologies (2020/2015(INI)).

482 European Parliament decision to set up a special committee on artificial intelligence in a digital age, 2020/2684(RSO), June 2020.

483 European Parliament resolution of 3 May 2022 on artificial intelligence in a digital age (2020/226 (INI)).

484 EU's AI Act Agreement Expected by March, CES Speaker Reveals, Press release, 6 January 2023, IOT World Today.

485 Communication on Artificial Intelligence for Europe, COM(2018) 237, European Commission, April 2018.

486 Ethics guidelines for trustworthy artificial intelligence, the High-Level Expert Group on AI, coordinated and published by the European Commission, April 2019.

487 White Paper on Artificial Intelligence, COM(2020) 65 final, 19 February 2020.

The Commission confirmed its intention to follow-up on the two legislative initiatives by the Parliament with recommendations from October 2020. The Commission's reply provides details on its approach to the scope, classification of high-risk applications, assessment and governance.[488] On the Parliament's request to propose a new harmonising liability tool, the Commission confirmed its intention to follow up with new legislation, including a revision of the current liability regime.[489]

In April 2021, the Commission presented a proposal for a regulation on harmonised rules on AI (the AI Act).[490] The Act will set horizontal rules applicable across the EU to AI systems placed on or used within the EU single market. The proposal outlines a risk-based approach with four levels of risk: minimal or no risk (no obligations), limited risk (transparency obligations), high risk (regulation of AI systems), and unacceptable risk (prohibition of AI practices).[491]

The French Presidency of the Council published a progress report on the AI Act proposal, showing concerns by Member States regarding the broad and ambiguous scope. The countries also noted that the classification of AI systems as 'high risk' based on the general terms in the proposal risks covering harmless applications. The report criticises the proposed delegation of powers to the Commission – for example, in reporting and evaluating the need for updating the list of high-risk applications.[492] The Czech Presidency shared a discussion paper with EU governments to understand their views on four outstanding issues: AI definition, high-risk applications, governance, and exemptions related to national security.[493] The Council reached an agreement on the file and adopted its general approach on 6 December 2022.[494]

Looking forward

Once approved, the Artificial Intelligence Act regulation will apply to AI applications that pose risks on the one hand, allowing the EU to continue developing its AI sector without hampering digital transformation and development of new technologies on the other. When the AI Act has been adopted and respective standards have been developed, new rules will be applicable to AI operators.[495] On a similar note, the upcoming review of the Product Liability Directive will focus on adapting the current measures to address the specific challenges of digital technologies, including AI, ensuring security and trust among potential users.[496]

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488 Letter of thanks for European Parliament resolution of 20 October 2020 on a framework of ethical aspects of artificial intelligence, robotics and related technologies (2020/2012(INL)), European Commission, 15 December 2020.

489 Letter of thanks for European Parliament resolution of 20 October 2020 on a civil liability regime for AI (2020/2014(INL)), European Commission, 15 December 2020.

490 Proposal for a regulation on harmonised rules on artificial intelligence (AI Act), COM(2021) 206 final, European Commission, 21 April 2021.

491 T. Madiega, Artificial Intelligence Act, EPRS, January 2022.

492 Council progress report on the proposal for an AI Act, 16 May 2022.

493 Czech Presidency sets out path for AI Act discussions, Press release from 28 June 2022, Euractiv.

494 Council of the European Union, Artificial Intelligence Act: Council calls for promoting safe AI that respects fundamental rights, Press release, 6 December 2022.

495 Regulatory framework proposal on artificial intelligence, European Commission website, consulted in August 2022.

496 Civil liability – adapting liability rules to the digital age and artificial intelligence, Have your say website, European Commission, consulted in September 2022.

17. Data transfers and privacy of communications

Potential benefit: €20 billion per year

Key proposition

The European Union has a leading role in rule-setting in the area of privacy and data protection. The EU's General Data Protection Regulation[497] (GDPR), in force since 2018, has become de facto a global standard for the protection of personal data. During the first 20 months of application of the GDPR, a total of €114 million in fines were issued to companies, including Google and Facebook.[498] The 2019 Special Eurobarometer[499] shows that more than half of EU citizens are aware of GDPR and of at least one right guaranteed by this legislation.[500] Nevertheless, 62 % of respondents feel they have either partial or no control over their data and are concerned about it. According to a 2021 Special Eurobarometer, the use of personal data by companies or public administrations, as well as possible abuse of personal data, ranked among the most worrying aspects[501] related to the increased role of digital tools and the internet in society.[502]

By 2025, the value of the European data market is expected to reach €80 billion and the data economy could grow to a value of €516 billion.[503] Data is a key enabler of the digital economy and international data flows are vital to Europe's competitiveness. The framework enabling the cross-border flow of data significantly facilitates economic activity, especially for SMEs and start-ups.[504] Research suggests that facilitating cross-border data transfers between the EU and third countries could bring additional benefits for the EU economy of **€74 billion** per year.

The analysis further focuses on EU-US data flows, where uncertainty following the suspension of the EU-US Privacy Shield translates into additional costs for businesses on both sides and lower economic activity. The potential cost of increased restrictions in cross-border data transfers between the EU and US could amount to **€20 billion** in losses for EU exports every year.

497 Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

498 This amount correspond to the first 20 months of GDPR application as reported by GDPR.eu, consulted in April 2022.

499 Special Eurobarometer 487a on the General Data Protection Regulation, European Commission, March 2019.

500 According to the 2019 Special Eurobarometer, 67 % of respondents have heard of GDPR and 73 % have heard of at least one right guaranteed under GDPR legislation, based on replies from 27 524 respondents.

501 Respondents who use the internet every day are more likely (61 %) to worry about cyber-attacks and cybercrime such as theft or abuse of personal data, ransomware (malicious software) or phishing, than those who sometimes use the internet (49 %) and those who never go online (28 %). Respondents who use the internet every day are also more likely (49 %) to worry about the use of personal data and information by companies or public administrations than those who never go online (24 %).

502 Special Eurobarometer 518 on Digital rights and principles, European Commission, December 2021.

503 The European data market monitoring tool, final study report prepared for DG CNECT, European Commission, June 2020. Estimations include a post-Covid scenario.

504 European Parliament resolution of 20 May 2021 on the ruling of the CJEU of 16 July 2020 (2020/2789(RSP)).

More detailed analysis of the potential benefit

EU businesses depend on the ability to transfer data across borders. EU economic operators may freely transfer data to third countries for which the Commission has issued an adequacy decision, such as the UK, Canada or Switzerland;[505] other countries need to rely on alternative tools such as standard contractual clauses provided for in the GDPR. A recent study shows that facilitation of data transfers between the EU and third countries would increase the EU's annual GDP by 0.6 %, amounting to €74 billion.[506] Such a scenario assumes that the EU and its trading partners[507] would adopt measures to facilitate cross-border data flows. This contrasts with a potential situation where the level of restrictiveness increases, including the current trajectory of the EU as the result of the invalidation of the EU-US Privacy Shield, as well as further restrictions by the EU's trading partners.[508] This negative scenario could reduce the EU's GDP by 1 % and lead to an overall loss of €139 billion per year. Comparing the restrictive and more liberalised scenario, the difference could reach €2 trillion for the EU economy by 2030.[509]

Trade in goods and services depends on the free flow of personal data and is therefore of vital importance for the EU economy. Two major developments have affected international data flows since the adoption of GDPR and therefore the framework for international data transfers: the exit of the UK from the EU in January 2020[510] and the invalidation of the EU-US Privacy Shield in July 2020. The following paragraphs analyse the possible impacts of various scenarios in data transfers between the EU and US on the one hand, and the EU and UK on the other.

EU-UK trade in personal data-enabled services amounts to €47 billion of EU exports to the UK and €96 billion of imports to the EU.[511] The UK's departure from the EU sparked immediate discussions on the future framework for EU-UK data transfers post-Brexit. The cost of potential data inadequacy between the EU and UK has been estimated to range between £1 billion and £1.6 billion for UK businesses.[512] For the EU, the cost of more stringent rules could reach almost €16 billion. An alternative scenario of further facilitation of data transfers, including implementation of the current adequacy decision, might lead to a positive impact of €8.4 billion per year.[513] Currently, there is a free flow of data between the EU and UK thanks to the adequacy decision from June 2021, which is set to expire in 2024.

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505 The entire list is available here.

506 F. Cilauro, S. Snelson and A. Breckenridge, The economic impact of cross-border data flows, Frontier Economics study, 17 June 2021.

507 Major trading partners include the US, UK, China, Switzerland, Japan, Russia, India, Turkey, Korea and Brazil. The study assumes that major trading partners commit to eliminating restrictions on cross-border data flows. In addition, countries with restrictive rules currently in place, such as China, India and Russia, would liberalise their rules on cross-border data flows in this scenario.

508 In this scenario, countries with liberal data regimes, such as the EU, US, Canada, Japan and Switzerland, increase their level of restrictiveness.

509 F. Cilauro, S. Snelson and A. Breckenridge, The economic impact of cross-border data flows, Frontier Economics study, 17 June 2021.

510 The problem emerged after the end of the transition period on 30 December 2020.

511 Explanatory Framework for Adequacy Decisions, UK Department for Digital, Culture, Media and Sport, 2020.

512 The cost of data inadequacy, New Economics Foundation and YCL European Institute, November 2020.

513 F. Cilauro, S. Snelson and A. Breckenridge, The economic impact of cross-border data flows, Frontier Economics study, 17 June 2021.

The EU-US economic relationship amounts to €6.6 trillion, the largest trade relationship in personal data flows.[514] The invalidation of the EU-US Privacy Shield by the European Court of Justice (ECJ) as a result of the *Schrems II* ruling[515] means that EU companies can no longer use the framework to legally transfer data to the US.[516] Research from the US estimates that the invalidation of the EU-US adequacy agreement would lead to stricter safeguards in the transfer of personal data and could reduce the EU's GDP by 0.14-0.22 %, corresponding to between €19 billion and €31 billion per year.[517] Another study estimates that restrictive measures would lead to losses in EU exports of almost €21 billion per year.[518] When adequacy is revoked, companies need to meet stricter requirements to comply with GDPR, including individual risk assessments, contractual amendments or use of encryption. The legal uncertainty associated with alternative transfer mechanisms brings additional costs of compliance for businesses such as higher legal costs, the need for additional data storage and hiring of data protection experts.

When looking into the potential benefits of adopting new rules on e-privacy, the impact assessment accompanying the proposal for a regulation on privacy and electronic communications[519] estimates potential benefits of €948.8 million by 2030.[520] The potential benefit results from overall savings of up to 70 % in terms of compliance costs under the preferred policy option compared to the baseline scenario. Further benefits might also be expected from setting horizontal rules to enhance cybersecurity of digital products, thereby avoiding cyber incidents.[521]

The biggest **qualitative benefits** stemming from more effective enforcement of data protection and an improved privacy framework would include enhanced protection of fundamental rights and freedoms. Recent revelations concerning the use of Pegasus spyware[522] in the EU have raised serious concerns about the impact of spyware tools on fundamental rights. The scandal has attracted unprecedented media attention and strong criticism by EU leaders, who are urging further investigation and calling for political action.[523] The illicit use of spyware points to wider harms, in addition to violating fundamental rights such as the right to data protection and privacy, including freedom of speech, protection of democracy and the rule of law, representing the core EU values.

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514 Fact Sheet: United States and European Commission Announce Trans-Atlantic Data Privacy Framework, White House, Press release from 25 March 2022. Conversion from US$7.1 trillion made in April.

515 Ruling of the European Court of Justice, case C-311/18, July 2020.

516 H. Mildebrath, The CJEU judgment in the *Schrems II* case, EPRS, September 2020.

517 The economic costs of restricting the cross-border flow of data, European Centre for International Political Economy and Kearney Global Business Policy Council, June 2021.

518 F. Cilauro, S. Snelson and A. Breckenridge, The economic impact of cross-border data flows, Frontier Economics study, 17 June 2021.

519 Commission impact assessment, SWD(2017) 3 final. The estimated savings were calculated for the preferred policy option 3, entailing additional measures to further reinforce the protection of confidentiality of terminal equipment and enhance harmonisation and simplification of current rules.

520 The amount of €948.8 million represents compliance costs that could be avoided and therefore potential benefits that are expected to materialise during 2019-2030. The preferred policy option would imply several elements of simplification and reduction of administrative burdens that businesses currently face. The estimated savings refer to the first scenario, the so-called 'browser solution'.

521 For more details, see sub-chapter 14: Cybersecurity and data governance.

522 A consortium of Forbidden Stories and Amnesty International carried out an investigation into the use of Pegasus spyware, unveiling a leak of more than 50 000 phone records subject to surveillance, including those of at least 180 journalists around the world, as well as business people and local politicians. Source: Forbidden Stories website, consulted in April 2022.

523 European Parliament decision of 10 March 2022 on setting up a committee of inquiry to investigate the use of the Pegasus and equivalent surveillance.

Finally, this has an impact on the level of trust citizens have in their governments and there is growing concern about the lack of public trust contributing to support for extreme political views, citizen discontent, and protests, including violence.[524] Making digital devices more secure and resilient could be one possible measure.[525] The illicit use of the spyware revealed that suboptimal product security might lead to exploiting vulnerabilities in devices such as mobile phones. Introducing common cybersecurity rules for products with digital elements would contribute to more transparency, secure use of products and enhanced protection of fundamental rights.[526]

European Parliament position

In the context of the Commission evaluation report on the two-year anniversary of the GDPR, the Parliament points to the need to **improve implementation** and strengthen **enforcement**. MEPs are concerned about the length of case investigations by data protection authorities and the adverse effects it has on citizens' trust, highlighting that 21 national authorities (out of 31 states applying the GDPR) claim not to have enough human, technical and financial resources to cope with the number of complaints.

On international data flows, the Parliament called on the Commission to apply the conclusions of the CJEU ruling in the cases *Schrems I, II* to all reviews of adequacy decisions with third countries.[527] The Parliament recalls that adequacy decisions significantly facilitate economic activity, but also calls on the Commission not to adopt any new adequacy decision regarding the US, 'unless meaningful reforms in laws and practices in the area of access to information by public authorities are introduced, in particular for national security and intelligence purposes'.[528]

In response to the revelation of the Pegasus scandal, the Parliament called on the Commission to prepare a list of illicit surveillance software and on the Member States to use it to ensure full human rights due diligence and veto exports of European technology, as well as the importing of such technology posing a risk to the rule of law.[529] In March 2022, the Plenary adopted a decision[530] to establish a 38-member committee of inquiry to investigate the use of Pegasus surveillance spyware and alleged breaches of EU law related to the use of surveillance software by EU countries.

Commission and Council responses so far

Two years after the application of the GDPR, the Commission released an implementation report concluding that data protection rules empowered citizens and enabled them to play an active role in the ongoing digital transition.[531] The report also lists potential areas for improvement: lack of resources for national data protection authorities, the need for additional guidance by data

[524] Trust in public institutions: Trends and implications for economic security, OECD, 20 July 2021.

[525] For more details, see sub-chapter 14: Cybersecurity and data governance.

[526] Impact assessment of a proposal on horizontal cybersecurity requirements for products with digital elements, SWD(2022) 282 final, European Commission, 15 September 2022.

[527] European Parliament resolution of 25 March 2021 on the Commission evaluation report on the implementation of the General Data Protection Regulation two years after its application.

[528] European Parliament resolution of 20 May 2021 on the ruling of the CJEU of 16 July 2020 (2020/2789(RSP)).

[529] European Parliament resolution of 9 March 2022 on foreign interference in all democratic processes in the EU.

[530] European Parliament decision of 10 March 2022 on setting up a committee of inquiry to investigate the use of the Pegasus and equivalent surveillance.

[531] Data protection as a pillar of citizens' empowerment and the EU's approach to the digital transition – two years of application of the General Data Protection Regulation, COM(2020) 264 final, European Commission, June 2020.

protection authorities, and a more efficient approach towards the handling of cross-border cases. In the report, the Commission highlighted the key role of the EDPB's guidance in supporting harmonisation in the application and enforcement of the GDPR rules.

On the global dimension of data flows, the Commission has engaged with key trading partners to reach an 'adequacy finding', recognising that data protection regimes in third countries provide essentially equivalent safeguards to those enforced in the EU. In June 2020, the Commission also adopted updated standard contractual clauses, reflecting the GDPR and the needs of the digital economy.[532]

In the context of the Pegasus spyware scandal, the Commission has urged the Parliament and Council to intensify their efforts to reach a compromise on the pending proposal for an ePrivacy Regulation.[533] The European Data Protection Supervisor also confirmed the role of the ePrivacy Directive in ensuring safeguards against intrusion by spyware.[534] The proposal for an ePrivacy Regulation has been subject to discussion in the Council for approximately four years.[535] In January 2021, the Portuguese Presidency presented a new draft version of the presidency proposal, and in February 2021 the Council agreed on a mandate[536] for negotiations with the Parliament, with a first trilogue taking place in May 2021.

Looking forward

The 2020 evaluation report outlines a list of actions for the Commission and Member States to take to further support the implementation of GDPR. The Commission will also continue monitoring the application of GDPR in relation to new technologies, including AI, and in the context of the data strategy. This work will feed into the forthcoming evaluation report due in 2024.[537]

When it comes to EU-US data transfers, a new Trans-Atlantic Data Privacy Framework has been agreed in principle and both sides will work towards translating the agreement into legal documents and their adoption. An Executive Order by the US, containing the agreed commitments, will form the basis for a potential draft adequacy decision by the Commission.[538] If adopted, the framework would enable a free flow of data between the EU and the participating US companies.

As the EU-UK adequacy decision is set to expire in 2024, the Commission will need to assess the renewal of the decision, particularly in light of the UK's upcoming data reform bill. This bill seeks, among other things, to establish new data flows with third countries, which might put the EU-UK adequacy decision under increased scrutiny.[539]

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[532] Protecting Fundamental Rights in the Digital Age: 2021 Annual Report on the Application of the EU Charter of Fundamental Rights, COM(2021) 819 final, European Commission, December 2021.

[533] Plenary debate of 15 September 2021 on the Pegasus spyware scandal, European Parliament; Guardian article.

[534] Preliminary Remarks on Modern Spyware, European Data Protection Supervisor, 15 February 2022.

[535] Proposal for a regulation on privacy and electronic communications, European Parliament, Legislative train schedule, consulted in April 2022.

[536] Proposal for a regulation concerning the respect for private life and the protection of personal data in electronic communications and repealing Directive 2002/58/EC, Council document 5008/21, January 2021.

[537] Data protection as a pillar of citizens' empowerment and the EU's approach to the digital transition – two years of application of the General Data Protection Regulation, COM(2020) 264 final, European Commission, June 2020.

[538] European Commission and United States Joint Statement on Trans-Atlantic Data Privacy Framework, Press release by the Commission, 25 March 2022.

[539] UK to reform data protection, throwing EU adequacy ruling into doubt, Press release from 10 May 2022, Euractiv.

Chapter 4 – Economic and monetary union (EMU)

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
18	**Better coordination of fiscal policy and sustainability of public finances**	€49 billion per year	Higher budgetary responsibility Lower risk of fragmentation Lower risk of sovereign debt crisis in the EU Reduced risk of capital control and tax evasion Higher level of tax compliance Lower waste of budgetary resources by Member States	More solidarity in time of crisis if needed Lower risk of large economic adjustment Lower risk of long-term unemployment Lower risk of social erosion	Lower risk of reduced environmental standards	Continuity of access to services of general economic interest Increased gender inclusiveness in boards of EU economic governance institutions (European fiscal board, European stability mechanism, etc.)	Lower risk of instability
19	**Completing banking union**	€40 billion per year	Lower risk of fragmentation Reduced risk of capital control and tax evasion Lower risk of anti-competitive behaviour Higher level of investor protection	Lower risk of taxpayer bailouts		Higher share of female executive directors in banks	Lower risk of instability
20	**Financial market integration and resilience**	€90 billion per year	Lower risk of financial market meltdown Lower costs of financial products and services	Lower risk of taxpayer exposure	Larger availability of financial resources (green bonds) to finance the green transition	Lower risk of exclusion of vulnerable consumers	Lower risk of instability

			Lower volatility risks in financial markets Lower risk of anti-competitive behaviour Lower risk of asset bubble burst Lower risk of price instability Integrity of the single market and development of the capital market union Increase investment, new funding sources for SMEs and start-ups	Increase employment in high added value activities Access to more financial products and services Larger availability of financial resources (social bonds) to finance macro stabilisation instruments		Higher share of female executive directors in financial institutions	Lower risk of geoeconomic confrontation
21	**EU macro stabilisation instruments**	€115 billion per year	Higher employment rate, stabilising public revenues during an economic crisis, higher private consumption Lower spending on unemployment benefits Reduced risk of capital control and tax evasion Higher level of tax compliance Lower risk of price instability Lower waste of budgetary resources by Member States	Larger availability of budgetary resources (SURE) to finance unemployment schemes Lower unemployment rate Lower risk of long-term unemployment Lower risk of social erosion	Larger availability of budgetary resources (NGEU) to finance the green transition	Continuity of access to services of general economic interest	Lower risk of instability
22	**Digital finance, crypto currencies and crypto-assets**	€27 billion per year	Lower risk of asset bubble burst Lower volatility risks in financial markets Lower risks of financial losses due to cyber-attacks	Increase employment in high added value activities Higher level of consumer protection	Lower risk of high energy consumption, higher surveillance of carbon emissions, particularly related to mining	Lower risk of exclusion of vulnerable consumers	Lower risk of regulatory arbitration by Member States

			Lower risk of anti-competitive behaviour Development of innovation and technologies to be applied to other sectors Increase investment, new funding sources for SMEs and start-ups Lower transaction costs	Lower risk of monetary losses for consumers Access to more financial products and services		Reduced risk linked to the use of personal consumer data in digital finances More transparency and legal certainty Less risk of unlawful behaviour by digital finance businesses	Lower risk of illicit activities and money laundering Lower cyber risks, lower risk of fraud Lower technological and operational risks
Total		**€321 billion per year**					

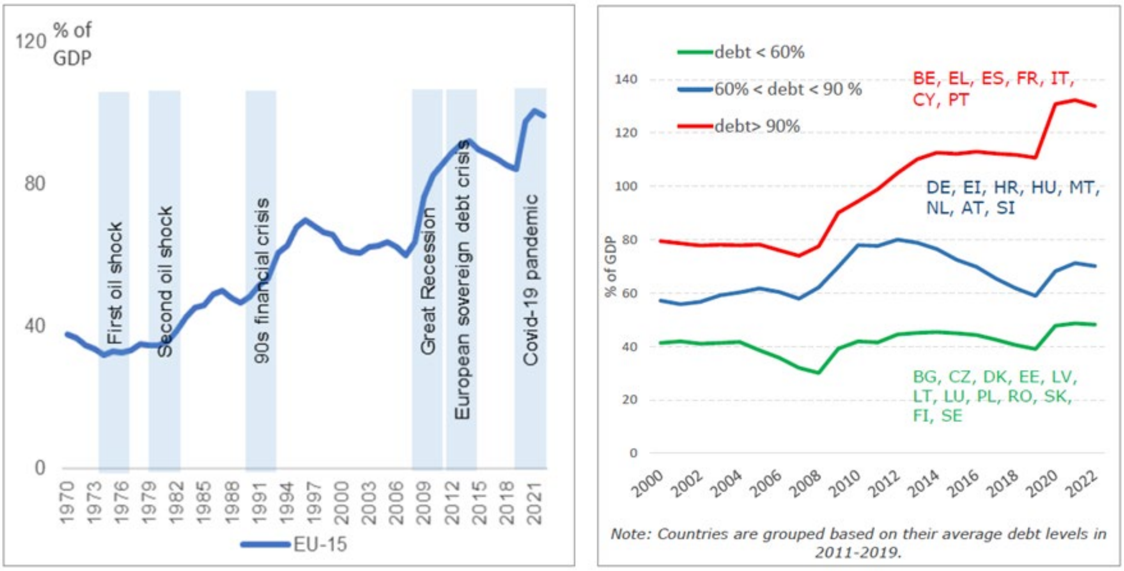
18. Better coordination of fiscal policy and sustainability of public finances

Potential benefit: €49 billion per year

Key proposition

Fiscal responsibility, effective coordination of economic policies and active supervision of external and internal imbalances are key to keep deficits within the range where sound financing can be secured. Such policy, coordinated with an appropriate monetary policy, can also limit the risk of persistently higher inflation, instability and the materialisation of macro-financial risks. Learning from some previous flaws revealed during the 2011 sovereign debt crisis, the EU improved and reinforced its economic policy arsenal, in particular regarding fiscal policy.[540] However, the recent COVID-19 pandemic shone a light on the large remaining unaddressed gaps in the regulatory framework and confirmed persistent structural weaknesses (see Figure 17).[541]

Figure 17: Evolution of debt levels and risk of fragmentation in the EU



Source: European Fiscal Board.

The suspension of the **stability and growth pact (SGP)** (escape clause) for four years from 2020, and possibly until 2024,[542] the complexity and sometimes opacity of the current arrangements, and

[540] In 2011, the 6-pack reform reinforced the preventive arm of the framework, strengthened the corrective arm and included surveillance of macroeconomic imbalances. In 2013, the 2-pack reform introduced dedicated surveillance and monitoring procedures for euro area Member States.

[541] For a review and a detailed assessment of weaknesses and unaddressed gaps, see: European Fiscal Board, [2021 annual report](); European Commission, Report on the application of the economic governance framework, [SWD(2020) 210 final.]()

[542] See S. De Lemos at al., [Implementation of the Stability and Growth Pact under exceptional times](), DG IPOL, European Parliament, November 2022.

the low effectiveness of the **macroeconomic imbalances procedure (MIP)** and the **European Semester**, are evidence of a system that needs to be further enhanced. Issues linked to enforcement and compliance, in particular the institutional and political difficulties of ensuring that coordination is effective, have also not disappeared.[543]

As the geopolitical situation remains highly uncertain and as risks accumulate due to the repercussions of the ongoing war in Ukraine, leadership and common action at EU level is required.[544] The resulting improved economic governance framework would increase responsibility, sustainability and resilience in Member States and confidence between them. It would then make solidarity measures easier to apply and more efficient, should they be needed.

A recent update[545] of a previous evaluation by EPRS[546] looked more precisely at the benefits in terms of additional fiscal space and corresponding added value that would be generated if coordination and compliance improved and if, as a result, debt paths became more convergent. The results indicate, in line with estimations in the literature, a potential gain of between €49 billion and €100 billion per year in the long term.

More detailed analysis of the potential benefit

For countries sharing the same currency or having their currencies pegged, there is a need to pursue credible coordination of economic policy and sustainability of public finances. The question is to determine which level, type of instrument and governance framework should be put in place to achieve such an outcome.

At EU level, the SGP requests Member States to coordinate their budgetary policy and to avoid excessive deficits. The MIP aims to identify, prevent and address the emergence of potentially harmful macroeconomic imbalances that could adversely affect economic stability. Finally, the European Semester provides a framework for the coordination of economic policies across the EU. It allows Member States to discuss their economic and budget plans and monitor progress. Despite a series of reforms and some progress since the sovereign debt crisis, recent turbulence has again put this functionalist framework under severe pressure, confirming large unaddressed gaps and persistent structural weaknesses.

Firstly, the SGP has achieved very limited results in terms of fiscal responsibility and convergence (see Figure 17). It also had to be suspended from 2020 and the Commission proposed that it should still be suspended in 2023. Its excessive complexity has not been reduced and further proposals, such as adding more loopholes and flexibility rules in the system,[547] could even make things

543 For a review of the latest legislative developments, see European Parliament, Legislative train schedule – review of the economic governance framework, June 2022, and Legislative train schedule – creation of a euro area Treasury or euro area budget instrument, June 2022.

544 The ECB recently proposed an anti-fragmentation instrument, but progress on more effective economic governance has so far remained limited.

545 N. Campos, Updating the cost of Non-Europe: an assessment of the EU fiscal framework, EPRS, *forthcoming*; J. Saulnier and A. Schelling, Better coordination of economic policy and sustainability of public finances, EPRS, *forthcoming*.

546 For a review, see A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

547 See, for instance: Z. Darvas, Legal options for a green golden rule in the European Union's fiscal framework, Bruegel, July 2022.

worse.[548] Large revisions of the cyclically adjusted figures are still undermining the credibility of some objectives. Numerous proposals have been made,[549] notably on simplification and clarity, on fiscal rules, on more powerful fiscal councils and focusing on an expenditure benchmark, and on the need to avoid one-size-fits-all approaches.[550] However, a recent paper[551] recalls that the evidence shows that fiscal rules have not prevented a large and persistent build-up of debt over time (see Figure 17) and that deviations from debt limits have been very difficult to reverse.

Secondly, while the Semester should be the blueprint for economic policy coordination and convergence between Member States, it has so far only delivered limited results. For instance, as pointed out by a study by the European Parliament,[552] just over 1 % of the country-specific recommendations (CSRs) from the Semester were fully or substantially addressed in 2019. The lack of transparency, consistency and Parliament involvement in the way the CSRs are chosen, and the lack of priorities in the recommendations, are probably a key reason for the current poor results.[553]

Thirdly, and beyond pure technical adjustments, the MIP and the SGP have proved largely ineffective due to a lack of political will and a lack of serious institutional integration in the fiscal area.[554] Technical assistance to Member States,[555] enforcement and implementation of the objectives of the SGP, MIP and Semester, and operations on the market to ensure EU financing – in particular, as part of Next Generation EU and the European Stability Mechanism (ESM) – are all scattered under different institutional arrangements. They operate mostly without coordination, which greatly diminishes their relative effectiveness and proves costly in time of crisis. This could also largely undermine the potential positive spillovers that would occur with better coordination of EU fiscal and monetary policy.[556]

Fourthly, the lack of fiscal convergence is not conducive to shared fiscal responsibility, which limits the potential for risk sharing and severely constrains any proposals for serious additional fiscal capacity at EU level.[557] This in turn negatively impacts the economic growth rate of the EU while limiting the potential counter-cyclical intervention, should it be necessary.

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548 A. Bénassy-Quéré, How to ensure that European fiscal rules meet investment needs, VoxEU, May 2022.

549 For recent proposals, see, notably: L. Feld and W. Reuter, Reforming the European fiscal framework: Increasing compliance, not flexibility, VoxEU, March 2022; F. de Angelis et al., Rethinking EU economic governance: The foundation for an inclusive, green and digital transition, EPC, February 2022; L. D'Amico et al., Revising the European fiscal framework part 1: Rules and part 2: Debt management, VoxEU, January 2022; L. Garicano, Combining environmental and fiscal sustainability: a new climate facility, an expenditure rule, and an independent fiscal agency, VoxEU, January 2022; N. Thygesen et al., The EU fiscal framework: A flanking reform is more preferable than quick fixes, VoxEU, November 2021.

550 For a review of the main proposals, see European Commission, Report on Public Finances in EMU 2021, July 2022.

551 H. Davoodi, Fiscal Rules and Fiscal Councils: Recent Trends and Performance during the COVID-19 Pandemic, IMF Working Paper, January 2022.

552 W. Lehofer and K. Hagelstam, Background reader on the European Semester: The European Semester from a Parliamentary perspective, DG IPOL, European Parliament, October 2020.

553 See, notably, W. Koll and A. Watt, The Macroeconomic Imbalance Procedure at the Heart of EU Economic Governance Reform, Review of European Economic Policy, Volume 57, 2022.

554 L. Feld and W. Reuter, Reforming the European fiscal framework: Increasing compliance, not flexibility, VoxEU, March 2022; P. Martin, J. Pisani-Ferry and X. Ragot, A new template for the European fiscal framework, VoxEU, May 2021.

555 On the new EU technical support instrument, see J. Angerer and C. Dias, Technical Support Instrument: main features, Economic Governance Unit, DG IPOL, European Parliament, June 2021.

556 ECB, Monetary-fiscal policy interactions in the euro area, Occasional Paper Series, No 273, September 2021.

557 E. Feas et al., A proposal to reform the EU's fiscal rules, Real Instituto Elcano, December 2021.

These considerations all highlight the need for policy choices to further improve existing rules-based fiscal frameworks. Ideally, to respond to these issues, and as proposed by the European Parliament,[558] an **EU Treasury** would equip the EU with more capacity to apply the existing economic governance framework and to optimise the development of the euro area. The resulting better fiscal coordination would increase sustainability and resilience in Member States and confidence between them. It would then make solidarity easier and more efficient, should it be needed in case of a new economic and financial crisis.

In addition, greater **involvement of the Parliament** in the setting of fiscal and economic policy objectives would ensure more democratic accountability, transparency and ownership.[559] As recently recalled by a comprehensive study,[560] the role of the Parliament should also not be constrained during emergencies and situations necessitating an urgent response, and better cooperation mechanisms should be designed for such times.

Finally, contrary to more mature monetary areas, in the euro area the use of fiscal policy as a stabilisation tool can only be achieved through coordination of fiscal policies,[561] given that no area-wide fiscal authority or **sufficient fiscal capacity at EU level** exists.[562] The creation of sufficient fiscal capacity would therefore be welcome; it could focus on improving resilience to shocks, on ensuring continued convergence and on ensuring a healthy level of investment in areas where common action is expected to have high added value.

However, very little progress has been made and most of the discussions still focus around technical subtleties, as Treaty change is not envisaged at this stage. This again leaves economic and monetary union at the mercy of uncoordinated actions at Member State level, and prone to high debt levels and unnecessary and sometimes irresponsible divergence, which continue to fuel the risk of fragmentation.

Regarding the benefits of better coordination of economic policy and sustainability of public finances, there is still a debate about the threshold from which the level of debt starts to be a drag on growth.[563] However, evidence in the literature confirms the importance of reducing public debt to restore fiscal sustainability and support stronger fundamentals.[564] Looking at these issues, an earlier EPRS study focusing exclusively on cyclical factors[565] concluded that, if coordination of fiscal policy was improved, a benefit of **between €31 billion and €85 billion additional GDP** per year

558 European Parliament resolution of 16 February 2017 on budgetary capacity for the euro area (2015/2344(INI)).

559 European Parliament, Report on the review of the macroeconomic legislative framework for a better impact on Europe's real economy and improved transparency of decision-making and democratic accountability, (2020/2075(INI)).

560 A. Maurer et al., Improving urgency procedures and crisis preparedness within the European Parliament and EU institutions, DG IPOL, European Parliament, March 2022.

561 SURE and NGEU are a welcome step to support investment and reform at a time of constrained fiscal capacity in some Member States, but they remain an imperfect substitute for permanent fiscal capacity at EU level.

562 See, notably: M. Buti and N. Carnot, The case for a central fiscal capacity in EMU, VoxEU, December 2018; F. Fabbrini, A Fiscal Capacity for the Eurozone: Constitutional Perspectives, DG IPOL, European Parliament, February 2019; ECB, A fiscal capacity for the euro area: lessons from existing fiscal-federal systems, Occasional Paper Series, April 2020; M. Chang, Euro Area fiscal policies and capacity in post-pandemic times, DG IPOL, European Parliament, July 2021; R. Beetsma, J. Cimadomo and J. van Spronsen, A proposal for a central fiscal capacity for the EMU targeting euro area, national, and regional shocks, VoxEU, March 2022.

563 See V. de Rugy and J. Salmon, Debt and Growth: A Decade of Studies, Mercatus research paper, September 2020.

564 S. Haroutunian et al., A central bank view of reforming Europe's fiscal framework, May 2022.

565 M. Frunza, The Cost of Non-Europe of an incomplete EMU to prevent future crises, EPRS, October 2014.

could be achieved. Another series of studies,[566] using advanced econometric modelling, investigated the potential impact of fiscal policy coordination by focusing on the size of expected spillovers. They found potential positive impacts of between 0.1 % and 0.3 % of GDP, representing **between €15 billion and €30 billion additional GDP per year.**

A study,[567] testing a series of adverse scenarios and using different macroeconomic models, looked at the economic consequences of fiscal policy fragmentation and of fiscal rules. Focusing more specifically on diverging high public debt in the euro area, and assuming a baseline scenario with a long-term risk premium, it estimated a long-term average negative GDP impact of between 0.3 % and 0.8 % of GDP, depending on the scenario.[568] This would represent between **€40 billion and €120 billion additional GDP** per year compared to the baseline. Looking at the potential impact of more efficient organisation of public spending in the EU, and building upon the literature on optimal fiscal decentralisation and quality of public finances, another EPRS study[569] found potential added value from budgetary waste reduction in the EU of **up to €180 billion per year in the long term.**

More recently, an evaluation[570] updated previous results by EPRS and confirmed that Member States displaying high debt levels are more heavily affected by output losses in a crisis, have less scope for counter-cyclical fiscal policy and have less development capacity in terms of investment and innovation capacity, and therefore have lower potential growth rates. The results showed a positive impact of improved fiscal coordination, with a benefit of between **€49 billion and €100 billion additional GDP** per year compared to the baseline.

European Parliament position

The Parliament is supportive of rules to further ensure stability, and of measures to tackle the risk of fragmentation more effectively. Furthermore, it points out that, to strengthen the international role of the euro, the EU has to further develop and complete the as yet unfinished infrastructure of the common currency and make more progress on its critical functions.[571]

The Parliament stresses the need to promote an integrated framework that ensures sustainable public finances, reduces excessive macroeconomic imbalances, enables effective coordination of economic policies and promotes convergence among Member States. In particular, the Parliament

566 See, for instance: M. Alloza et al., Fiscal spillovers in a monetary union, ECB Economic Bulletin, Issue 1/2019; P. Blagrave et al., Fiscal Spillovers: The Importance of Macroeconomic and Policy Conditions in Transmission, Spillover Notes, No 11, International Monetary Fund, 2017; J. in 't Veld, Fiscal consolidations and spillovers in the Euro area periphery and core, European Commission, Economic Papers 506, October 2013.

567 ECB, Economic consequences of high public debt: evidence from three large scale DSGE models, Occasional Paper No 2450/July 2020.

568 -0.01 of a percentage point for Germany versus -0.4 of a percentage point for the rest of the euro area, compared to the baseline in a scenario of risk premium in the public and private sector with partial spillovers, and -0.02 of a percentage point for Germany versus -0.8 of a percentage point for the rest of the euro area, compared to the baseline in a scenario of risk premium in the public and private sector with full spillovers.

569 M. Bordignon et al., Improving the quality of public spending in Europe: A study on the methodology to compute and identify budgetary waste in Member States, EPRS, October 2020.

570 J. Saulnier and A. Schelling, op. cit.

571 European Parliament, Report on strengthening the international role of the euro, 2020/2037(INI), March 2021.

reiterates its call to strengthen its democratic role in the economic governance framework[572] and calls on the Council and Commission to take due account of its resolutions.

The Parliament welcomes the Commission's proposal[573] for a swift reform that also redefines the role, functions and financial tools of the ESM. More ambitiously, the Parliament[574] has also proposed the creation of an EU Treasury and of budgetary capacity financed through own resources. The Parliament resolution suggests that such an EU Treasury should be fully democratically accountable and equipped with all necessary means and capacities to apply and enforce the existing economic governance framework and to optimise the development of the euro area in cooperation with the ministers of finance of the euro area Member States.

Commission and Council responses so far

Regarding the potential creation of an EU Treasury, the Commission proposed[575] that the Treasury could be entrusted with (1) the economic and fiscal surveillance of the euro area and of its Member States, (2) the coordination of issuing a possible European safe asset (with the support of the European Fiscal Board) and (3) the management of the macroeconomic stabilisation function. The Treasury could be placed under the responsibility of an EU Finance Minister. However, very little progress has been made and concrete proposals have not been followed through.

As part of the necessary response to tackle the socio-economic impact of the COVID-19 crisis, the Commission also made an ambitious proposal[576] and implemented a temporary recovery instrument, NGEU. The Commission also recognises that there is a need to constantly and better assess the low effectiveness of the current economic governance framework.[577] It recently published a communication on the Economic Governance Review,[578] as well as two reports on the application of the economic governance framework.[579] The Commission also conducted a public consultation on possible reforms to the economic governance framework.[580]

In December 2020,[581] the European Parliament and the Council reached an agreement on the Recovery and Resilience Facility, the key instrument at the heart of NGEU. It will provide

572 European Parliament, Report on the European Semester for economic policy coordination: annual sustainable growth survey 2022, 2022/2006(INI), March 2022.

573 European Parliament resolution of 14 March 2019 on the proposal for a Council Regulation on the establishment of the European Monetary Fund (COM(2017) 0827 – 2017/0333R(APP)).

574 European Parliament resolution of 16 February 2017 on budgetary capacity for the euro area (2015/2344(INI)).

575 European Commission, Reflection paper on the deepening of the economic and monetary union, May 2017.

576 Communication on Europe's moment: Repair and Prepare for the Next Generation, COM(2020) 456 final, European Commission.

577 European Commission, Report on Public Finances in EMU 2021, Economic and Financial Affairs, institutional paper, July 2022.

578 Communication on Economic governance review – Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU, COM(2020) 55 final, European Commission.

579 European Commission, Report on the application of the economic governance framework, SWD(2020) 210 final; European Commission, Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, SWD(2020) 211 final.

580 European Commission, Online public consultation on the review of the EU economic governance framework. Summary of responses, SWD(2022) 104 final.

581 Council of the European Union, Regulation establishing a Recovery and Resilience Facility – final compromise text and declarations, December 2020.

€723.8 billion in loans and grants to effectively address challenges identified in the European Semester. In July 2022, the Eurogroup welcomed further progress on more efficient economic governance and reaffirmed[582] that fiscal policies in all countries should aim to preserve debt sustainability, as well as raising growth potential in a sustainable manner to boost the recovery.

The Commission also recognised the need to assess the low effectiveness of the current economic governance framework,[583] publishing a communication on the economic governance review[584] and two reports on the application of the economic governance framework.[585] In March 2022, it issued a communication[586] that provides Member States with guidance on the conduct of fiscal policy in 2023, including an overview on the state of play of the economic governance review.[587] In November 2022, the Commission adopted another communication, 'Orientations for a reform of the EU economic governance framework',[588] which proposes policy options to build a simpler, more transparent and integrated architecture for macro-fiscal surveillance.

Looking forward

As long as the EMU framework is not reinforced and completed with adequate institutions, permanent and adequate budgetary capacity and increased democratic supervision, times of crisis will probably continue to be characterised by slow and costly muddling through to arrive at short-term technical fixes. As the necessary changes, notably the creation of an EU Treasury, will require Treaty change, it is unlikely, without renewed ambition, that significant progress will be made rapidly. The euro area, and indeed the whole of the EU, will therefore continue to be confronted by the forces of fragmentation and will continue to be affected by relatively poor coordination of fiscal policy between Member States and poor coordination with the monetary policy of the ECB.

582 Eurogroup, statement on fiscal policy orientations for 2023, July 2022.

583 Report on Public Finances in EMU 2021, Institutional paper 181, European Commission, July 2022.

584 Communication on Economic governance review – Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU, COM(2020) 55, European Commission, February 2020.

585 Report on the application of the economic governance framework, SWD(2020) 210, European Commission, February 2020, and Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, SWD(2020) 211, European Commission, February 2020. The Commission also conducted a public consultation: Online public consultation on the review of the EU economic governance framework, Summary of responses, SWD(2022) 104, European Commission, March 2022.

586 Communication on fiscal policy guidance for 2023, COM(2022) 85, European Commission, March 2022.

587 The communication does not constitute formal guidance to Member States under the SGP or the European Semester but seeks to provide Member States with more clarity as they prepare their stability and convergence programmes.

588 Communication on orientations for a reform of the EU economic governance framework, COM(2022) 583, European Commission, November 2022.

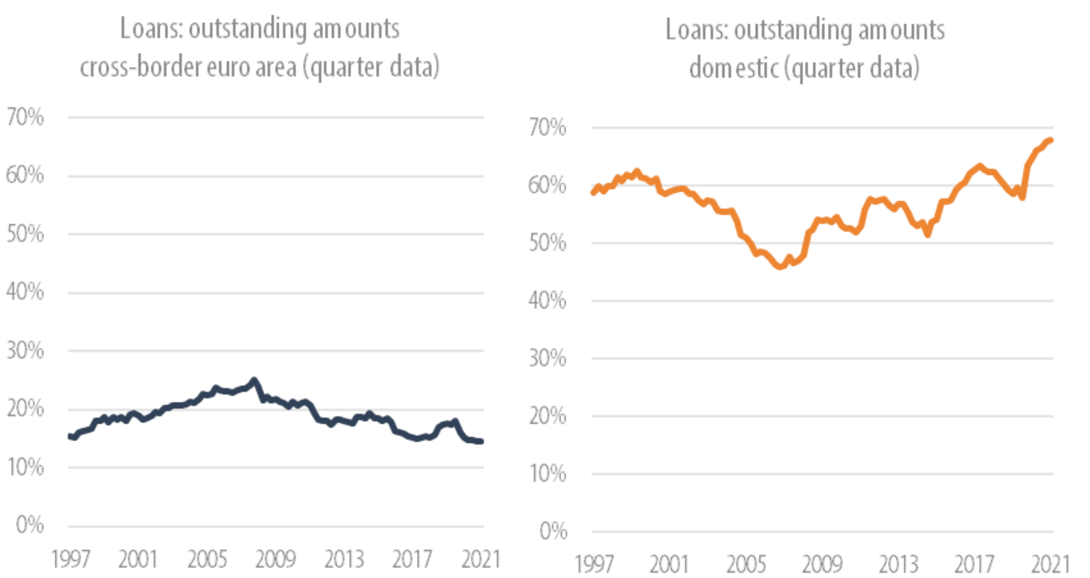
19. Completing banking union

Potential benefit: €40 billion per year

Key proposition

Banking union is a crucial element in EU financial markets becoming more integrated and resilient. Significant progress has already made in completing banking union,[589] notably regarding common regulatory rules, the single supervisory mechanism (SSM), the single resolution mechanism (SRM) and the first building block of the single resolution fund (SRF). However, important work remains to be done to tackle some underlying issues and to develop sustainable cross-border bank lending (see Figure 18).

Figure 18: Cross-border and domestic lending



Source: EPRS, using ECB data.

Firstly, there is still room to improve the crisis management framework and for better enforcement. A credible fiscal backstop to the SRF under EU law would be necessary to make the new EU framework for bank resolution effective, and to avoid costs for taxpayers.[590] There is also a need to

[589] For an overview of achievements, see European Parliament, Legislative train schedule – Financial Union, June 2022.

[590] For a review of the latest legislative developments, and notably the integration of the ESM into EU law, see European Parliament, Legislative train schedule – Second building block of the Single Resolution Fund (SRF) and Legislative train schedule – Integration of the ESM into EU law by way of creating a European Monetary Fund (EMF), June 2022.

improve the provisions of the existing deposit guarantee scheme directive (DGSD)[591] and for progress on setting up a European deposit insurance scheme (EDIS).[592]

Secondly, bank profitability in Europe is on average lower than for international peers.[593] Lack of integration, untapped efficiency gains and remaining high levels of non-performing loans (NPLs) in some jurisdictions have been identified in the literature[594] as a major source contributing to this situation. Ensuring that banks are further integrated and diversify their investments[595] in sovereign bonds geographically would allow a better spread of banking risks across the Union and would thus better maintain lending capacity in case of stress. Progress on sovereign bond-backed securities (SBBS)[596] could be a first step in the right direction. There is also still plenty of room for harmonisation, particularly regarding taxation, insolvency regimes and barriers to the provision of services in the single market.[597]

Finally, the departure of the UK, which has resulted in the largest financial centre leaving the EU, is a source of concern. It has triggered renewed interest in the need for more strategic action towards EU banking market integration.[598] The recently proposed 2021 banking package[599] could be instrumental in this respect.

A completed banking union would allow banks to benefit fully from the opportunities offered by the single market and EMU. Ex-ante research by EPRS evaluated that the benefit of a completed banking union could reach €130 billion per year.[600] Taking into consideration the recent estimates in the literature on the impact of further progress in the integration of the EU banking sector, we estimate that a benefit of between €40 billion and €114 billion could still be realised in this area.

More detailed analysis of the potential benefit

Following the sovereign debt crisis, the EU started to implement ambitious reforms of its banking regulatory framework to increase the resilience of the banking sector. The banking union, drawing on policies advocated by the European Parliament, improved financial stability and helped to reduce the fragmentation of European financial markets[601] by promoting a single framework for supervision, prevention and resolution. Resting on the foundations of the single rulebook, key elements of an effective banking union – the SSM, the SRM and the first building block of the SRF –

591 EBA, Opinion of the European Banking Authority on the treatment of client funds under Deposit Guarantee Scheme Directive (EBA/Op/2021/11), October 2021.

592 For a review of the latest legislative developments, see European Parliament, Legislative train schedule – European Deposit Insurance Scheme (EDIS), June 2022.

593 ECB, Financial Stability Review, November 2021.

594 T. Xu, K. Hu and U. Das, Bank Profitability and Financial Stability, IMF Working Paper, January 2019.

595 L. Emter, M. Schmitz and M. Tirpak, Cross-border banking in the euro area since the crisis: what is driving the great retrenchment?, Financial Stability Review, ECB working paper, February 2018.

596 See European Parliament, Legislative train schedule – Sovereign bond-backed securities, June 2022.

597 ECB, Financial integration and structure in the euro area, April 2022.

598 See, for example: A. Enria, How can we make the most of an incomplete banking union?, speech at the Eurofi Financial Forum, Ljubljana, September 2021.

599 European Commission, 2021 banking package proposal. The proposal includes a review of EU banking rules and of the Capital Requirements Directive.

600 G. Giraud and T. Kockerols, Making European Banking Union macro-economically resilient, EPRS, June 2015; S. de Finance and R. Nieminen, Testing the resilience of the Banking Union, EPRS, April 2016.

601 S. Mack, How Does Differentiated Integration Work in the EU Financial Sector? Spotlight on Banking Union, EUidea policy paper, August 2020.

are now in place. However, as uncertainty, inflation and high accumulated levels of debt are now presenting new challenges,[602] further action would be welcome to complete banking union.

Technical improvements still need to be made to have a credible fiscal backstop to the SRF under EU law. Further progress in also expected on provisions of the existing DGSD and on setting up a fully functional EDIS, seen as the third key pillar of banking union. A common deposit guarantee scheme (CDGS) taking the form of a proposed EDIS would provide a stronger[603] and more uniform degree of insurance cover in the euro area.[604] In particular, it would reduce the vulnerability of national deposit guarantee schemes to large local shocks, ensuring that the level of depositor confidence in a bank would not depend on the bank's location. It would therefore help to weaken the link between banks and their national sovereigns.[605]

Ex-ante impact assessments,[606] looking at the persisting disruption in the credit market engendered by not having a CDGS in place following an economic crisis, and assuming various potential intervention scenarios and timeframes, estimated the potential cost for the euro area to be between €5 billion and €35 billion per year. These figures takes into account the potential reduced flight of deposits from EU banks in the event of a severe sovereign or financial crisis.

In addition, according to the ECB,[607] weak bank profitability is still one of the main challenges facing the euro area banking sector (see Figure 19, exhibit 1). Bank profitability matters for financial stability as it is enabling banks to build strong buffers to absorb additional losses, thereby smoothing rather than amplifying the impact of negative shocks on the real economy. To improve profitability, the banking sector needs to tackle remaining structural challenges, notably high levels of NPLs in some jurisdictions (see Figure 19, exhibit 2), low efficiency and insufficient innovation. This is particularly relevant, as recent studies[608] show that the cost of equity tends to be higher for banks that are riskier (higher NPL ratio), less efficient (higher cost-to-income ratio), and with more unstable funding sources (higher relative reliance on interbank deposits).

A recent study[609] looked at the macroeconomic impact of policies proposed by ECB Banking Supervision to tackle the high share of NPLs. It found that, over a longer time horizon, lower NPL ratios reduce uncertainty and enable banks to access cheaper funding in the markets, ultimately benefiting lending and output growth. The long-term impact was estimated, depending on the

602 See ECB, Russia-Ukraine war increases financial stability risks, ECB Financial Stability Review, May 2022.

603 P. Fernández-Aguado et al., Evaluation of European Deposit Insurance Scheme funding based on risk analysis, International Review of Economics & Finance, Volume 78, March 2022, pp. 234-247.

604 DGSs are particularly important in the banking union, given that households have about 30 % of their consolidated financial assets in the form of bank deposits. In addition, deposits play an important role in bank funding, amounting to about two thirds of total bank liabilities in the EU banking union. While national DGSs are already in place and provide protection for covered deposits up to €100 000, they are not backed by a common European scheme. See also A. Arda and M. Dobler, The Role for Deposit Insurance Funds in Dealing with Failing Banks in the European Union, IMF Working Paper No. 2022/002, January 2022.

605 This raises the adjacent question of determining to what extent there is a need to ensure that banks are sufficiently robust on a stand-alone basis (risk reducing), before sharing the potential burden of bank failures (risk sharing).

606 For a review, see A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

607 M. Andersson et al., How can euro area banks reach sustainable profitability in the future?, Special feature in Financial Stability Review, European Central Bank, November 2018.

608 C. Altavilla et al., Measuring the cost of equity of euro area banks, ECB Occasional Paper Series, No 254, January 2021.

609 K. Budnik et al., The economic impact of the NPLs coverage expectations in the euro area, ECB Occasional Paper Series, No 297, July 2022.

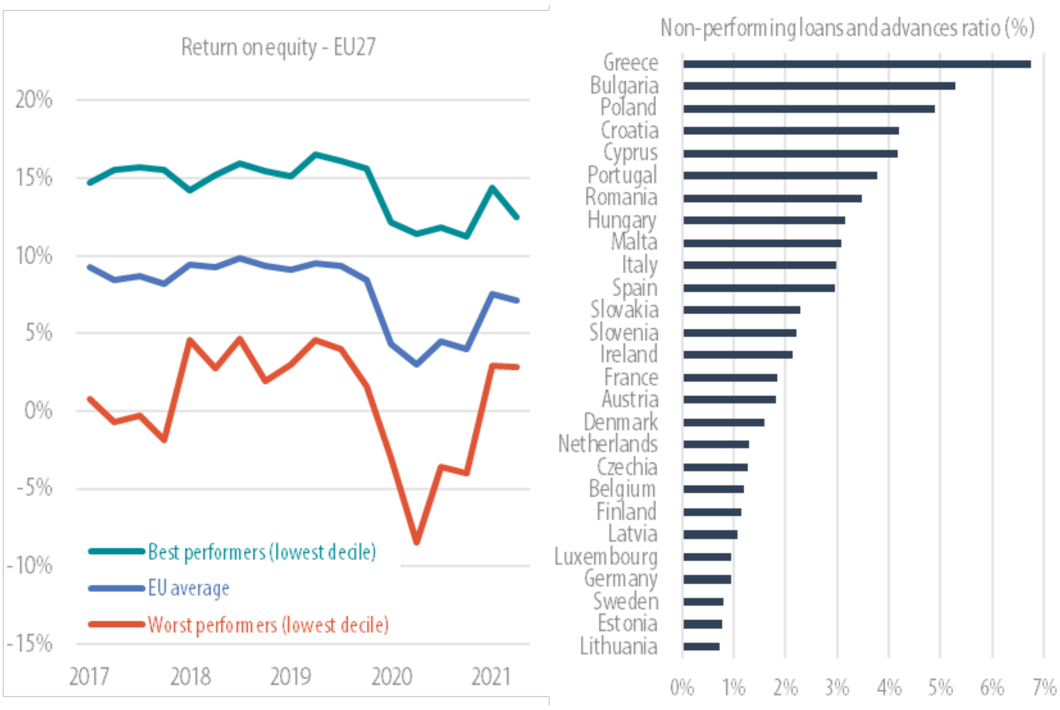
scenario under consideration, to be between 0.04 % and 0.3 % of GDP or between €6 billion and €45 billion additional GDP per year in the long run with lower NPL ratios.

Furthermore, efficiency would be improved with renewed integration and consolidation.[610] This would benefit the stability and competitiveness of the banking system, particularly as there is a need to effectively tackle persistent and excessive home bias and the sometimes excessive risks linked to the interconnection between banks and their national sovereign governments.

A recent study,[611] breaking down the performance of the EU banking sector, found that overall cost efficiency in the euro area banking sector could be boosted substantially (by around 16 %). It also concluded that untapped economies of scale largely impacted EU banks. Several factors have been identified as potentially acting as a brake on bank consolidation, notably tax regimes, in the absence of harmonisation, and differences in national legislation (competition law, credit law, customer protection, etc.).

Further action in these areas at EU level would induce structural changes and help integration in the sector, potentially increasing productivity and investment. A sectoral growth accounting modelling exercise, updating and broadening the scope of previous results focusing on digital finance,[612] indicates that a benefit of between €29 billion and €34 billion in efficiency gains could be expected from such action in the long run.

Figure 19: Non-performing loans and return on equity (latest data available)



Source: EPRS.

610 Institut Montaigne, Reinventing the European Banking Sector, November 2021.

611 I. Huljak, R. Martin and D. Moccero, The cost-efficiency and productivity growth of euro area banks, ECB Working Paper Series, No 2305, August 2019.

612 See J. Saulnier and I. Giustacchini, Digital finance: Emerging risks in crypto-assets – Regulatory and supervisory challenges in the area of financial services, institutions and markets, EPRS, September 2020.

Finally, the Commission recently published an evaluation of the impact[613] of the proposed 2021 banking package which reviews the EU banking rules (the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV)). It concluded that the net benefit would be positive in the long term. However, the number remains small and a further assessment probably needs to be made, since, as explained by the Commission, some older studies[614] display less positive results.

European Parliament position

In its latest annual reports on banking union,[615] the Parliament welcomed the progress made in improving banking supervision and resolution. It recalls that banking union remains unfinished because the third pillar, EDIS, has not yet been established. The Parliament therefore welcomes the inclusion of the proposal for a regulation establishing an EDIS in the EU institutions' joint declaration identifying key legislative priorities for 2022.[616]

The Parliament also stressed that the level of sovereign exposure has been growing in a number of banks and that banking union should help to address the bank-sovereign nexus. It welcomes the reduction of aggregate NPL ratios but considers that credit risk management, monitoring and the reduction of NPLs should remain one of the key priorities, and it highlights the importance of prudent risk management and appropriate provisioning. It stresses the need for effective anti-money laundering supervision, since the existing framework still suffers from several shortcomings.

The Parliament notes the possible benefits of banking consolidation, including addressing the low profitability, overcapacity and fragmentation of the banking sector, but also recognises the possible negative effects of consolidation and the challenges posed to banking supervision by large, systemically important institutions.

The Parliament supports the ongoing work on the implementation of the Basel III rules. It points out that a strong and well-structured Capital Markets Union, alongside the development of the banking union, will help to deliver better conditions for the financing of the European economy.

Finally, the Parliament regrets the failure to ensure full gender balance in EU financial institutions and bodies, and particularly the fact that women continue to be underrepresented in executive positions in the field of banking and financial services.[617]

613 Impact assessment accompanying the proposal for a regulation amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, and the proposal for a directive amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU, SWD(2021) 320 final, European Commission.

614 Copenhagen economics, EU implementation of the final Basel III standard: Impact on the European banking sector and the real economy, June 2021.

615 European Parliament resolution of 5 July 2022 on banking union – annual report 2021 (2021/2184(INI)).

616 Joint Declaration of the European Parliament, the Council of the European Union and the European Commission on EU Legislative Priorities for 2022, 2021/C 514 I/01, ST/14779/2021/INIT.

617 The share of female executive directors in significant banks under the watch of the ECB is only around 27 %, with large variations between Member States, from 50 % in Ireland to only 10 % in Germany. See G. Gotti et al., Gender balance on the boards of significant banks in the Banking Union, DG IPOL, European Parliament, May 2021.

Commission and Council responses so far

On 27 October 2021, the European Commission adopted a review of EU banking rules (the Capital Requirements Regulation (CRR)[618] and the Capital Requirements Directive (CRD IV)).[619] According to the Commission, these new rules should ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality.

Following up on its 2018 package of measures to tackle high NPLs,[620] on 16 December 2020 the Commission presented an additional communication on an action plan on tackling NPLs in the aftermath of the COVID-19 pandemic.[621] On 8 December 2021, the Commission published the results of the targeted consultation on improving transparency and efficiency in secondary markets for NPLs.[622] Finally, on 1 June 2022 the Commission published an analysis of the result from a targeted consultation on improving the EU's macro prudential framework for the banking sector.[623]

On 11 December 2020, the Euro Summit[624] invited the Eurogroup to prepare 'a stepwise and time-bound work plan on all outstanding elements needed to complete the banking union', and at the 25 June 2021 Euro Summit[625] leaders reiterated their full commitment to completing banking union.

On 16 June 2022, the Eurogroup[626] acknowledged that banking union remains incomplete. It agreed that, as an immediate step, work on banking union should focus on strengthening the common framework for bank crisis management and national deposit guarantee schemes. Subsequently, it agreed to review the state of banking union and identify possible further measures with regard to the other outstanding elements to strengthen and complete banking union.

Looking forward

Faced with rising uncertainty, persistently high inflation and the economic consequences of the war in Ukraine, EU financial markets are now confronted with a real-life stress test of their stability. In such a challenging environment, vulnerabilities have to be addressed for the EU to be better able to collectively address financial imbalances and risks.[627]

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[618] Proposal for a regulation amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, COM(2021) 664 final, European Commission, and Proposal for a regulation amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities, COM(2021) 665 final, European Commission.

[619] Proposal for a directive amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU, COM(2021) 663 final, European Commission.

[620] European Commission, package of measures to address the risks related to NPLs, March 2018.

[621] Communication on Tackling non-performing loans in the aftermath of the COVID-19 pandemic, COM(2020) 822 final, European Commission.

[622] European Commission, Targeted consultation on improving transparency and efficiency in secondary markets for non-performing loans (NPLs) – summary of responses, 8 December 2021.

[623] European Commission, Feedback statement of the targeted consultation on improving the EU's macro prudential framework for the banking sector, 1 June 2022.

[624] Euro Summit, Statements and remarks, 11 December 2020.

[625] Euro Summit, Statement, 25 June 2021

[626] Eurogroup, Statement on the future of the Banking Union, 16 June 2022.

[627] For a detailed assessment, see ESMA, Report on Trends, Risks and Vulnerabilities, Risk Monitor No 1, 2022.

A completed banking union would reduce the need for government intervention and decouple deposit insurance from the solvency of any single country. In addition, it would foster financial integration by allowing customers to choose more freely among banks, and cross-border bank consolidation could also be encouraged. As a complement to further action on banking union, however, the EU also has to continue progressing towards the building of more integrated and resilient financial markets.

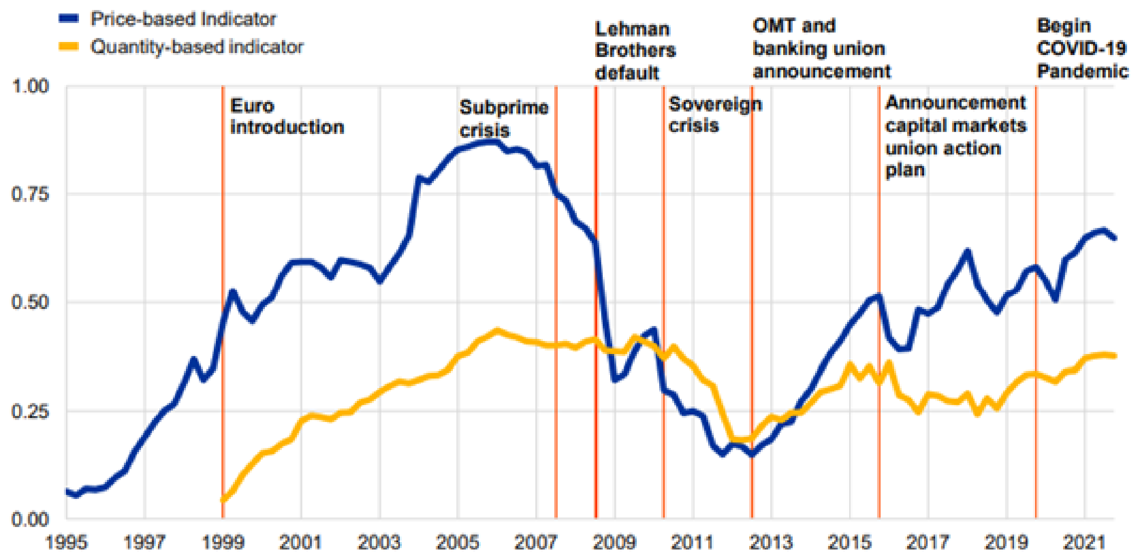
20. Financial market integration and resilience

Potential benefit: €90 billion per year

Key proposition

Some progress towards EU financial market integration has been made since the beginning of the economic and monetary union (EMU) (see Figure 20). Resilience has, notably, been reinforced after the EU sovereign debt crisis through the establishment of the capital market union (CMU).[628] As a result, financial markets navigated the COVID-19 recession without facing strong turbulence. As uncertainty, inflation and the war in Ukraine are now presenting new challenges, it is certainly not the time for complacency.

Figure 20: Financial integration – Composite index evolution



Source: ECB.

There are still large untapped opportunities to further increase the depth, the efficiency and the resilience of the EU financial sector. In particular, recent research[629] stresses that the EU financing of the economy continues to rely too heavily on bank loans, which restrict and sometimes misdirect risk taking while not supporting fast-growing sectors and the green and innovation transformation enough. EU capital markets are also largely affected by persistent home bias and, as a result, the EU lacks cross-border financing diversification and risk sharing. Numerous studies have also highlighted the importance of capital markets as shock absorbers.[630]

[628] For an overview of achievements, see European Parliament, Legislative train schedule – Action plan on the Capital Markets Union, September 2022.

[629] ECB, Financial integration and structure in the euro area, April 2022.

[630] M. Demertzis, M. Domínguez-Jiménez and L. Guetta-Jeanrenaud, Europe should not neglect its capital markets union, Bruegel, Policy Contribution Issue No 13/21, June 2021.

Finally, the departure of the United Kingdom, which has resulted in the largest financial centre leaving the EU, is a serious source of concern. It has triggered renewed interest in the need for more EU strategic action, on the need for global EU financial centres and on the opportunities to better benefit from the development of sustainable finance.[631]

The EU therefore needs to continue progressing towards the building of a more integrated financial market and, in particular, towards completing the CMU to complement banking union, so that stability, resilience and better financing of the economy improve. EPRS estimated that the potential benefits from a more fully integrated and more effectively regulated EU financial market could still be between €90 billion and €159 billion per year in the long run.

More detailed analysis of the potential benefit

Financial integration aims to boost resilience, increase efficiency in the transformation of savings and the allocation of capital, and reduce risks.[632] While progress has been made,[633] EU capital markets remain largely fragmented. In practice, this means that European citizens and businesses are not able to fully benefit from the sources of funding and investment that capital markets can offer. Furthermore, integrated EU financial markets, in particular a complete CMU, are needed now more than ever, in order to support the EU economy following the COVID-19 crisis and the impact of the war in Ukraine.[634] This would also facilitate and make more efficient the financing of the EU green transformation and of innovation, notably in the digital sector. It could contribute to a more inclusive society, notably by helping to meet the challenges posed by an ageing population. Lastly, integrated capital markets are crucial for the EU's global competitiveness and its autonomy.

In complement to further actions on banking union, the EU therefore has to continue progressing towards the building of a more integrated and resilient financial market. In particular, more-liquid markets and greater diversification of the EU economy's sources of financing (see Figure 21, exhibit 1) could be encouraged, as capital markets, notably through equity, play only a modest role in the financing of the EU economy compared to bank lending (about 75 % of EU firms rely on banks for external funding). Access to stock markets is costly and complex for businesses, and investors still face many barriers when investing in other EU countries (listed equity stands at 68 % of GDP in the EU, compared to, for instance, 170 % in the US and 120 % in Japan). EU households save heavily, but do not make the most of their savings and have fewer opportunities to invest for their future. The literature[635] emphasises that such heavy bank-based financial systems are more prone to crises and might produce lower growth performance.[636]

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631 K. Lannoo and A. Thomadakis, From NGEU to a Green Capital Markets Union, European Capital Markets Institute, ECMI Policy Brief No 32, March 2022.

632 E. Meyermans et al., Quarterly Report on the Euro Area (QREA), DG ECFIN, European Commission, Vol. 17(4), March 2018.

633 European Commission, Monitoring progress towards a Capital Markets Union: a toolkit of indicators, SWD(2021) 544 final/2.

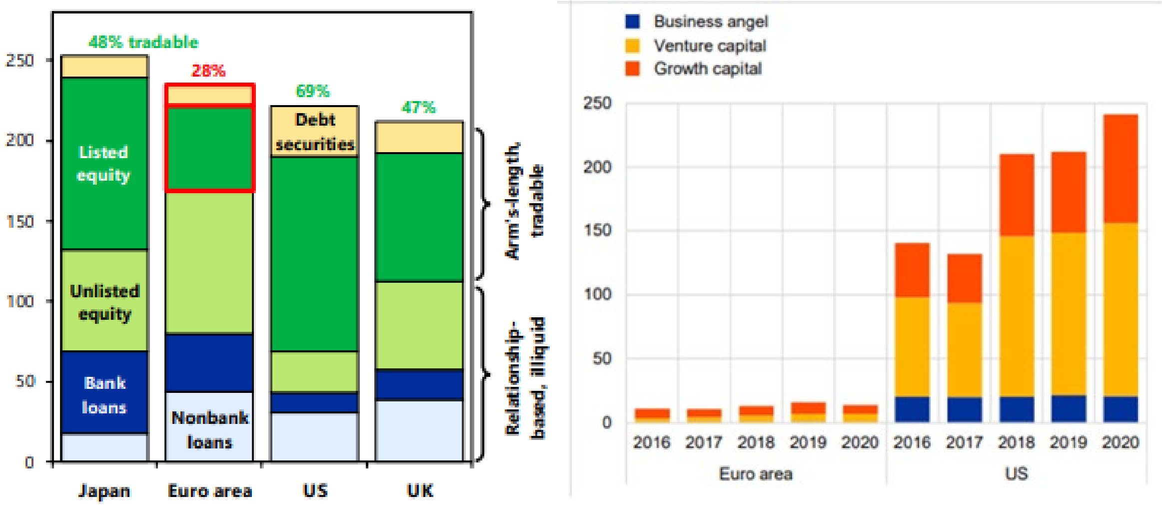
634 See, notably, ESMA, Report on Trends, Risks and Vulnerabilities, Risk Monitor No 1, 2022.

635 For a review, see A. Sapir, N. Véron and G. Wolff, Making a reality of Europe's Capital Markets Union, Bruegel, April 2018.

636 A. Giovannini, D. Ioannou and L. Stracca, Public and private risk sharing: friends or foes? The interplay between different forms of risk sharing, ECB occasional paper, No 295, June 2022; J. Cimadomo et al., Risk sharing in the euro area, ECB Economic Bulletin, Issue 3, 2018.

Studies also highlight the importance of capital markets as shock absorbers. For instance, the IMF[637] computed that, as a result of the lack of cross-border diversification in capital markets, consumption is about four times more sensitive to asymmetric shocks in Europe than in the US and Canada.

Figure 21: Relatively low level of market-based financing in Europe



Sources: IMF and ECB.

Home bias is still largely prevalent in the EU financial sector,[638] as, for instance, the proportion of equity that is of domestic origin often exceeds 50 %. In addition, financial intermediation remains mostly national and debt issuance procedures are not fully harmonised, which increase the cost of diversification across EU countries. EU capital markets therefore remain small and fragmented, which reduces the availability of funding, particularly for start-ups and SMEs.[639] The growth of sustainable finance provides an opportunity[640] to respond to some of these issues as, for example, in the euro area green bonds are twice as likely to be held cross-border than bonds overall.[641]

In addition, even if European private equity and risk capital have grown in recent years, the euro area still lags significantly behind international peers (see Figure 21, exhibit 2). As recently recalled by the European Court of Auditors,[642] the size of EU-domiciled funds is also small by global standards. The vast majority of large asset management businesses are not based in the EU, with only two of the world's 20 biggest asset managers currently headquartered there.

As stressed by the ECB,[643] further cross-border financial consolidation in the EU financial sector would help to increase competition, lower costs and increase European competitiveness, thereby

637 IMF, A Capital Market Union for Europe, IMF staff discussion note, September 2019.

638 See Z. Darvas and D. Schoenmaker, Institutional investors and home bias in Europe's Capital Markets Union, Bruegel, 2017. For a discussion focusing on investment funds, see L. Molestina Vivar et al., Is the home bias biased? New evidence from the investment fund sector, ECB, March 2020.

639 The IMF confirmed that EU capital market fragmentation impedes innovation and growth potential. It estimated that real value-added growth of firms with fewer tangible assets increases with capital market development. See IMF, op. cit.

640 Europe plans to issue up to €250 billion of green bonds between mid-2021 and 2026 as part of NextGenerationEU.

641 A. Born et al., Towards a green capital markets union: developing sustainable, integrated and resilient European capital markets, ECB Macro Prudential Bulletin, October 2021.

642 ECA, Investment funds – EU actions have not yet created a true single market benefiting investors, Special Report 04, 2022.

643 ECB, op. cit.

benefiting European consumers. However, the ECB also stresses that further action will be necessary to build a vibrant EU equity ecosystem, notably regarding the harmonisation of equity and venture capital frameworks and the debt-equity bias in taxation.

Previous research by EPRS[644] found that a more fully-integrated and more effectively regulated EU capital market could generate between €60 billion and €165 billion, or between 0.4 % and 1.1 % additional GDP, per year in the long term. Updated results confirm that the potential benefits from further effective structural change in the European financial sector could still be substantial. Regarding the development and efficiency of the financial sector, assuming that progress is made towards integration in the next 10 years, a sectoral growth accounting evaluation indicates that the sector could see its added value grow by between €47 billion and €63 billion.[645] Considering that the European financial sector (representing around 4.5 % of total EU added value) is relatively small compared to the US or UK (8.1 % and 6.8 % of total added value, respectively),[646] these estimations appear relatively reasonable.

Two recent European initiatives – namely, the launch of the pan-European personal pension product (PEPP) in 2022[647] and the establishment of an EU green bond standard (EGS)[648] – are expected to contribute to this development[649] of the EU financial markets in the next 10 years. Some of the recently-adopted reforms of the financial markets[650] should result in aggregated benefits which still need to be evaluated. Regarding broader economic impacts, the IMF[651] produced a comprehensive evaluation of the benefits to be expected from a more efficient and diversified financing of the EU economy and from tackling existing barriers to the CMU. It confirmed that value-added growth of firms operating with lower shares of fixed assets in total assets or lower leverage is higher in countries with more developed financial markets.

644 For a review, see A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

645 This is in addition to the impact estimated for the banking union and for digital finance. The model used is described in detail in J. Saulnier and I. Giustacchini, Digital finance: Emerging risks in crypto-assets – Regulatory and supervisory challenges in the area of financial services, institutions and markets, EPRS, September 2020. The results assume a return to the integration speed observed from 1999 to 2019, compared to a baseline scenario of no further development in the sector.

646 See EUKLEMS, 2021 release.

647 European Commission, Personal pensions: The pan-European personal pension product ('PEPP') applies as of today, Press release, 22 March 2022.

648 Proposal for a regulation on European green bonds, COM(2021) 391 final, European Commission. For an assessment of the proposal, see N. Badenhoop, Green Bonds – an assessment of the proposed EU Green Bond Standard and its potential to prevent greenwashing, DG IPOL, European Parliament, April 2022.

649 The impact assessment on PEPP by the European Commission shows that, on the supply side, a successful take-up of the PEPP will contribute to half of the expected growth of the personal pension market in the EU by 2030 and will increase capital markets by up to 2 %. The impact assessment on EGS by the European Commission calculated an average annual growth of 50.9 % in the issuance of green bonds for the period 2015-2020. It envisages green bond issuance in 2023 at approximately €430 billion and continuation of the rapid growth.

650 Recent proposals by the Commission focused on harmonisation, better communication and improved transparency. First, a European Single Access Point (ESAP) could offer a single point of access to public information about EU companies and EU investment products. Second, a review of the European Long-Term Investment Funds (ELTIFs) Regulation is supposed to increase the attractiveness of ELTIFs and make it easier for retail investors to invest in them. Third, a review of the Alternative Investment Fund Managers Directive (AIFMD) aims to harmonise the rules on loan-originating funds (debt funds), to facilitate lending to the real economy. Fourth, a review of the Markets in Financial Instruments Regulation (MiFIR) will focus on ensuring more transparency for all parties trading on capital markets.

651 See IMF, op. cit., and, for detailed results, IMF, A Capital Market Union for Europe – background notes, IMF staff discussion note, September 2019.

A paper[652] found a positive impact of EU financial development and integration on economic growth. Estimates suggest that it could represent an additional €42 billion in GDP per year for the EU economy. A more recent analysis[653] found that more market-based financing, particularly equity financing, would positively contribute to economic growth in the euro area. A potential positive GDP effect of between €23 billion and €48 billion per year could be expected over a 10-year period.

On the demand side, the results by the IMF[654] also confirm that there is still substantial variation in the cost of funding across the EU, For example, after controlling for firm characteristics, average Greek firms pay 200 basis points more than similar German firms, and 250 basis points more than similar French firms. The difference between similar Italian and French firms is 80 basis points. This dispersion is even higher for SMEs.

Integration of capital markets would allow for better financing conditions for non-financial corporations as long as they display the same level of risk and return. As a result,[655] EPRS estimated that potential savings on businesses interest loans could be in the order of between €20 billion and €48 billion per year in the long term.[656] Taking all these elements into consideration, we conclude that the total benefit from more fully-integrated and more effectively regulated EU capital markets could still be between €90 billion and €159 billion per year in the long term.

European Parliament position

The Parliament[657] insists on the need to complete the CMU to contribute to the economic and social recovery. It also asked the Commission to make a stronger commitment to achieving real progress on issues such as supervision, taxation and insolvency laws, which still represent major obstacles to the true integration of EU capital markets. The Parliament also calls for further integration and improvement of European capital markets to make them as attractive, competitive, and resilient as possible, especially in the context of the withdrawal of the United Kingdom. In addition, it underlines the need, in order to reduce the fragmentation risk stemming from the application of national options and discretion, to progress on common European standards.

The Parliament notes that the current reporting framework within the Markets in Financial Instruments Directive (MiFID II) and the European Market Infrastructure Regulation (EMIR) is very costly and complex, and believes that simplification should be considered. It also highlights the importance for SMEs of simplified reporting standards that allow them to fully participate in capital markets.

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652 J. Maudosa and J. Fernández de Guevara, The economic impact of European financial integration: The importance of the banking union, The Spanish Review of Financial Economics, Vol. 13, Issue 1, June 2015.

653 L. Orlowski, Capital markets integration and economic growth in the European Union, Journal of Policy Modeling, Vol. 42, 2020.

654 IMF, op. cit.

655 In the absence of barriers and asymmetric costs, market integration should generally imply price convergence at lower levels.

656 Updated calculation, on the basis of available data for 21 Member States. The low scenario assumes a 20 % reduction of the spread, while the high scenario is more hypothetical and assumes a full resorption of the spread. Source: OECD, financing SMEs and entrepreneurs – 2022 dataset, March 2022, and ECB, MFI interest rates on new euro-denominated loans to euro area non-financial corporations, 2012.

657 European Parliament resolution of 8 October 2020 on further development of the Capital Markets Union (CMU): improving access to capital market finance, in particular by SMEs, and further enabling retail investor participation (2020/2036(INI)).

The Parliament welcomes the PEPP product and also proposes to the Commission to look into the possibility of establishing an EU individual savings account, as a complement to national regimes, which could overcome the fragmentation of national markets by operating in a uniform manner and across heterogeneous markets, ensuring portability and security of savings. The Parliament also welcomes the development of sustainable finance[658] and welcomed the strategy for financing the transition to a sustainable economy.[659] It considers that the future renewed EU sustainable finance strategy is a major opportunity to accelerate the transition towards more sustainable retail investment and welcomes progress on an EU green bond standard.[660]

Commission and Council responses so far

Following up on the 2017 mid-term review[661] and recognising that gaps remain unaddressed, the Commission organised a High-Level Forum (HLF) on CMU, which published its final report in June 2020.[662] The report identified challenges, such as the departure of the United Kingdom, the need to enhance the EU's financial stability and economic resilience, the protectionist trade policies taken by other economic powers, the climate emergency, and rising inequality. The report also gave 17 recommendations aimed at removing the remaining biggest barriers in the EU's capital markets.

The Commission then proposed a new action plan in 2020[663] with 16 legislative and non-legislative actions. The key objectives are to ensure that the EU's economic recovery is green, digital, inclusive and resilient by making financing more accessible for European businesses, in particular SMEs; to make the EU an even safer place for individuals to save and invest long-term; and to integrate national capital markets into a genuine EU-wide single market for capital.

On 14 July 2021, the Commission published a list of indicators to monitor progress towards the CMU objectives.[664] On 25 November 2021, it adopted a package of four legislative proposals, including a communication[665] that briefly explains how the legislative proposals fit together and provides an update on the implementation status of all other actions from the 2020 CMU action plan. Regarding green finance, in July 2021 the Commission issued a proposal for a regulation on European green bonds.[666]

[658] European Parliament, Report of 22 October 2020 on the Sustainable Europe Investment Plan – How to finance the Green Deal (2020/2058(INI)).

[659] Communication on a Strategy for Financing the Transition to a Sustainable Economy, COM(2021) 390 final, European Commission, July 2021.

[660] A report on the proposal for a regulation on European green bonds was published in March 2022.

[661] Communication on a Mid-Term Review of the Capital Markets Union Action Plan, COM(2017) 292 final, European Commission, June 2017.

[662] Final report of the High Level Forum on the Capital Markets Union – A new vision for Europe's capital markets, June 2020.

[663] Communication on A Capital Markets Union for people and businesses – new action plan, COM(2020) 590 final, European Commission.

[664] European Commission, Monitoring progress towards a Capital Markets Union: a toolkit of indicators, SWD(2021) 544 final/2.

[665] Communication on a Capital Markets Union – Delivering one year after the Action Plan, COM(2021) 720 final, European Commission.

[666] Proposal for a regulation on European green bonds, COM(2021) 391 final, European Commission.

Looking forward

As recalled by the HLF, it remains to be seen how cooperation will be pursued in the coming years and if the EU will show the desire to reduce its dependency and develop deep financial centres with a global reach as part of its 'open strategic autonomy geopolitical ambitions'.[667] Faced with rising uncertainty, persistently high inflation, high levels of debt and the economic consequences of the war in Ukraine, actions taken to reinforce the EU financial market will be confronted with a real-life stress test of their effectiveness. Further action may also still be needed to increase diversified and cross-border financing.

[667] According to the ECA, op. cit., currently only two of the world's 20 biggest asset managers are headquartered in the EU.

21. EU macro stabilisation instruments

Potential benefit: €115 billion per year

Key proposition

The uneven impact of an economic crisis can lead to severe budgetary contractions and divergence between Member States. It could also spill over to those who are more resistant, through reduced aggregate demand, eroded confidence, and potential contagion via financial and trade channels. Many instruments have been proposed as potential responses to EMU's lack of stabilisation mechanisms.[668] Such instruments, if correctly designed, could serve as insurance, be set up at EU level, and would have the advantage of improving the absorption of country-specific shocks. Building on this logic and following up on previous proposals,[669] in 2020, as a response to the COVID-19 pandemic, the EU started to issue bonds to finance temporary support instruments.[670]

First, the **temporary support to mitigate unemployment risks in an emergency (SURE)** helps Member States that need to mobilise financial means to fight the negative economic and social consequences of the coronavirus pandemic.[671] The scheme is financed through bilateral guarantees to the EU, so that it could borrow €100 billion to grant financial assistance to support employment. Second, **Next Generation EU (NGEU)** offers an unprecedented recovery package of more than €800 billion in temporary help to repair the economic and social damage brought about by the pandemic.[672] The purpose is, notably, for the post-COVID-19 EU to be greener, more digital, more resilient and better fit for the current and forthcoming challenges. These goals appear even more relevant with the ongoing war in Ukraine.

Regarding the potential added value of these instruments, estimations show that SURE could deliver budgetary and interest savings of between €25 billion and €49 billion per year. NGEU is expected to boost EU GDP by at least €90 billion per year after 10 years. In total, these two innovative macro stabilisation mechanisms could therefore be expected to increase EU GDP by around €115 billion per year, representing around 0.77 % of EU GDP in the long term.

More detailed analysis of the potential benefit

Regarding SURE, with the latest disbursement in March 2022 the EU has provided €91.8 billion in back-to-back loans. All 19 EU Member States that have asked to benefit from the scheme have received part or all of the requested amount. SURE was primarily used to finance short-time work

668 See, notably: Towards a genuine economic and monetary union, Four Presidents' Report, 2012; Reflection paper on the deepening of the economic and monetary union, European Commission, 2017.

669 SURE follows from the Commission's 2019-2024 Political Guidelines, which proposed a European unemployment benefit reinsurance scheme to protect European citizens and reduce the pressure on public finances during external shocks: European Commission, EU SURE Social Bond Framework, 7 October 2020.

670 European Commission, The EU as a borrower – investor relations, 2021.

671 See C. Dias and I. Cunha, SURE implementation, DG IPOL, European Parliament, October 2021.

672 For an updated state of play and relevant documents on NGEU, see A. Hecser and O. Turcu, Recovery and Resilience Plans, DG IPOL, European Parliament, November 2022.

schemes.[673] These are public programmes allowing businesses experiencing economic difficulties to temporarily reduce the hours worked by their employees, who are provided with public income support for the hours not worked.

From a macroeconomic perspective, the purpose of SURE was indeed to help Member States preserve employment of workers and the self-employed during the pandemic, protecting labour incomes and facilitating a swift recovery when the pandemic abated. The increase in unemployment rates during the 2020 crisis in beneficiary Member States was significantly lower than in 2009 during the financial crisis, despite a higher decrease in GDP (see Figure 22).[674] In total in 2020, around 31 million people and two and a half million firms are estimated to have been supported by SURE; this helped to prevent unemployment for almost one and a half million people, which represents 30 % of total employment in beneficiary Member States. SURE continued to protect employment during the uneven recovery in 2021, supporting approximately three million people and over 400 000 firms. The protection of employment in 2020 and 2021 has also supported a more rapid recovery than in the previous crisis.[675]

The share of supported jobs in the Member States varied widely. Croatia supported 43 % of total employment, the highest share in the EU; Italy supported around 30 %; Belgium, Ireland, Portugal, Slovenia and Slovakia around 20 %; and Spain and Lithuania around 13 %; in other countries, levels were below 10 %.[676] This support extended more to parts of the service sector, particularly the restaurant and hotel business, and women and youth benefited to a greater extent. This reflects the change in the sectoral composition of the support away from manufacturing and construction towards services and retail, i.e. sectors with a significantly higher share of women and youth in employment. Without the massive use of short-time work, unemployment would have risen far more drastically, especially for employees with a low level of education.

Regarding the economic impact of SURE, previous evaluations suggested that, in a time of crisis, a common unemployment insurance scheme could stabilise household incomes to a considerable degree and could attenuate the GDP loss in the worst affected euro area Member States by €71 billion over four years, equivalent at that time to approximately €17 billion in any one year.[677]

Using a quantitative model analysis, a more recent study[678] confirmed that, in recessions, short-time work reduces the unemployment risk of workers, which mitigates their precautionary savings motive, meaning that aggregate demand falls by less. The study concluded that this can increase the stabilisation potential of short-time work over the business cycle by up to 55 %. Another study[679] evaluated the potential savings related to the introduction of a complementary, comprehensive European insurance scheme at around €41 billion per year. Finally, even without taking into consideration the stabilisation effects, the European Commission computed that Member States have saved a total of around €8 billion on interest payments by receiving financial assistance through SURE, which offered Member States lower interest rates than those they would have paid

673 For a detailed description of the features of SURE, see C. McDonnell et al., The SURE instrument – key features and first assessment, Quarterly Report on the Euro Area, Vol. 20, No 2, July 2021.

674 European Commission, SURE: One Year On, September 2021.

675 European Commission, SURE at 18 months, March 2022.

676 G. Fischer and G. Schmid, Unemployment in Europe and the United States under COVID-19, January 2021.

677 See A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

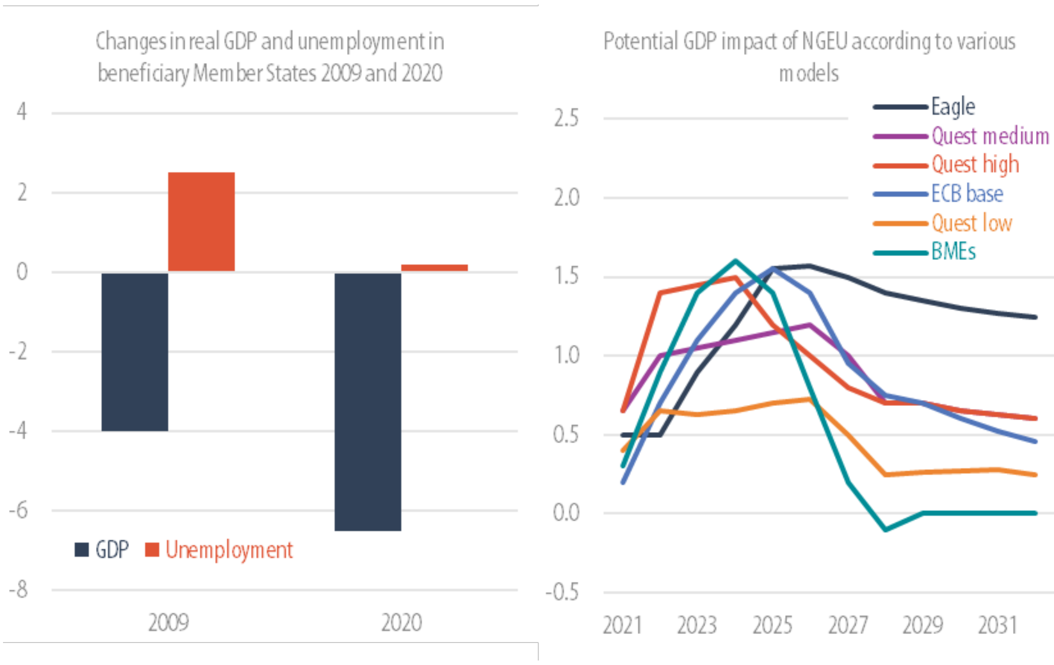
678 T. Dengler and B. Gehrke, Short-Time Work and Precautionary Savings, IZA discussion paper series, April 2021.

679 M. Bordignon et al., Improving the quality of public spending in Europe: A study on the methodology to compute and identify budgetary waste in Member States, EPRS, October 2020.

if they had issued sovereign debt themselves. We therefore conclude that SURE, through its stabilisation properties and the benefits of risk pooling at EU level, could deliver budgetary and interest savings of between €25 billion and €49 billion per year.

The Recovery and Resilience Facility (RRF) is the centrepiece of NGEU, with €723.8 billion in loans and grants available to support reforms and investments undertaken by Member States. NGEU also includes €50.6 billion for the recovery assistance for cohesion and the territories of Europe (REACT-EU) and brings additional money to other European programmes or funds such as Horizon2020, InvestEU, rural development and the Just Transition Fund (JTF). According to the latest review by the European Commission,[680] the disbursement of NGEU funds is now progressing according to the timeline of reforms and investments set by Member States in their national recovery and resilience plans (NRRPs).[681] To date, 13 operational arrangements have been concluded, six of which have led to the submission of 11 payment requests and their disbursement to six Member States (Croatia, France, Greece, Italy, Portugal and Spain). Around €100 billion in RRF funds has already been disbursed: €56.6 billion in pre-financing and €43 billion in payments.

Figure 22: The positive macroeconomic impact of SURE and NGEU



Data sources: ECB and European Commission.

The main purpose of NGEU is to incentivise reforms and investments in each Member State, in particular by providing support to the green and digital transitions. For that purpose, NRRPs needed to include a minimum of 37 % of the allocated funds for climate action, and this target has been exceeded, as 40 % of the plans' allocation is dedicated to climate objectives. NRRPs also needed to include a minimum of 20 % of the allocated funds for action on digital transformation. This target has also been exceeded, with 26 % of the plans' total allocation dedicated to digital objectives.

[680] European Commission, Review report on the implementation of the Recovery and Resilience Facility, COM(2022) 383 final.

[681] For a detailed review and assessment for each individual Member State, see A. D'Alfonso, National Recovery and Resilience Plans: Latest state of play, EPRS, February 2022.

Four additional pillars reflect other priority policy areas, namely: smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong small and medium-sized enterprises (SMEs); social and territorial cohesion; health, and economic, social and institutional resilience with the aim of, inter alia, increasing crisis preparedness and crisis response capacity; and policies for the next generation, children and youth, such as education and skills.

Regarding the economic impact of NGEU, the European Commission[682] conducted a series of macroeconomic evaluations using the QUEST model.[683] The results (see Figure 22) show a positive countercyclical effect of potentially 1.5 % deviation compared with a scenario of no NGEU. They also indicate a positive long-term structural impact of around 0.6 % of GDP.

A series of papers[684] provides additional analysis on the macroeconomic impact of NGEU and compares the results of simulations done with different models used by the ECB.[685] The simulations confirm a positive counter-cyclical short-term effect of potentially +1.5 %, while the long-term structural impact varies widely depending on the model used. All models indicate that the direct effect of NGEU will be particularly important in the 2021-2026 period. Taking all these results into account and looking at the central estimate, we conclude that a potential long-term structural impact of at least 0.6 % of GDP, representing around €90 billion per year, could be expected.[686]

A study[687] further emphasised the beneficial short-term stabilisation effects of NGEU and its role in preventing further economic divergence. An analysis by the Spanish central bank[688] cautioned that, for the expected positive effects to materialise, there is a need to ensure that NGEU funds are not used to finance expenditure that would have been incurred in any event, and that there is a need to ensure that the majority of funds are used to boost potential structural growth.

A recent in-depth analysis[689] of the NRRPs of Austria, Belgium and Germany showed that only a minor share of projects have a cross-border impact and emphasised potential missed opportunities in developing European public goods as part of the RRF. Finally, a study for the European Parliament[690] on the effect of NGEU and SURE on 10-year euro area sovereign bond yields found a

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682 P. Pfeiffer, J. Varga and J. in 't Veld, Quantifying Spillovers of NGEU investment, European Economy Discussion Papers, July 2021.

683 QUEST is a dynamic stochastic general equilibrium (DGSE) model developed by the European Commission. See European Commission, European Economic Forecast, institutional paper 136, November 2020, and European Commission, Identifying Europe's recovery needs, SWD(2020) 98 final, May 2020.

684 K. Bańkowski et al., The macroeconomic impact of the Next Generation EU instrument on the euro area, Occasional Paper Series 255, European Central Bank, January 2021; K. Bańkowski et al., The economic impact of Next Generation EU: a euro area perspective, Occasional Paper Series 291, European Central Bank, April 2022.

685 EAGLE is an ECB large dynamic stochastic general equilibrium (DSGE) model of the euro area and global economy that has been adapted to reflect the modalities of the NGEU instrument; ECB-BASE is an ECB semi-structural model. BMEs uses the basic model elasticities of the forecasting models in use in the national central banks of the Eurosystem.

686 The main differences arise from the differences in the modelling assumptions and from the specific characteristics of each model.

687 S. Watzka and A. Watt, The macroeconomic effects of the EU Recovery and Resilience Facility, IMK Policy Brief, No 98, October 2020.

688 Banco de España, The macroeconomic impact of the next generation EU programme under various alternative scenarios, Economic Bulletin, Issue 3, 2020.

689 F. Corti et al., The European added value of the Recovery and Resilience Facility: An assessment of the Austrian, Belgian and German plans, DG IPOL, European Parliament, April 2022.

690 R. Christie, G. Clayes and P. Weil, Next Generation EU borrowing: a first assessment, DG IPOL, European Parliament, October 2021.

potential downward impact in the order of between 15 and 30 basis points. The study confirms that NGEU will increase the resilience of the EU but stresses that, to fully reap the benefits of EU borrowing, NGEU would have to be made permanent, so that it provides a long-term safe asset and benchmark yield curve.

European Parliament position

The European Parliament considers that ensuring compensation during a downturn has significant macroeconomic stabilisation potential.[691] The Parliament has therefore repeatedly insisted on strengthening the social dimension of EMU,[692] notably through the possible creation of a permanent European unemployment benefit reinsurance scheme (EURBS).[693] It has also been calling on the Commission to analyse the need for minimum standards for unemployment insurance systems for many years. Regarding SURE, the Parliament welcomed the progress made and emphasised that it is primarily the emergency operationalisation of the EUBRS and is specifically designed to respond immediately to the challenges presented by the coronavirus pandemic. It therefore does not preclude the establishment of a permanent EUBRS in the future.[694]

Regarding NGEU, the Parliament stresses that the RRF is an unprecedented instrument of solidarity and a cornerstone of the NGEU instrument. In a resolution in June 2022,[695] the Parliament further emphasised the stabilising effect of the RRF for Member States and underlined the RRF's instrumental role in fostering economic, social and territorial cohesion, preventing the fragmentation of the internal market and the deepening of macroeconomic divergences. The Parliament also recalled that the packages of reforms and investments should generate EU added value and called upon the Commission to assess whether there has been unnecessary duplication of investments.

The Parliament stresses the need to ensure inclusiveness, so that the EU leaves no one behind, and that it tackles gender-specific socio-economic impacts. It also calls to ensure its right of information regarding the ongoing assessment of the NRRPs, so it can exercise democratic scrutiny over the Commission's assessment and implementation of the RRF. [696] Finally, in view of the war in Ukraine, the Parliament emphasises the need to strengthen energy independence and security, to diversify energy sources, including through EU energy sources, and to accelerate the energy transition; it also stresses the role of the RRF in the rollout of REPowerEU and underlines that the loans available under the RRF could be used to a large extent to supplement the REPowerEU initiative.

691 K. Muller, EU-27 support for national short-time work schemes, EPRS, April 2020.

692 See N. Milotay, European Pillar of Social Rights: Gothenburg, Porto and beyond, EPRS, May 2021.

693 See European Parliament, Legislative train schedule – Feasibility of a European unemployment (reinsurance) benefit scheme, June 2022.

694 See European Parliament, Legislative train schedule – European unemployment reinsurance scheme, June 2022.

695 European Parliament resolution of 23 June 2022 on the implementation of the Recovery and Resilience Facility (2021/2251(INI)).

696 European Parliament resolution of 10 June 2021 on the views of Parliament on the ongoing assessment by the Commission and the Council of the national recovery and resilience plans (2021/2738(RSP)).

Commission and Council responses so far

Regarding SURE, on 2 April 2020 the Commission proposed the corresponding regulation[697] as part of the EU's initial response to the pandemic. All 27 Member States agreed unanimously to provide bilateral guarantees to the EU so that the Union could borrow €100 billion from the markets.[698]

The Council adopted the SURE Regulation on 19 May 2020 and the financial envelope became available on 22 September 2020, with the first disbursement taking place on 27 October 2020.[699] Since its introduction, more than 94 % of the total envelope has been allocated by the Council to 19 Member States. On 24 March 2022, the Commission adopted its third biannual report on the assessment of the functioning of the Regulation, which shows continued success in protecting jobs and supporting the recovery.[700]

On 27 May 2020, in response to the economic consequences of the coronavirus, the Commission proposed the temporary recovery instrument, NGEU, as well as targeted reinforcements to the EU budget.[701] On 17 December 2020, the Council decided to adopt the EU budget for the period 2021-2027, the final step in the adoption process.

The RRF, as set up by Regulation 2021/241 of 12 February 2021, aims to provide financing to Member States, through grants and loans, to finance reforms and investments put forward in their NRRPs. To finance the RRF, the Commission is issuing debt on capital markets, and part of the NGEU debt issuances will be covered by the Green Bond framework announced on 7 September 2021.[702] On 15 June 2021, the Commission launched the first NGEU bond issuance, for €20 billion, via a 10-year bond due on 4 July 2031. So far, the Commission has issued close to €133 billion in bonds to finance NGEU.

Looking forward

On 18 May 2022, the Commission published a Communication[703] setting out its plan to reduce dependence on Russian fossil fuels and foster the green transition, accompanied by a proposal to amend the RRF Regulation. The amending act envisages, in particular, that Member States will be providing new chapters to their NRRPs covering additional investments and reforms that aim to reinforce EU energy autonomy. The package comprised additional documents, namely guidance to Member States on the new REPowerEU chapters and proposals to finance the additional spending under REPowerEU.

697 Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

698 European Commission, EU SURE Social Bond Framework, October 2020.

699 European Commission, Report on SURE: Taking Stock After Six Months, COM(2021) 148 final.

700 European Commission, Report on SURE at 18 months: third bi-annual report, COM(2022) 128 final.

701 Communication on Europe's moment: Repair and Prepare for the Next Generation, COM(2020) 456 final, European Commission; Identifying Europe's recovery needs, SWD(2020) 98 final, European Commission; Communication on The EU budget powering the recovery plan for Europe, COM(2020) 442 final, European Commission.

702 Next Generation EU – Green Bond Framework, SWD(2021) 242 final, European Commission.

703 Communication on REPowerEU Plan, COM(2022) 230 final, European Commission.

22. Digital finance, crypto currencies and crypto-assets

Potential benefit: €27 billion per year

Key proposition

The ongoing digital transformation is profoundly affecting the financial sector, as it is opening new ways for innovative entrepreneurs to bring dynamism and productivity gains to the sector. The emergence of a fast-growing and extremely competitive Fintech scene in recent years is the most striking example of this change.[704] As this entails substantial risks, and as it also disrupts some established positions, it naturally does not proceed without trade-offs and challenges. Access to digital finance services also varies greatly depending on location, gender and income. Finally, the rapidity, lack of transparency and the potential vast economic implications of this transformation are a constant challenge for regulators.

One area that has attracted a lot of attention is the development of so-called decentralised finance (DeFi), and more specifically the diffusion and adoption of crypto currencies and crypto-assets. As stressed by the Financial Stability Board (FSB) in its latest report,[705] the disruptive capacity of such tools and the associated risks should certainly not be underestimated. The main challenges are linked to: the increasing linkages between unregulated crypto currencies and crypto-assets markets and the regulated financial system; the opacity, fragmentation and lack of regulatory oversight of the sector; risks of fraud and money laundering; and extreme volatility and potential chaotic consolidation episodes in the sector (see Figure 23).

The European institutions have therefore started to make recommendations on the most suitable ways of dealing with crypto currencies, crypto-assets, and more generally with digital finance. They strongly support the adoption of **comprehensive regulations that effectively mitigate risks while allowing innovation to thrive**. They also stress that, rather than the face value of some digital coins, which attract a lot of attention, it is the digital ecosystem of start-ups, services and skills developing in this sector that is the key for future EU growth and strategic autonomy.

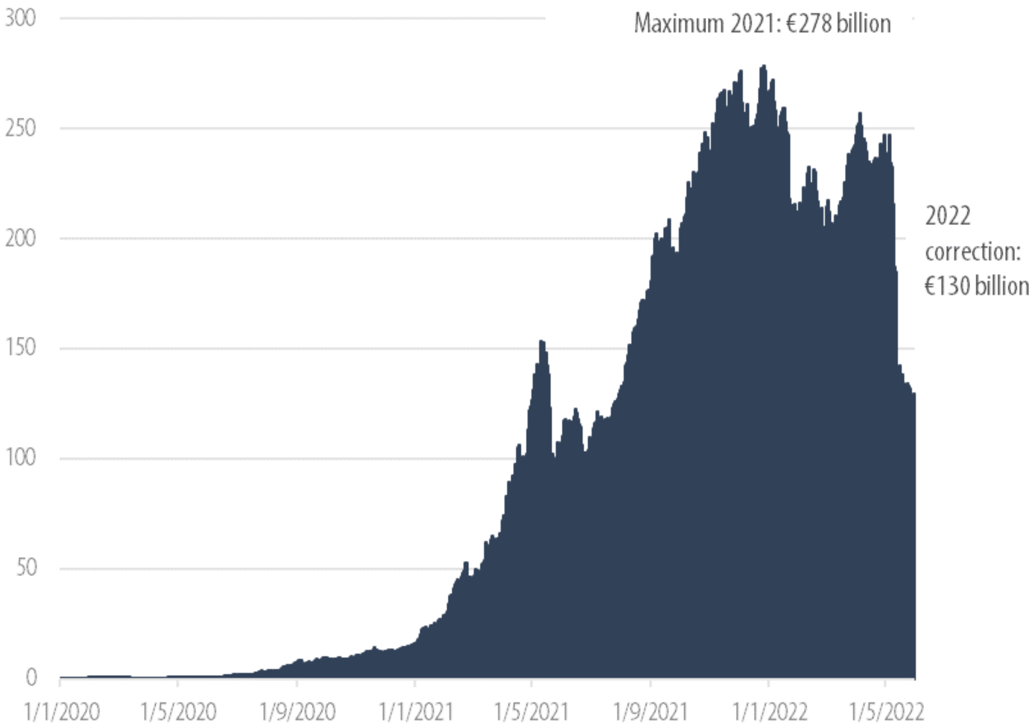
Looking at these issues, research carried out by the European Added Value Unit of EPRS for the ECON Committee[706] highlights three areas that are particularly pivotal for digital finance in Europe and that need specific attention at the current juncture. The first is the definition of a common framework for crypto currencies and crypto-assets, the second is cyber-resilience, and the third concerns the establishment of a comprehensive EU data strategy. Effective progress in these areas could bring benefits, resulting from healthy development of this sector, of **between €27 billion and €55 billion of additional GDP per year in the long term**.

[704] Communication on a Digital Finance Strategy for the EU, COM(2020) 591 final, European Commission, September 2020.

[705] FSB, Assessment of Risks to Financial Stability from Crypto-assets, report to the G20, February 2022.

[706] J. Saulnier and I. Giustacchini, Digital finance: Emerging risks in crypto-assets – Regulatory and supervisory challenges in the area of financial services, institutions and markets, EPRS, September 2020.

Figure 23: Decentralised finance – Total value locked (€ billion)



Source: EPRS, using [DeFi Pulse data](#).

More detailed analysis of the potential benefit

The digital finance ecosystem has been growing and transforming at a fast pace in recent years,[707] with the COVID-19 pandemic only accelerating the move towards the adoption of advanced innovations such as mobile applications, distributed ledger technology, cloud computing and big data in the financial services industry.[708] This has been accompanied by the fast development of start-ups and innovative businesses (Fintech), with growing competition, investment, research and highly skilled employment created in the process. This has also had a direct impact on the way consumers and investors access and manage their finances, offering access to a larger number of services in a more efficient way.

Crypto currencies and crypto-assets have recently been at the centre of attention.[709] As explained by the European Commission, DeFi is a form of autonomous financial intermediation in a decentralised digital environment powered by software – 'smart contracts' on public blockchains.[710] In theory, it could involve uncontrolled access to financial services on a quasi-anonymous basis using crypto-assets. An important issue when it comes to crypto-assets is thus also being able to

707 For example, 56 % of European institutional investors surveyed by custody and execution services provider Fidelity Digital Assets indicated that they have some level of exposure to digital assets – up from 45 % in 2020 – with their intention to invest also trending upwards.

708 World Bank and CCAF, The Global Covid-19 FinTech Regulatory Rapid Assessment Study, World Bank Group and the University of Cambridge, October 2020; P. Tierno, Big Tech in Financial Services, Congressional Research Service, July 2022.

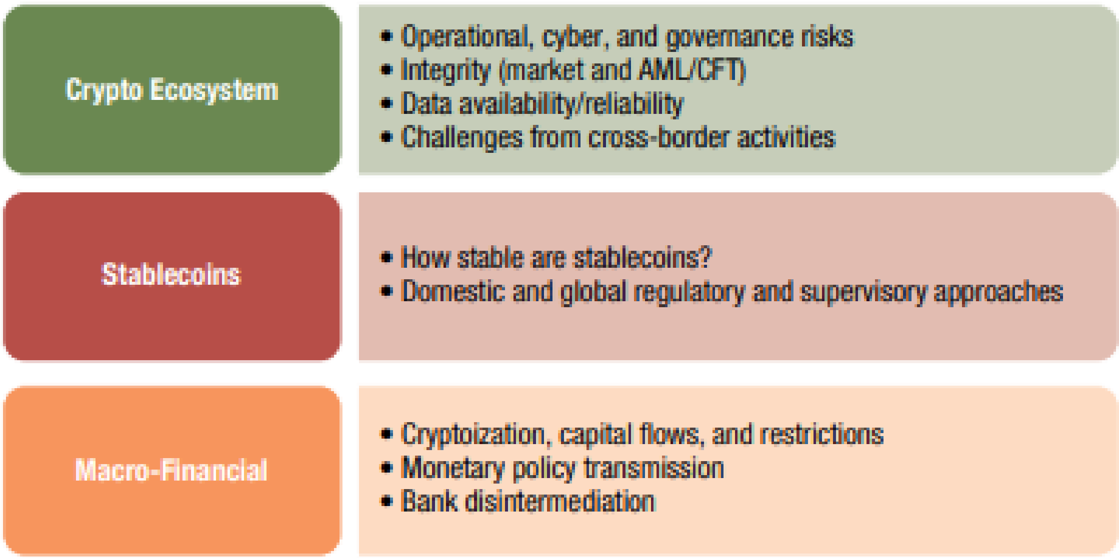
709 Recent results from the ECB's Consumer Expectation Survey (CES) for six large euro area countries indicate, based on experimental questions, that as many as 10 % of households may own crypto-assets.

710 European Financial Stability and Integration Review 2022, DG FISMA, European Commission, April 2022.

clearly determine exactly what they are and which rules, if any, apply to them. Such a disruptive development naturally does not go without risks and without sometimes chaotic corrections and consolidations in some areas.

Access to digital finance services are also still affected by large societal bias, which need to be tackled so that no one feels left behind. It also requires agility and for regulators to have the capacity to react and adapt quickly, so that potential negative impacts do not materialise.[711]

Figure 24: Potential financial stability risks linked to crypto currencies and crypto-assets[712]



Source: IMF.[713]

As a result, some experts are strongly concerned and stress the need for the EU to address the potential risks more effectively (see Figure 24) and to exert more oversight over the fragmented legislative development at Member State and international level in this area. In particular, they emphasise the risks associated with fraud and money laundering,[714] and the volatility and lack of economic underpinning of crypto assets.[715]

The Wirecard case,[716] which saw the collapse of one of the top EU Fintech firms after admitting that €1.9 billion was missing from its account, certainly did not help to bring serenity and trust in digital finance.[717] Furthermore, the recent collapse of the crypto exchange FTX,[718] and the devaluation of

711 ECB, Decrypting financial stability risks in crypto-asset markets, Financial Stability Review, May 2022.

712 AML/CFT = anti-money laundering/combating the financing of terrorism.

713 IMF, The Crypto Ecosystem and Financial Stability Challenges, Global financial stability report, October 2021.

714 R. Houben and A. Snyers, Crypto-assets: Key developments, regulatory concerns and responses, DG IPOL, European Parliament, April 2020.

715 C. Lagarde, The future of money – innovating while retaining trust, Article by Christine Lagarde, President of the ECB, in *L'ENA hors les murs* magazine, November 2020.

716 C. Dias et al., Update on Wirecard case: public hearing, DG IPOL, European Parliament, March 2021.

717 'Gushing fountain of fraud in crypto and DeFi' says FT journalist Dan McCrum.

718 ESMA, Statement on the collapse of FTX and its implications for the EU, November 2022.

some wrongly-labelled 'stablecoins'[719] and the large loss of value in crypto currency markets in 2022 have reminded people of the highly speculative nature of such assets.[720]

Some experts have also emphasised the energy consumption linked to the digitalisation of finance and, in particular, to the mining of crypto currencies.[721] Finally, large and sometimes undisclosed risks could affect consumers, businesses and investors dealing with crypto-assets.[722]

Other experts continue to stress that many assets in the finance industry are also prone to high levels of risks and volatility[723] and that money laundering did not start with digitalisation. They prefer to focus on the benefits associated with digital finance,[724] namely more productivity through higher competition in the financial sector. The inclusivity of decentralised finance is also often emphasised,[725] although it could also be argued that the segregation of customers could increase. In particular, digital finance does not seem able to address the gender gap in access to financial services, as behavioural differences persist in the use of digital finance services.[726]

Three areas seem to be particularly pivotal to the future development of crypto-assets and digital finance in the EU, and they need specific attention at the current juncture. The first is the definition of a common regulatory framework for crypto-assets, the second is to continue reinforcing EU cyber resilience, and the third concerns data privacy and the use of data in the financial sector.

With substantial and effective progress in these areas, a recent comprehensive study on digital transformation by EPRS[727] gives estimates of around €33 billion of additional GDP per year in this area. An analysis[728] of the impact assessments by the Commission[729] on updating the crypto assets regulation and establishing a pilot regime for distributed ledger technology broke down the potential efficiency gains as follows: €220-570 million per year in the area of remittances; €270-540 million per year in the area of cash equity markets; up to €4 billion per year in the area of reporting; several billion euro in the areas of clearing, settlement, collateral management and other intermediary functions; and €15-19 billion per year in bank infrastructure cost savings in relation to cross-border payments, securities trading and regulatory compliance. Innovation-related impacts are, however, not quantified.

719 A. Delivorias, Stablecoins: Private-sector quest for cryptostability, EPRS, November 2021.

720 In its May 2022 financial stability report, the Fed recalled that 'stablecoins', which are supposed to be backed by reserves, may lose value or become illiquid during stress, particularly as transparency on the nature of reserves is not always ensured.

721 IEA, Bitcoin energy use - mined the gap, July 2019.

722 For a few cryptos more: the Wild West of crypto finance, Speech by Fabio Panetta, Member of the Executive Board of the ECB, at Columbia University, 25 April 2022.

723 T. Leirvik, Cryptocurrency returns and the volatility of liquidity, Finance Research Letters, Vol. 44, January 2022.

724 BIS, Fintech and the digital transformation of financial services: implications for market structure and public policy, BIS Papers, No 117, July 2021.

725 IMF, Is Digital Financial Inclusion Unlocking Growth?, IMF Working Paper 21/167, June 2021.

726 S. Chen et al., The fintech gender gap, BIS Working Papers, 931, March 2021.

727 N. Lomba, L. Jančová and M. Fernandes, Digital transformation – Cost of Non-Europe, EPRS, January 2022.

728 L. Zandersone, Updating the Crypto Assets Regulation and establishing a pilot regime for distributed ledger technology, EPRS, March 2021.

729 Impact assessment (SWD(2020) 380, SWD(2020) 381) accompanying a Commission proposal for a regulation on markets in crypto-assets and amending Directive (EU) 2019/1937 (COM(2020) 593 (final)), and Impact assessment (SWD(2020) 201, SWD(2020) 202) accompanying a Commission proposal for a regulation on a pilot regime for market infrastructures based on distributed ledger technology (COM(2020) 594 (final)).

Research carried out by the European Added Value Unit of EPRS for the ECON Committee on these issues[730] estimated a relatively similar value of benefits from healthy development in this sector of between €27 billion and €55 billion of additional GDP per year in the long term. These gains are mostly explained by the expectation that innovation will be triggered in the financial sector and by related investment in IT, software and database-related capital that will inevitably accompany the digitalisation of finance.

European Parliament position

The European Parliament has been advocating for healthy development of new digital technologies and innovation in the financial sector that takes into account the need to protect users, avoid harmful levels of risk taking and address the lack of transparency in some areas. It is therefore supporting new rules on markets in crypto-assets to address potential threats.[731] In particular, the Parliament is backing comprehensive rules covering transparency, disclosure, authorisation and supervision of transactions, and in March 2022[732] it adopted new rules to support testing of the distributed ledger technology in market infrastructures.

The Parliament is requesting better information for consumers, businesses and investors about risks, costs and charges. It is also asking for a comprehensive regulation of crypto-assets and is recommending that the issuing of crypto currencies and crypto-assets be supervised by the European Securities and Markets Authority and the European Banking Authority.

The Parliament is also strongly supportive of rules to further ensure financial stability, and of measures to tackle market manipulation, money laundering and other criminal activities more effectively. In April 2022,[733] it agreed to start negotiations with EU countries on rules that would allow the tracing and identification of transfers of crypto-assets, to prevent their use in money laundering, terrorist financing and other crimes. Finally, the Parliament is asking for measures to reduce the high carbon footprint of digital finance and, in particular, crypto-asset mining activities.

Commission and Council responses so far

The European Commission recognises that digital financial services can play an important role in modernising the European economy and turning Europe into a global digital player. In September 2020, it adopted a digital finance package, which includes a digital finance strategy,[734] legislative proposals on markets in crypto-assets (MICA)[735] and markets infrastructure,[736] and a digital

[730] J. Saulnier and I. Giustacchini, op. cit.

[731] Report on the proposal for a regulation of the European Parliament and of the Council on markets in crypto-assets and amending Directive (EU) 2019/1937 (COM(2020)0593 – C9-0306/2020 – 2020/0265(COD)).

[732] Digital finance: Pilot regime on distributed ledger technology market infrastructures (DLT), 2020/0267(COD) - 24/03/2022.

[733] The legislation is part of the new EU anti-money laundering package. The aim is to ensure crypto-assets can be traced in the same way as traditional money transfers.

[734] Communication on a Digital Finance Strategy for the EU, COM(2020) 591 final, European Commission.

[735] Proposal for a regulation on Markets in Crypto-assets, and amending Directive (EU) 2019/1937, COM(2020) 593 final.

[736] Proposal for a regulation on a pilot regime for market infrastructures based on distributed ledger technology, COM(2020) 594 final.

operational resilience act (DORA),[737] and a renewed retail payments strategy.[738] The goal is to create a competitive EU financial sector that gives consumers access to innovative financial products, while ensuring consumer protection and financial stability.

The Council has emphasised the importance of EU financial services legislation being fit for the digital age. It also acknowledges that the lack of a common framework for crypto-assets can significantly hinder the development of a market in those assets and can lead to missed opportunities in terms of innovative digital services, alternative payment instruments or new funding sources for businesses. The Council thus welcomed the proposals on MiCA and DORA and a renewed retail payments strategy.[739] It also recognises the need to update existing rules on information accompanying transfers of funds, with the aim of extending the scope of the rules to crypto-assets.[740]

Looking forward

The digitalisation of finance and decentralised finance are certainly here to stay and they are developing rapidly, particularly in China, the US and the UK, attracting a large amount of investment, financial assets and young talent. Given the speed at which the crypto-related industry and decentralised finance are moving, there is a growing risk for the regulators of constantly falling behind. There is also a risk of not benefiting from the ongoing change, if multi-layered, cumbersome regulations hinder the development of high potential businesses. Finally, there is a risk of increasing inequality if access to digital finance services, cyber resilience and data protection are not reinforced.

To avoid dependence and underdevelopment, ambitious and resolute EU action, which has been initiated recently, has to continue. Furthermore, given the need for international cooperation on these issues, the creation of a EU-US Trade and Technology Council in 2021 is an encouraging step in the right direction.

737 Proposal for a regulation on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014, COM(2020) 595 final.

738 Communication on a Retail Payments Strategy for the EU, COM(2020) 592 final, European Commission.

739 Digital finance package: Council reaches agreement on MiCA and DORA, Press release, November 2021.

740 Council negotiating mandate with the European Parliament on information accompanying transfers of funds and certain crypto-assets, November 2021.

Chapter 5 – Education, EU-financed research programme, and culture

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
23	**Erasmus+**	€20 billion per year	Upward convergence, higher intra-EU mobility	For participants: higher income and employment rate, more likely to secure management position			Erasmus+ helps to build positive attitudes towards the EU
24	**EU-financed research programme**	€40 billion per year	Higher leverage of R&I investment More jobs in R&I activities	Social prosperity through more innovation Improved healthcare systems	Alleviation of climate change	ERA to strengthen the freedom of movement and academic freedom of researchers	Better EU ranking in the global race to competitiveness
25	**Creativity and cultural diversity**	€6.6 billion per year	Major source of job creation, additional export earnings	Promotion of social inclusion, cultural diversity and human development	Support for green transition, environmentally friendly planning (links to European Bauhaus)	More participatory democracy via integrating culture into broader economic objectives	Ability to drive innovation and entrepreneurship
26	**Media freedom and pluralism**	€2.9 billion per year	Greater investment and competition in the media sector	Heightened trust in media Stronger civil society		Freedom of expression and right to information	
Total		**€69.5 billion per year**					

23. Erasmus+

Potential benefit: €20 billion per year

Key proposition

The European Union's Erasmus+ programme for education and training has a total budget of €26 billion for 2021-2027. It provides opportunities for learners and practitioners to gain skills and undergo personal, socio-educational and professional development through study, training, work experience or volunteering abroad. Erasmus+ actively builds positive attitudes towards the EU and contributes to the development of a European identity across all funded activities.

The multiplier effect of this investment is €10 (lowest estimation) for each €1 invested within five years. If you take into account that Erasmus+ finances more than 1 million students in higher and vocational education, and multiply this with the amount invested (around €1 919 on average in 2019), the potential efficiency gain is at least €20 billion per year.

Member States would not be able to achieve such effects acting alone. No other programme, funding mobility or cross-border cooperation offers comparable scale and scope in the EU. There are different key actions[741] (KA) under the Erasmus+ programme (e.g. KA1 'Learning mobility of individuals'[742]) which can deliver results at many levels, especially in terms of outcome recognition within the EU-27.[743]

More detailed analysis of the potential benefit

The strategic framework for European cooperation in education and training (ET 2020) provides common strategic objectives for EU Member States. For 2020, for higher education (HE) mobility the benchmark defined[744] was that at least 20 % of higher education graduates should have experienced a period of higher education-related study or training (including work placements) abroad. Member States also set a benchmark for learning mobility in vocational education and training (VET), whereby, by 2020, at least 6 % of VET graduates should have undertaken VET-related study or a training period abroad (including work placements).[745] Erasmus+ delivers the most relevant systematic and financial support to reach these benchmarks in the EU:

- Higher education (HE): In 2019, there were 4.9 million graduates with tertiary education in the EU-28. The number of HE participants in KA1 projects was approximately 312 000 in 2020. Erasmus+ mobility accounts for about 6.3 % of the HE graduates in the EU-28.

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[741] European Commission, 2021/C 524/05 Call for proposals, 2022 - EAC/A09/2021 – Erasmus+ Programme.

[742] 'Learning mobility of individuals' (KA1) can, in addition to results at individual level, improve 'Cooperation among organisations and institutions' (KA 2) at institutional level, and improve 'Support to policy development and cooperation' (KA3) at the systemic level.

[743] European Commission, Evaluation roadmap, Mid-term evaluation of Erasmus+, 2018.

[744] Education and training 2020, EU benchmarks, Eurostat.

[745] European Commission (Eurostat) and Erasmus+ Annual Report 2020.

- Vocational education and training: In 2019, there were 2.8 million upper secondary vocational graduates across the EU-28. The number of VET participants in KA1 VET projects was approximately 161 000 in 2020. Erasmus+ mobility accounts for about 5.4 % of the VET learners in the EU-28.

The Youth programme has proved its ability to reach particular participants with special needs and fewer opportunities, including young people with fewer opportunities, reaching out to more than 30 % of beneficiaries by applying inclusive, non-formal learning approaches. Target groups who are under-represented in Erasmus+ could benefit significantly from increased support.

Mobility for school students was no longer possible under KA1 in the 2014-2020 programming period, but is envisaged for the 2021-2027 period. However, this will require an additional budget allocation.[746] According to Erasmus+ statistics, grants per student (HE) in 2020 were €1 919 on average, with a wide differentiation in the amounts granted by programme countries. Grants ranged from €1 404 in Italy and €1 450 in France to €3 827 in Cyprus. On average, support is higher for students from southern and eastern Europe, which can be seen as a contribution to social and territorial cohesion. Erasmus+ students are exempted from tuition fees, which can amount to more than €3 000 per year.[747]

However, grants are relatively small in relation to the substantial impact of the programme on individual educational progress. For example, the Erasmus+ programme has an impact on the unemployment rate of Member states:

- In eastern Europe, Erasmus+ students are more than five times (83 %) less likely to experience long-term unemployment than those not participating in the programme.
- In southern Europe, former Erasmus+ students are half as likely to experience long-term unemployment compared to those who have not benefited from the programme. Erasmus+ students in southern Europe are employed much more frequently even 5-10 years after graduation, with 56 % less unemployment.

From 2014 to 2020, the unemployment rates for young adults (25-29 years) with tertiary education decreased by 28 % in the EU-27. This decrease was, moreover, significantly above average in eastern and southern Europe. While the Erasmus+ programme benefits regions with the greatest needs, it is important to mention that the lower unemployment rate for Erasmus+ students did not lead to higher unemployment for non-Erasmus+ participants: the unemployment rate decreased for young adults (25-29 years) with tertiary education overall.

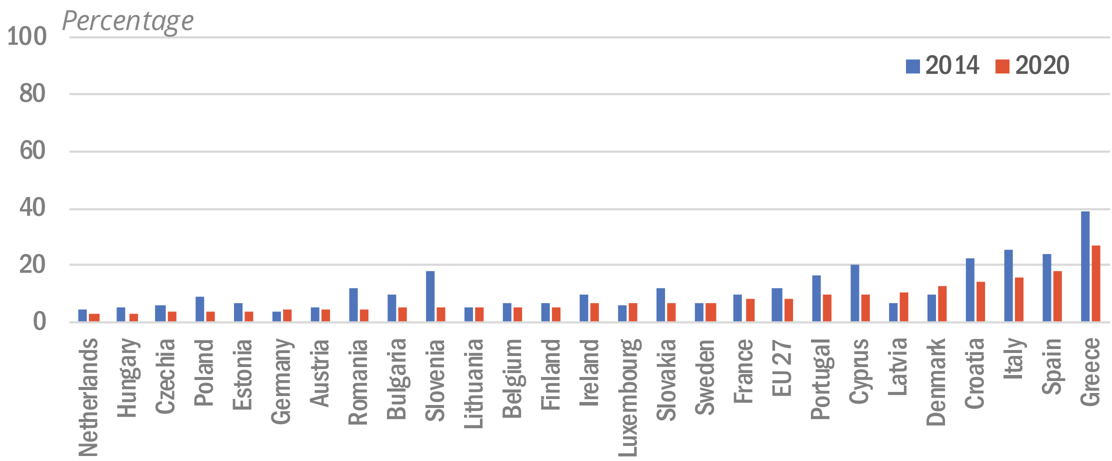
Work placements seem to have a particularly direct and positive impact on finding a job, with one in three Erasmus+ students on average offered a position by their host company. In southern Europe, this share increases to almost one in two students, with Italy (51 %) and Portugal (47 %) in the lead.[748]

[746] Mobility was impacted by the Covid-19 pandemic, with a drop from 950 000 physical mobility periods in 2019 to 350 000 in 2020, comprising 312 800 student mobilities and 37 600 staff mobilities. Flexible arrangements were put in place for participants and higher education institutions, allowing students to keep their Erasmus+ grants while completing their course remotely and covering expenses, such as rent, in destination countries (Annual Report, p. 39).

[747] EACEA/Eurydice: between €1 000 and €3 000 in Hungary, Italy, the Netherlands, Portugal, Spain and Switzerland, and more than €3 000 in England and Wales.

[748] European Commission, Erasmus impact study: regional analysis, 2016.

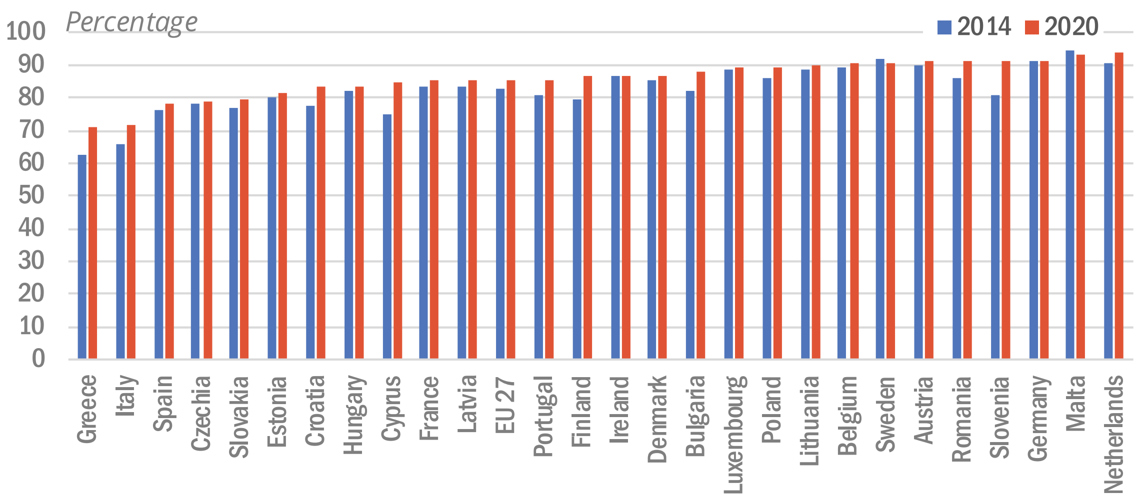
Figure 25: Unemployment rates (in percentages) for young adults (25-29 years) with tertiary education (ISCED levels 5-8), 2014-2020[749]



Source: Eurostat and author's own calculations.

Beneficiaries of VET and HE opportunities experience a **shorter transition to employment** than others. According to a combined evaluation of Erasmus+ and predecessor programmes from 2017,[750] the percentage of participants in Erasmus+ who took less than three months to find a job was 68.5 %, while the overall percentage (Erasmus+ and non-Erasmus+) was 59.2 %. Students with a higher level of education are also more likely to secure **management positions**. On average, 64 % of Erasmus+ students, compared to 55 % of their non-programme peers, hold such positions within 5-10 years of graduation. This is particularly the case for Erasmus+ students from central and eastern Europe, where around 70 % obtain managerial positions.[751] Since 2014, the employment situation for young adults with tertiary education has improved significantly. The rate is lower than 75 % in only two Member States; in nine Member States, employment is equal to 90 % or above, with an above-average increase in southern Europe.

Figure 26: Employment rates (in percentages) for young adults aged 20-34 with tertiary education (ISCED levels 5-8)



Source: Eurostat and author's own calculations.

[749] International Standard Classification of Education (ISCED).

[750] European Commission, Combined evaluation of Erasmus+ and predecessor programmes, 2017.

[751] Follow-up to the 2014 Erasmus impact study focusing on a regional analysis of the benefits of Erasmus, 2016.

An important indicator for assessing the potential for further Erasmus+ projects[752] is the success rate: the relationship between project applications/proposals on the one hand and the share of projects granted on the other. There is a clear gap in success rates between programmes, from 97 % (HE), to 51 % (VET), 39 % (Adult), 32 % (School staff) and 30 % (Youth). In other words, when applying for a HE project, the success rate is close to 100 %. In the 'Youth' and 'School staff' fields, however, only one in three applications is successful, demonstrating at the same time that there is a great deal of potential for future absorption capacities for these programmes.

Table 11: Relationship between project applications/proposals and projects granted

2020	Project applications/ proposals	Projects funded	Success rate
KA101: School staff	12 000	3 860	32 %
KA102: VET learners and staff	8 105	4 173	51 %
KA103: Higher education	4 314	4 183	97 %*
KA107: Higher education partner	1 526	1 143	75 %
KA104: Adult education	1 700	849	39 %
KA105: Youth	14 552	4 384	30 %

* In the European Commission Directorate-General for Education, Youth, Sport and Culture (DG EAC) annual report, DG EAC calculated a significantly lower success rate of 78 % for this programme, based on the number of participants in submitted projects, which was not the case for the other programmes (Erasmus Annual Report 2020).

Source: EAC and author's own calculations.

Of the total Erasmus+ budget, 17 % is dedicated to VET, representing a smaller proportion of the budget compared to the number of pupils in VET. An increasing VET share and higher success rates brings Erasmus+ closer to a greater variety of citizens, dealing with a wider range of less academic domains. The systemic impact is that VET student exchanges help to render the VET institutions – and VET itself – more attractive. Actions in the Youth field under Erasmus+ have been the most successful in including young people with fewer opportunities, reaching out to 31 % of beneficiaries by applying inclusive, non-formal learning approaches.[753]

European Parliament position

The Erasmus+ programme for 2021-2027 was adopted by the European Parliament in May 2021.[754] The Parliament's Committee on Culture and Education (CULT) adopted its report in February 2019,[755] with the Parliament adopting its first-reading position in March 2019. The final text resulting from inter-institutional negotiations was approved by CULT on 11 January 2021. MEPs negotiated an additional €1.7 billion for the programme, doubling the budget from the 2014-2020 period.

752 'The proposal (...) will reinforce the tried-and-tested actions, the impact of which has been evidenced by the Erasmus+ mid-term evaluation' – Regulation of the European Parliament and of the Council establishing 'Erasmus': the Union programme for education, training, youth and sport and repealing Regulation (EU) No 1288/2013, p. 7, 2013.

753 Erasmus+ annual report 2017, European Commission, 2018.

754 Erasmus+: the Union Programme for education and training, youth and sport.

755 D. Chircop, Erasmus+ 2021-2027, EPRS, May 2021.

In the plenary debate ahead of the approval of the programme, most speakers underlined the importance of Erasmus+, evaluated by citizens as the most successful EU programme, for Europe's future generations, especially after the COVID-19 pandemic. The Parliament wanted to reinforce the school education dimension, and insisted on concrete measures to secure the inclusion of young people with fewer opportunities. It had suggested introducing a European Student eCard and emphasised the importance of fostering active citizenship and European identity through the programme. With the aim of providing participants with quality vocational training, MEPs also proposed to create the Centres of Vocational Excellence, formed by networks of partners that develop local 'skills ecosystems' to provide high quality vocational expertise to young people and adults.

Commission and Council responses so far

The Commission adopted a proposal for Erasmus+ 2021-2027 in May 2018, with a number of actions to make the programme more inclusive compared to the 2014-2020 programme. The Commission has set more learning mobility opportunities for vocational education students, recent higher education and vocational education graduates, staff, and apprentices. The proposal introduced mobility for sports coaches and staff, school pupils and low-skilled adult learners. In addition, international learning mobility has been extended to vocational education and sport.

The proposal mentions increased efforts towards simplification for small organisations and synergies with other EU programmes. Digital tools such as the European Student eCard will make it easier for universities to handle larger numbers of mobile students. The proposed programme will also facilitate the emergence of bottom-up university networks across the EU, known as European Universities, and the development of transnational platforms of Centres of Vocational Excellence.

Looking forward

Erasmus is one of the most popular and successful EU programmes. Launched 30 years ago, it has helped around 10 million people to study, work or volunteer abroad. Under Erasmus, more than 2 000 transnational partnerships are established each year.

The programme should reach out more and better to people of different ages and from diverse cultural, social and economic backgrounds. It should be extended more to those with fewer opportunities, such as people with disabilities and migrants, as well as EU citizens living in remote areas. The Commission is committed to closely monitoring the implementation of measures within the EU-27 through the Erasmus+ National Agencies.

24. EU-financed research programme

Potential benefit: €40 billion per year

Key proposition

Research and innovation (R&I) is indispensable to economic and societal prosperity and is an enabler of sustainable development and growth.[756] Investing in it is also key to guarantee Europe is not left behind in the global race to competitiveness in times of nearly permanent crisis. R&I is important in addressing many long-term challenging trends that Europe (and the world) is facing, such as climate change, loss of biodiversity, ageing populations, diminishing productivity growth, sluggish digitalisation, societal inequalities, security threats and migration pressures. R&I is an integral part of responses to these problems, because it has the potential to produce novel solutions in areas like health, digital technologies, industrial transformation, protection of natural resources, green energy, sustainable mobility, sustainable food production and security.

According to the latest estimates, **further development of the EU-funded R&I programme could result in economic gains of at least €40 billion per year** in 2030.[757] However, these benefits could be much higher, because this result is mainly based on the gains driven by the Horizon Europe research programme, an important tool, but not the only one that the EU could further develop to boost its potential in this field.

Currently, the EU is still missing its self-imposed target of spending 3 % of its GNP on research and development (R&D), whereas its competitors and main trade partners invest much more in R&D.[758] In 2015, China's R&D expenditure surpassed that of the EU for the first time by allocating an equivalent of 2 % of GDP (Figure 27).[759] If the EU wants to remain globally competitive and reap the benefits of R&I for its economy and society, it should rapidly start to take more ambitious action in this field.

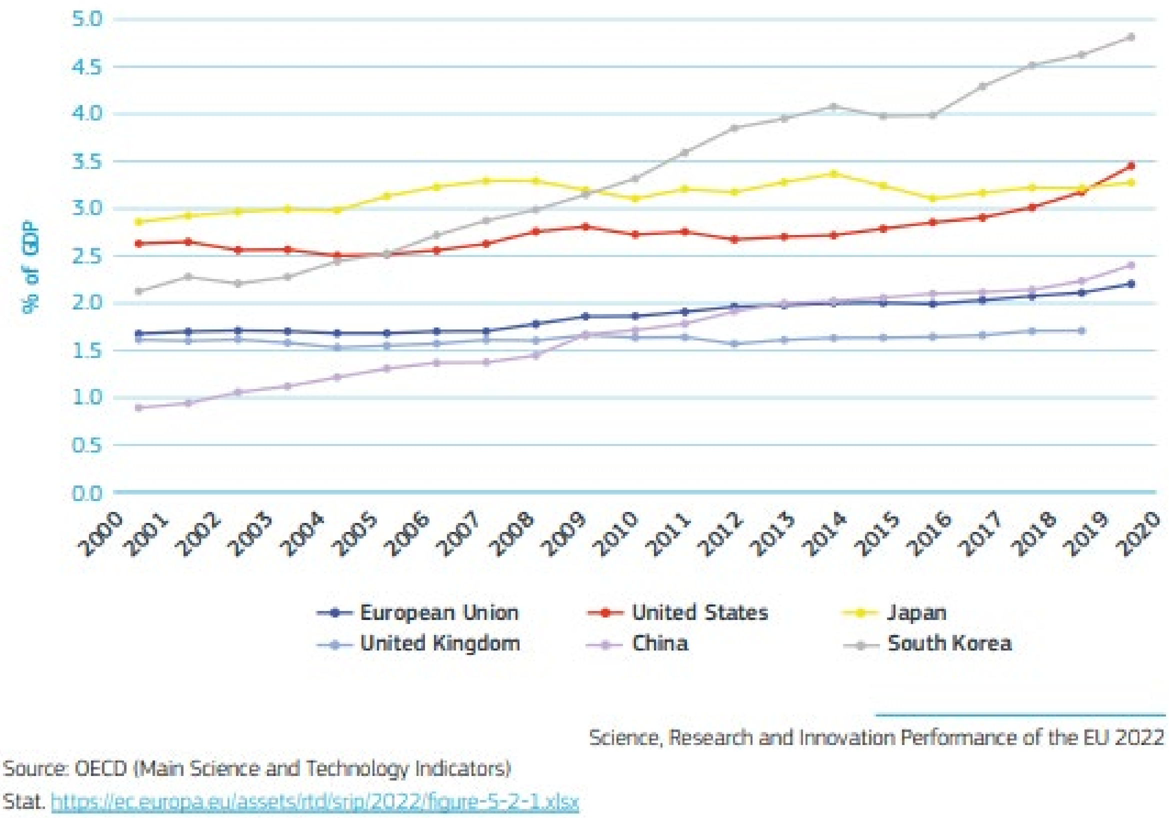
[756] European Commission, Science, Research and Innovation Performance of the EU 2020 (SRIP), 2020.

[757] European Commission, Science, research and innovation performance of the EU 2022: building a sustainable future in uncertain times, 2022.

[758] Presidency Conclusions – Barcelona European Council, 15 and 16 March 2002, SN 100/1/02 REV 1.

[759] Eurostat, Government budget allocations for R&D (GBARD), data extracted in July 2022.

Figure 27: EU R&D spending in comparison with global competitors, 2000-2020



Source: European Commission, Directorate-General for Research and Innovation, Science, research and innovation performance of the EU 2022: building a sustainable future in uncertain times, 2022, p. 296.

More detailed analysis of the potential benefit

Simulations conducted in 2010 (in the context of EU recovery from the financial crisis of 2008), revealed that reaching the EU target of investing 3 % of GDP in R&D by 2020 and maintaining this level thereafter would trigger 3.7 million additional jobs and a GDP increase of €795 billion (5.4 % of additional GDP) in 2025.[760] A counterfactual assessment of what the impact would have been if the EU had discontinued its R&I programme showed that there would have been a decline in competitiveness and growth, including a loss of GDP of up to €720 billion over a 25-year period.[761]

According to Eurostat figures from 2022, EU R&D intensity has increased slightly since 2000 and amounted to 2.3 % of GDP in 2020. However, significant differences persist across the EU. Most Member States lag behind the Barcelona target (of 3 %), especially compared to countries such as South Korea, the US and Japan. Although the EU accounts for almost 20 % of global R&D expenditure, its share has been on a declining trend.[762]

One of the weak points of the EU R&I ecosystem is private investment in R&D, which has been lower than for most competitors (1.5 % of GDP in the EU compared to 1.7 % in China and 2.3 % in the

760 P. Zagamé, The costs of a non-innovative Europe: What can we learn and what can we expect from the simulation works, 2010.

761 European Commission, Impact assessment accompanying the proposal for a regulation on Horizon Europe, SWD(2018) 307 final.

762 European Commission, Science, research and innovation performance of the EU 2022..., op. cit.

US).[763] During the COVID-19 pandemic, R&D business investment in the EU decreased from €208 billion in 2019 to €205 billion in 2020.

The EU budget for 2021-2027 aims to stimulate further growth in EU R&I. The EU budget allocations for the Horizon Europe research programme for 2021-2027 amount to €90 billion (€95.5 billion if Next Generation EU funds are included),[764] which is almost 10 % of public funding for research in Europe and represents the largest European research programme so far.[765] Between 2021 and 2027, the EU will also invest more than €56 billion in R&I through cohesion policy.[766] This will be realised through financing innovation in firms, bringing research results onto the market and supporting close business-science cooperation, with a particular emphasis on the less developed regions.

The Commission suggests that Horizon Europe is estimated to bring an average GDP increase of 0.08-0.19 % over a 25-year period. The total impact could range from nearly €30 billion to nearly €40 billion of additional GDP per year over 25 years (€800 billion to €975 billion in total) (Table 12).[767] This means that each euro invested could potentially generate a cumulated return of up to €11 of GDP.[768] This high number should be used with caution, as it might be an excuse not to address challenges to the EU R&I system such as waste generated by duplication of research programmes and a recurring lack of efficiency and economies of scale.

Table 12: Economic costs and benefits of Horizon Europe

Economic benefits		Costs	
Leverage of R&I investment	€6-7 billion over 2021-2027	Submitting proposals	Cost for beneficiaries: About €650 million per year
GDP gains	€720-975 billion over 25 years	Administrative burden (reporting obligations)	Cost for beneficiaries: €0.9-2.3 million per year
Employment	Direct benefit: Over 100 000 jobs in R&I activities around 2027 Indirect benefit: Over 200 000 jobs around 2035	Management of projects and proposal evaluation	Cost for administrations: €500-600 million per year

Source: European Commission, Impact assessment accompanying the proposal for a regulation on Horizon Europe – 9th EU Framework Programme for Research and Innovation, SWD(2018) 307 final.

R&I plays a key role in energy and digital transformation, which are also key political priorities for the EU. The level of investment in R&I will determine the delivery of some key technologies without which climate neutrality cannot be achieved by 2050. The International Energy Agency estimates

763 European Commission, Science, research and innovation performance of the EU 2022..., op. cit.

764 Please note that EU recovery funds and instruments impacts are analysed in this publication in sub-chapter 21 on EU macro stabilisation instruments. See European Commission, Multiannual Financial Framework 2021-2027 (in commitments), current prices.

765 European Commission, Science, research and innovation performance of the EU 2022..., op. cit.

766 Idem.

767 European Commission, Impact assessment accompanying the proposal for a regulation on Horizon Europe – 9th EU Framework Programme for Research and Innovation, SWD(2018) 307 final.

768 Idem.

that nearly 50 % of emission reductions needed to achieve net zero by 2050 depend on technologies that are not yet commercialised.[769] According to EPRS estimates of the impact of ambitious and united EU budget investment in R&D,[770] the EU economy can gain €47 billion per year in 2030 – 0.3 % in additional GDP.[771] Importantly, if the current level of spending is maintained beyond the 2021-2027 budget, the benefits will be much higher in the longer term and reach over €120 billion per year in 2050 – 0.7 % in additional GDP.

Ambitious investment in R&I also plays a prominent role in addressing challenges related to digitalisation as, out of the 10 largest platform businesses in the world, none is currently from the EU. European companies are lagging behind US digital platform giants in R&D spending (and in their capacity to create value from innovation).[772] According to EPRS research, further strengthening of R&D and innovation for digital transformation could bring between €26 billion and €52 billion in economic benefits per year in 2033.[773] It could boost innovation capacity and scale-up European small and medium-sized enterprises (SMEs) and their competitiveness at global level.

Moreover, it goes without saying how important R&I is for industries such as pharmaceuticals. Challenges that the EU faces in this field relate, for example, to minimising research fragmentation and duplication, and the COVID-19 pandemic highlighted the benefits of pooling spending on research. BioNTech, the company that is responsible for having developed one of the most widely used and effective coronavirus vaccines, received extensive EU funding both during the development of its vaccine as well as beforehand.[774]

An EPRS study that investigates options to enhance the EU's resilience to structural risks further stresses the need to strengthen multi- and cross-disciplinary research on infectious disease prevention, preparedness, response, and impact.[775] Another EPRS publication, developing and using a budgetary waste rate methodology, reveals that inefficient expenditure by Member States on research and development in the area of health amounts to at least €1.2 billion per year.[776] Using the Commission's estimate, that up to €11 of GDP gains over 25 years can be potentially generated by each euro invested at EU level in research,[777] investing this money at EU level could generate, on average, around €0.5 billion per year.

Considering the above findings, which confirm that there is still untapped potential in EU action in the field of R&I, we retain the higher bound of the estimated investment impact of Horizon Europe – i.e. €40 billion per year – as a conservative assumption of the cost of non-Europe. In comparison

[769] International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector, 2021.

[770] A scenario of an ambitious and united EU budget assumes that the level of EU budget financing in 2021-2027 will continue at the same level until 2050. This excludes the recovery funds and instruments as of 2027. On the impact of the EU recovery instruments, see sub-chapter 21.

[771] A. Heflich and J. Saulnier, EU energy system transformation – Cost of Non-Europe, EPRS, October 2021.

[772] McKinsey & Company, How purpose-led missions can help Europe innovate at scale, December 2019.

[773] N. Lomba, L. Jančová and M. Fernandes, Digital transformation – Cost of Non-Europe, EPRS, January 2022.

[774] European Commission, Research projects, initiatives and news related to coronavirus vaccine research, accessed April 2022.

[775] EPRS, Towards a more resilient Europe post-coronavirus: Options to enhance the EU's resilience to structural risks, Study, April 2021.

[776] J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, October 2020.

[777] European Commission, Impact assessment accompanying the proposal for a regulation on Horizon Europe, op. cit.

to its global competitors, the EU could still do more in the field and reap higher benefits from its common action.

European Parliament position

The European Parliament supported adequate funding for EU research to allow the EU to maintain or gain global leadership in innovation, decarbonisation and digitalisation.[778] The Parliament has also been continuously supportive of implementing the European Research Area (ERA). In a 2021 resolution on a new ERA for Research and Innovation,[779] the Parliament welcomed the Commission setting out the strategic objectives and actions to implement it in close cooperation with the Member States. The Parliament also insisted on the importance of creating and utilising to the full synergies between European funding instruments,[780] and asked the Commission to provide clear, simple and practical guidance and streamlined tools to Member States on how best to implement these synergies in the national and regional contexts.

In its resolution on a global approach to research and innovation, the Parliament welcomed the Commission's communication on a global approach to research and innovation and emphasised the need for the Union to develop rules-based multilateral cooperation to address key global economic, societal and environmental challenges, in which R&I should play a pivotal role. It also underlined that international R&I cooperation is an integral part of the renewed ERA and called on the Commission to exploit the potential of the relevant Union actions and programmes to attract talent worldwide. It also called on the Commission to provide a structured role for relevant European R&I stakeholders and the European Parliament in the ERA Forum for Transition.[781]

Commission and Council responses so far

In 2002, EU leaders set a target of overall spending on R&D and innovation in the Union approaching 3 % of GDP by 2010, and that two thirds of this new investment should come from the private sector.[782] In addition, Article 179 of the Treaty on the Functioning of the European Union (TFEU) introduced an objective of strengthening 'its scientific and technological bases by achieving a European research area [ERA] in which researchers, scientific knowledge and technology circulate freely'.

Nevertheless, 22 years after the introduction of the ERA agenda and the setting of the Barcelona targets, the EU has not progressed as much as expected. Still, R&I plays a key role in the EU economy, as over two thirds of the economic growth in recent decades derives from it and it accounted for

[778] See, for example: Position of the European Parliament adopted at first reading on 17 April 2019 with a view to the adoption of Regulation (EU) …/… of the European Parliament and of the Council establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination; European Parliament resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020 (2020/2732(RSP)).

[779] European Parliament resolution of 8 July 2021 on a new ERA for Research and Innovation (2021/2524(RSP)).

[780] Especially between Horizon Europe, Erasmus+, the Cohesion Policy Funds, NextGenerationEU, the Single Market Programme, InvestEU, LIFE +, the Just Transition Fund, the EU external action instruments, the Partnership for Research and Innovation in the Mediterranean Area (PRIMA), EU4Health and the Digital Europe Programme.

[781] European Parliament resolution of 6 April 2022 on a global approach to research and innovation: Europe's strategy for international cooperation in a changing world (2021/3001(RSP)).

[782] Presidency Conclusions – Barcelona European Council, 15 and 16 March 2002, SN 100/1/02 REV 1.

15 % of all productivity gains between 2000 and 2013.[783] Moreover, studies indicate that EU-funded research activity has been characterised by growth in terms of participating entities and participation across successive framework programmes, resulting in a wider set of networks and helping to start slowly creating critical mass in research.[784]

In 2020, the Commission proposed a new ERA for Research and Innovation.[785] The revitalised ERA agenda includes a set of political objectives and R&D investment targets, which aim to spread excellence, enhance international collaboration, including the mobility of researchers, and better connect universities and companies.[786] The objective is to encourage and support EU Member States in implementing needed structural reforms of their R&I systems and to prioritise and align R&I investments and activities to maximise their impact across Europe. It also calls for enhanced national strategies tailored to the national context and specific needs, ensuring timely delivery of the key objectives. Within the agreed allocation of funding to different components of Horizon Europe, €3.4 billion – accounting for over 3.5 % of the Horizon Europe budget – was allocated to strengthening the ERA and supporting EU countries with lower R&I performance.[787]

In 2021, following a call from the Council[788] that was based on numerous Council conclusions and recommendations on the matter[789] (and as a result of consultations with EU Member States, Associated Countries, other EU bodies and R&I stakeholders), the Commission put forward a European Research Area Policy Agenda that sets out voluntary ERA actions for the period 2022-2024.[790]

783 V. Reillon, Preparing FP9: Designing the successor to the Horizon 2020 research and innovation framework programme, EPRS, April 2018.

784 T. Roediger-Schluga and M. Barber, R&D collaboration networks in the European framework programmes: data processing, network construction and selected results, International Journal of Foresight and Innovation Policy, Vol. 4, pp. 321-347, 2008; S. Breschi and L. Cusmano, Unveiling the texture of a European Research Area: emergence of oligarchic networks under EU Framework Programmes, International Journal of Technology Management, Vol. 27, No 8, 2004; European Commission, High Level Panel on the Socio-Economic Benefits of the ERA, final report, June 2012.

785 Communication on a new ERA for Research and Innovation, COM(2020) 628 final, European Commission.

786 European Commission, Science, research and innovation performance of the EU 2022, op. cit.

787 A. Wilson, Horizon Europe: Framework programme for research and innovation 2021-2027, EPRS, July 2021.

788 Council of the European Union, Council conclusions on the New European Research Area, 1 December 2020, 13567/20.

789 See, for example: Council of the European Union, Council Recommendation on a Pact for Research and Innovation in Europe, 13701/21; Council of the European Union, Future governance of the European Research Area (ERA) – Council conclusions adopted on 26 November 2021, 14308/21; Council of the European Union, Global approach to Research and Innovation: Europe's strategy for international cooperation in a changing world – Council conclusions adopted on 28 September 2021, 12301/21; Council of the European Union, Deepening the European Research Area: Providing researchers with attractive and sustainable careers and working conditions and making brain circulation a reality – Council conclusions adopted on 28 May 2021, 9138/21.

790 European Commission, Directorate-General for Research and Innovation, European Research Area Policy Agenda: Overview of actions for the period 2022-2024, November 2021.

Looking forward

A recent report[791] states that the quest to maintain or even boost competitiveness assumes additional importance in the current era of geopolitical tensions and regional economic rivalries, hence the EU's R&I performance is a main driving factor. In the global landscape, the EU remains an R&I powerhouse, producing about 20 % of the world's scientific and technological output, while having just 6 % of the world's population.[792] However, this position has been eroding, as the EU's major trading partners have been improving their innovation performance at a faster pace in recent years. China is thus the global leader today in terms of the volume of scientific publications it produces, while the US has retained its lead in terms of quality and impact.[793] This trend continued during the pandemic, which further skewed the global tech race in favour of the US and China, particularly in relation to digital technologies.

To remain a leading global scientific player and ensure that knowledge flows between EU actors, Europe needs a strong, EU-level long-term investment in R&I as well as some bold action that will allow it to surpass its global competitors. This should be complemented by effective implementation of the ERA. The EU and its Member States must strengthen their efforts to increase the effectiveness and performance of public research systems through stronger R&I investment and policy reforms, by further improving national R&I systems, continuing to facilitate and strengthen the interaction between industry and academia, stepping up efforts to implement an ambitious European open data policy, and strengthening the capacity of SMEs to engage in R&I collaborations.[794]

[791] European Commission, Science, research and innovation performance of the EU 2022, op. cit.

[792] European Commission, Science, research and innovation performance of the EU 2022, op. cit., and Eurostat, The EU in the world – population, data extracted in January and February 2020.

[793] European Commission, Science, research and innovation performance of the EU 2022, op. cit.

[794] The EU is struggling to capitalise on its scientific excellence. In the field of AI and blockchain research, although the EU has more specialised researchers than the US and China, it accounts for only 7 % of the global amount of annual equity investment (whereas the US and China account for 80 %). This is also visible in the lower number of SMEs in this field of activity. For details, see Table 2 in N. Lomba, L. Jančová and M. Fernandes, Digital transformation – Cost of Non-Europe, EPRS, January 2022.

25. Creativity and cultural diversity

Potential benefit: €6.6 billion per year

Key proposition

The cultural and creative sectors (CCS) typically include heritage, archives and libraries; books and press; visual and performing arts; audio-visual and multimedia; architecture; design; cultural education and art crafts. UNCTAD[795] also adds that it is a set of knowledge-based economic activities with a development dimension and crosscutting linkages at macro and micro levels to the overall economy. Therefore, it is a sensible development option calling for innovative multidisciplinary policy responses and government action.

In the European Union, the CCS are playing an increasingly important role in ensuring the continued development of societies and are at the heart of the creative economy. Being knowledge-intensive, based on individual creativity and talent, CCS generate considerable economic wealth: they show above-average growth and create jobs while strengthening social cohesion. In 2021, they accounted for 4.2 % of the EU's GDP[796] and 3.7 % of its total workforce,[797] thus being the third largest employer sector, with nearly 8.7 million jobs in the EU.

More than the economic value added to the EU's GDP, the cultural and creative sectors promote European culture within and beyond the EU's borders. The CCS not only make a meaningful contribution to Europe's social cohesion and diversity, but they are critical to a shared sense of European identity, culture and values. The benefits to the EU economy could amount to at least €6.6 billion per year.

More detailed analysis of the potential benefit

Major stakeholders such as UNESCO,[798] Eurostat and UNCTAD have been working on a harmonised definition, statistical codification and measurement of CCS, but differences remain in concepts (value-added generated by the sector, direct jobs created by the sector, international trade in cultural and creative products, household final consumption of cultural and creative products). These are not negligible, as the European Competitiveness Report of 2010 already indicated that these sectors accounted for 3.3 % of the EU's GDP; whereas, using the broader classification by UNCTAD, that share could reach 6.5 %. This would match the overall figures that show the creative economy contributes just over 6.1 % to global GDP, averaging between 2 % and 7 % of national GDPs around the world. Based on UN estimates, the creative economy industries generate annual revenues of over €2 trillion and account for nearly 50 million jobs worldwide.

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795 United Nations Conference on Trade and Development (UNCTAD), [Creative industry 4.0: Towards a new globalized creative economy](), 2021.

796 Representing €606 billion, based on the approximately €14.45 trillion GDP of the European Union in 2021 (Eurostat).

797 European Commission, [Creative Europe 2021-2027: Push boundaries](), 2021.

798 UNESCO, [Cultural and creative industries in the face of Covid-19](), 2021.

This sector has been one of the most dynamic in Europe, showing great growth potential and generating wealth, jobs and technology. One study[799] mentions that, between 2000 and 2007, employment in the CCS grew by 3.5 % per year, compared to 1 % in the overall EU-27 economy. The Creative Europe Programme brings together actions supporting the European cultural and creative sectors,[800] and for the period 2021-2027 it has a budget of €2.44 billion (compared to €1.47 billion for 2014-2020). This represents a significant increase to invest in actions that reinforce cultural diversity and respond to the needs and challenges of the cultural and creative sectors.

The general objectives of Creative Europe are to safeguard, develop and promote European cultural and linguistic diversity and heritage; and to increase the competitiveness and the economic potential of the cultural and creative sectors, in particular the audio-visual sector. The novelties of the programme will contribute to the recovery of these sectors after the pandemic, reinforcing their efforts to become more inclusive, more digital and environmentally more sustainable.

Due to the unavailability of recent studies quantifying or justifying potential areas where efficiency gains or additional collective good could be realised through common action at EU level in this sector, EPRS used an alternative method of estimation. Since research and innovation (R&I) resembles best to the business definition of creative activity, the Commission's impact assessment on Horizon Europe was used as an analogy. In addition, creative jobs tend to be more highly skilled than average and many occupations are at lower risk of automation. In 2019, in the EU-27, the share of people working in the field of culture that had a tertiary level of educational attainment (59 %) was considerably higher than the average for all workers (34 %).[801]

Based on the above assumption, EPRS estimates that each euro invested in common EU action supporting or complementing the existing funding for the creative and cultural sector could potentially generate a return of up to €11 of GDP,[802] as is the case for R&I. Under a conservative scenario, the budget of €2.44 billion could thus yield another €26.84 billion over seven years in the form of further potential benefits: the total impact may range from €4.2 billion to €6 billion in additional GDP per year, including direct effects on jobs and income, and by generating important spillover effects to the whole economy.

Further to these gains, if Parliament's repeated calls (see footnote 803) on Member States to dedicate at least 2 % of the budget of each national recovery and resilience plan (NRRP) to the creative and cultural sector were successfully implemented, this sector could potentially generate €2.4 billion in addition (taking the total value of €723.8 billion of the Recovery and Resilience Facility)[803] for the timespan between 2021 and 2026.

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[799] European Network of Cultural Centres, Main connections between cultural and creative activities and the socio-economic space, consulted in October 2022.

[800] In line with Article 2 (1) of the Regulation establishing the Creative Europe Programme for the period 2021-2027, 'cultural and creative sectors' means all sectors whose activities are based on cultural values and artistic and other individual or collective creative expressions, whether those activities are market- or nonmarket-oriented, whatever the type of structure that carries them out, and irrespective of how that structure is financed.

[801] OECD, Economic and social impact of cultural and creative sectors – see p. 11, quoting Eurostat, Culture Statistics – Cultural Employment, 2021.

[802] European Commission, Impact assessment of Horizon Europe, SWD(2018) 307, June 2018.

[803] The RRF entered into force on 19 February 2021. It finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026. Source: European Commission, RRF Scoreboard, consulted in October 2022.

Moreover, if the same multiplication effect were applied for this additional €2.4 billion as is applied in the case of R&I, then, by analogy, its potential impact on GDP could rise to €26.4 billion. The combined impact of the CCS on the EU's GDP could thus total €33 billion. However, given the size of this market, its share in GDP and its estimated growth, the overall potential impact of the CCS on the EU economy and job creation could be much higher.

Table 13: Economic benefits of the cultural and creative sectors

Economic benefits, efficiency gains or additional collective goods	
Rank, share of EU creative sector in the world economy	EU: second largest CCS market in the world €606 billion (Eurostat) – €700 billion (UNCTAD)
Share of CCS in GDP **Share of CCS in workforce**	4.2 % (Eurostat) – 6.5 % (UNCTAD) 3.7 % (Eurostat) – 7.7 % (UNCTAD)
Potential GDP gains	€6.6 billion to €33 billion per year (Creative Europe, RRF, R&I multiplication) for 2021-2026/27. This could be potentially much higher.
Employment	Currently 8.7 million jobs in the EU Direct benefit: more high-skilled and creative jobs in CCS Indirect benefit: spillover to other sectors

Source: European Commission, 2021; UNCTAD; UNESCO.

European Parliament position

The European Parliament has supported from the beginning, the success of creativity and cultural diversity. Back in 2016, Parliament adopted a resolution[804] on a coherent EU policy for cultural and creative industries (CCIs) focusing on their role and importance for cultural diversity and the impact of digitisation on the sector. The resolution stated that respect for Member States' national and regional cultural diversity, traditions and linguistic diversity, recognition of the role of culture in international relations, and the creation of the digital single market confirm the above-mentioned potential areas and scope of action at EU level in support of digital cultural diversity.

Furthermore, in its January 2016 resolution 'Towards a Digital Single Market Act',[805] the Parliament called on the Commission to preserve the internet as an open, neutral, secured, inclusive, global platform for cultural diversity. The Parliament wanted to make sure that any reform of the Copyright Directive would take into account the possible impact on cultural diversity.

On 19 May 2021, the Parliament adopted the Creative Europe Programme[806] for culture and the audio-visual sector to invest €2.4 billion in the cultural and creative sectors. Alongside the significant increase in funding, MEPs secured greater focus on inclusion, on support for the contemporary and live music sectors, which are among those hit hardest by the pandemic, and higher co-financing rates for small-scale projects.

[804] European Parliament resolution on a coherent EU policy for cultural and creative industries, 2016.

[805] European Parliament resolution on Towards a Digital Single Market Act, 2016.

[806] European Parliament resolution on the Creative Europe programme 2021-2027, 2021.

In its Opinion of 26 April 2022, the Committee on Culture and Education (CULT)[807] recognised the economic weight of the sector, recalling that the EU cultural and creative sectors account for 4.4 % of GDP and nearly 8.7 million jobs in the EU. They called on Member States to increase support to the cultural and creative sector. The Parliament and the sectors concerned have repeatedly urged the Member States to dedicate at least 2 % of the budget of each NRRP, and have reminded them of the need for complementary actions at EU, national and local level, taking into particular account the segments that have been impacted the most, including live events, performing arts, exhibitions, heritage sites, museums and cinemas.

Commission and Council responses so far

In its 2018 communication on 'A New European Agenda for Culture',[808] the Commission set out guidance on cultural policy, and identified cultural diversity as a top strategic objective, focusing on its social dimension.[809] A cross-sectoral approach with collaborative projects on, for example, digital co-creation to enrich the diversity of cultural expressions could be a means to achieve this goal. The document refers to the UNESCO 2005 Convention in the context of EU cultural diplomacy and the role of culture as a component of and enabler in development policies.

With individual EU Member States responsible for their own policies for the cultural sector, the role of the Commission is to help address common challenges. These include the impact of digital technologies, changing models of cultural governance and the need to support the cultural and creative sectors in innovating. The Commission carries out its actions in line with strategic documents on cultural cooperation as well as its own priorities,[810] which are established for a given Commission term. The Commission also helps Member States[811] mitigate the adverse effects of crises and any challenges where a coordinated EU response might prove beneficial.

Looking forward

Expenditure on the CCS should not only be seen a major cost, but as a forward-looking economic and social investment through multi-layered policies to create a level playing field for creative professionals and firms in terms of access to employment, innovation and entrepreneurship. Before the pandemic, the creative economy was growing very rapidly and generating new jobs globally, and was set to account for up to 10 % of global GDP by 2030. The COVID-19 crisis has brought down this growth, and lockdowns have highlighted the importance of cultural and creative activity in maintaining individual well-being and community resilience.

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807 European Parliament, Opinion of the Committee on Culture and Education for the Committee on Budgets and the Committee on Economic and Monetary Affairs on the implementation report on the Recovery and Resilience Facility, (2021/2251(INI)), 2022.

808 Communication on A New European Agenda for Culture, COM(2018) 267 final, European Commission.

809 According to Article 167 of the TFEU, the European Union 'shall contribute to the flowering of the cultures of the Member States', to the 'improvement of the knowledge and dissemination of the culture and history of the European peoples', to respect for national and regional diversity, and to the promotion of cultural diversity. The EU Charter of Fundamental Rights also declares the diversity of cultures and traditions of the peoples of Europe, as well as the national identities of the Member States, to be preserved as own values (Article 22 on cultural, religious and linguistic diversity).

810 European Commission, Strategic framework for the EU's cultural policy, consulted in October 2022.

811 European Commission, How the EU responds to the coronavirus outbreak in support of the cultural and creative sectors, consulted in October 2022.

Nevertheless, over the longer term, the creative economy is likely to be a key driver of economic growth as governments look to rebuild their economies. It is reasonable to expect that the sector will return to its long-term trend of growing faster than the wider economy as, for example, advertising is likely to recover strongly with the wider economy and other sources of income have been more resilient.

The fundamental driver of creative economy growth remains that, when consumers have more to spend and have increasingly sated their demand for other goods and services, they are more likely to spend that additional income on outputs of the creative economy. Extrapolating from earlier trends suggests that the creative economy could grow by 40 % by 2030.

26. Media freedom and pluralism

Potential benefit: €2.9 billion per year

Key proposition

The media sector plays an essential role in making information and divergent views available to citizens and promoting the democratic functioning of society. A media sector that is free, independent and pluralistic is necessary to ensure the right to the freedom of expression and information guaranteed by the EU's Charter of Fundamental Rights.[812] It is also central to upholding Article 2 of the Treaty on European Union and the rule of law. However, research finds that media pluralism in all Member States has declined in recent years and worsened during the COVID-19 pandemic.[813] As a result, public trust in the media has also declined and the sector has become fragile.[814]

One of the greatest threats to the media sector is 'truth decay', which is characterised by a blurred distinction between facts and opinion and scepticism over sources of facts.[815] The drivers of truth decay are multiple and include the rise of social media and the 24-hour news cycle, both brought about by the digital transformation. The media sector is threatened by a range of factors, including poorer safety of journalists and the increased prevalence of false news and disinformation that is especially evident in social media.

A wide range of EU actions could counteract these trends and promote media freedom and pluralism. These actions could serve to:

- enhance the transparency of media ownership;
- step up protection and working conditions for journalists;
- limit foreign influence in democratic processes in the EU;
- promote media literacy programmes to complement educational programmes; and
- strengthen monitoring tools and their utilisation.

EU action could promote a healthier media sector that attracts investment and generates jobs at the local, regional and national levels and reinforces the internal market. Moreover, EU action could help reinstate the credibility of the media sector and its role as the public's watchdog to ensure the protection of fundamental rights. In total, the estimated economic benefits would reach between €2.9 billion and €3.7 billion per year.

812 Charter of Fundamental Rights of the European Union (2012/C 326/02).

813 Monitoring media pluralism in the digital era: Application of the Media Pluralism Monitor in the European Union, Albania, Montenegro, the Republic of North Macedonia, Serbia and Turkey in the year 2021, European University Institute Centre for Media Pluralism and Media Freedom, 2022.

814 Reuters Institute – Digital News Report 2022.

815 J. Kavanagh and M. Rich, Truth Decay: An Initial Exploration of the Diminishing Role of Facts and Analysis in American Public Life, RAND Corporation, 2018; H. Pung, The Danger of Truth Decay Across Europe, Encompass, 2018.

More detailed analysis of the potential benefit

The assessment of potential benefits draws from several sources summarised in Table 14. One was an EPRS study that investigated the economic impacts of the rule of law.[816] The study found that a rule of law index was positively correlated with economic output after controlling for other factors that could also be linked to higher economic growth. The rule of law index was composed of several measures, one being a sub-factor on freedom of opinion and expression. This sub-factor reflected the extent to which there is media freedom in a country and political parties are able to speak freely without retaliation. A breakdown of the results from the study suggest that EU action to promote media freedom and pluralism could generate up to €3.7 billion per year in additional GDP.[817]

A concerning issue that has emerged in recent years is the rise of strategic lawsuits targeting journalists and human rights defenders. These lawsuits seek to intimidate their targets and can have a 'chilling' effect that goes beyond the target itself to threaten the civil space.[818] The Media Freedom Rapid Response found at least 496 press freedom violations in EU Member States in 2021.[819]

According to the Council of Europe's Safety of Journalists Platform, about 11 % of alerts in 2021 concerned detention and imprisonment of journalists, 39 % harassment and intimidation, and 29 % attacks on their physical safety and integrity.[820] Journalists and others who are publicly engaged on issues of high public interest face high risks in their profession and poor working conditions, and female media workers are at a higher risk of online harassment and other threats than men.[821]

A legislative proposal presented by the European Commission on strategic lawsuits against public participation (SLAPPs) would introduce safeguards that could apply in civil lawsuits with a cross-border dimension.[822] The legislative proposal was not accompanied by an impact assessment as the proposal was not expected to generate significant administrative costs.

The impact assessment accompanying the Commission's proposal for a European Media Freedom Act also provides insights into the potential benefits of EU action.[823] The regulation would introduce a number of measures to promote the independence and funding of public service media, and the independence of editors. It would also create a European Board for Media Services to monitor the concentration and pluralism in the sector.

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816 W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights – a European added value assessment, EPRS, September 2020; M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

817 Ibid, additional analysis.

818 M. Diaz Crego, Strategic lawsuits against public participation (SLAPPs), EPRS, September 2022.

819 European Centre for Press and Media Freedom, Mapping Media Freedom: Monitoring Report, January-December 2021.

820 Safety of journalists platform, Charts, 2021 data.

821 M. Diaz Crego, Strategic lawsuits against public participation (SLAPPs), EPRS, September 2022; J. Posetti, N. Aboulez, K. Bongcheva, J. Harrison and S. Waisbord, Online violence against women journalists: a global snapshot of incidence and impacts, UNESCO, 2020.

822 Commission Staff Working Document (analytical supporting document) accompanying a proposal for a directive on protecting persons who engage in public participation from manifestly unfounded or abusive court proceedings ('Strategic lawsuits against public participation') and a Commission Recommendation on protecting journalists and human rights defenders who engage in public participation from manifestly unfounded or abusive court proceedings ('Strategic lawsuits against public participation'), SWD(2022) 117 final.

823 Commission Staff Working Document – Executive summary of the impact assessment report accompanying the proposal for a regulation establishing a common framework for media services in the internal market (European Media Freedom Act), COM(2022) 457 final.

The impact assessment concludes that the proposal would generate economic benefits by promoting competition and market access in the media sector in the order of €2.9 billion per year over the 2021-2027 period compared to the baseline scenario.

Table 14: Summary table

Source	Possible EU-level actions	Estimated potential benefits	Other benefits
European added value assessment – rule of law	Fundamental rights – promote freedom of opinion and expression	€3.7 billion per year	Political parties can speak freely Promote rule of law
Commission proposal on SLAPPs	Enhance toolbox for courts, tribunals and other legal professionals	No significant costs. Benefits were not assessed in quantitative terms.	Resolve litigation more quickly Reduce costs and burdens on SLAPP targets
	Raise awareness and build expertise among courts, tribunals and other legal professionals		
	Ensure that support is available to targets of SLAPPs		
Commission proposal for a Media Freedom Act	Safeguards against political interference in editorial decisions	€2.9 billion per year	Public trust in media Greater protection of fundamental rights
	Safeguards against surveillance		
	Monitor media sector concentration		

Source: EPRS.

European Parliament position

The European Parliament has repeatedly called for the EU to address to address the declining state of the media sector in the EU. A key event sparking attention to the need for EU action was the murder of anti-corruption journalist Daphne Caruana Galizia in October 2017. Following this event, the Parliament called attention to the worsening working conditions for journalists and the risks of their exposure to psychological violence. It also called for a strengthening of independent, EU-level monitoring mechanisms to allow for the periodic review of media freedom and pluralism.[824]

In 2021, the Parliament called for urgent attention to be paid to the issue of SLAPP cases, which seek to discredit and silence journalists and media entities who investigate illegal activities, including corruption, and the need to establish appropriate penalties and fines.[825]

[824] European Parliament resolution of 3 May 2018 on media pluralism and media freedom in the European Union (2017/2209(INI)).

[825] European Parliament resolution of 11 November 2021 on strengthening democracy and media freedom and pluralism in the EU: the undue use of actions under civil and criminal law to silence journalists, NGOs and civil society (2021/2036(INI)).

The Committee to Protect Journalists has reported that surveillance software (Pegasus) has been used to target journalists investigating instances of corruption and their prosecution.[826] In 2022, the Parliament set up a special committee of inquiry concerning this software.[827]

In 2020, the Parliament drew attention to the exploitation of media capture, hate speech and disinformation for political purposes and to intensify polarisation in society. It also underscored the necessity of transparency in media ownership to ensure media pluralism. The Parliament has called on the European Commission and the Member States to step up efforts to promote media and information literacy in educational policies for all age groups.[828]

The Parliament has noted that the decline of the media sector coincides with a shrinking of civic space and less representation of civil society organisations, underlining the importance of media pluralism for civil society and democracy. The Parliament considers that the Media Freedom Act should include, as minimum requirements, EU-wide media ownership rules and rules on the transparency of media ownership.[829]

Commission and Council responses so far

In December 2020, the Commission launched the European democracy action plan, which outlines measures to promote free and fair elections, ensure media freedom and tackle disinformation.[830] In 2022, it put forward a legislative proposal that would offer protection for journalists and human rights defenders from SLAPPs.[831] The Council also committed to promote the protection of journalists and media professionals in bilateral as well as international relations.[832] Later that year, the Commission published a legislative proposal for a European Media Freedom Act.[833] The legislation would introduce common principles to scrutinise the transparency and operations of actors in media markets. It would also seek to promote editorial independence and a transparent, fair allocation of public funds in the sector.

The actions taken by the Commission have been informed by the annual rule of law reports, which are structured around four pillars, one of which is media pluralism. The 2021 report highlights deterioration in three key indicators of the Media Pluralism Monitor: freedom of expression,

826 Committee to Protect Journalists, Pegasus Project revelations show added layer of risk for corruption reporters, July 2021.

827 European Parliament decision of 10 March 2022 on setting up a committee of inquiry to investigate the use of the Pegasus and equivalent surveillance spyware, and defining the subject of the inquiry, as well as the responsibilities, numerical strength and term of office of the committee (2022/2586(RSO)).

828 European Parliament resolution of 25 November 2020 on strengthening media freedom: the protection of journalists in Europe, hate speech, disinformation and the role of platforms (2020/2009(INI)).

829 European Parliament resolution of 8 March 2022 on the shrinking space for civil society in Europe (2021/2103(INI)).

830 Communication on The European democracy action plan, COM(2020) 970 final, European Commission.

831 Proposal for a directive on protecting persons who engage in public participation from manifestly unfounded or abusive court proceedings ('Strategic lawsuits against public participation'), COM(2022) 177 final.

832 Council of the European Union, Council conclusions on the protection and safety of journalists and other media professionals, June 2022.

833 Proposal for a regulation establishing a common framework for media services in the internal market (European Media Freedom Act) and amending Directive 2010/13/EU, COM(2022) 457 final.

protection of the right to information and the journalistic profession, and protection of journalists.[834] Less change was noted between 2021 and 2022.[835]

Looking forward

The proposed directive on strategic lawsuits and regulation on media services in the internal market (the European Media Freedom Act) have entered the ordinary legislative procedure in the European Parliament and the Council.

[834] Communication on the 2021 Rule of Law Report – The rule of law situation in the European Union, COM(2021) 700 final, European Commission.

[835] Communication on the 2022 Rule of Law Report – The rule of law situation in the European Union, COM(2022) 500 final, European Commission.

Chapter 6 – Health

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
27	**Towards a joint EU health policy**	€20.5 billion per year	Lower economic impact due to better coordination of measures			The European Pillar of Social Rights states that: 'Everyone has the right to timely access to affordable, preventive and curative health care of good quality'	
28	**Ensuring equitable access to and affordability of medication across EU Member States**	€14 billion per year	Ensuring the sustainability of healthcare budgets	Increased cohesion		The European Pillar of Social Rights states that: 'Everyone has the right to timely access to affordable, preventive and curative health care of good quality'	
29	**Protecting workers from asbestos**	€12 billion per year		Less cases of death (- 3 000 per year), a lower loss of Disability Adjusted Life Years (DALYs) and better working conditions	Safer removal and less waste of asbestos	Article 153 TFEU sets out that the Union shall adopt directives setting out minimum requirements	
Total		**€46.5 billion per year**					

27. Towards a joint EU health policy

Potential benefit: €20.5 billion per year

Key proposition

The EU only has a supporting competence in health policy, as primary responsibility for healthcare provision lies with the Member States. However, the ongoing COVID-19 pandemic has highlighted the need for more EU action in health. This has not gone unnoticed among the European population, with the April 2021 Eurobarometer revealing that 38 % of European citizens consider healthcare to be the number one task of European institutions, ahead of topics such as economic recovery or fighting climate change.[836] Significant EU added value has already been achieved in countering the effects of COVID-19, and the initiatives that have been taken now need to be formalised to ensure that they are ready to use when the next crisis hits, and beyond.

In particular, an EPRS study finds added value in terms of increased budgetary efficiency in consolidating healthcare expenditure at EU level in the areas of prevention and procurement. This budget-neutral shift from spending at Member State level to EU level would generate yearly added value of €17 billion for procurement and €3.5 billion for prevention.

More detailed analysis of the potential benefit

As pointed out by an EPRS study,[837] since the coronavirus pandemic began the EU has put to use several of the mechanisms already in place, while also taking new initiatives to combat the pandemic. The Commission has assisted the Member States in coordinating cross-border healthcare measures, such as transferring patients and healthcare professionals,[838] and has also allocated resources to research projects working on vaccines and treatments.[839] When the Member States closed their borders and impeded healthcare equipment from being delivered, the Commission issued guidelines on green lanes to make sure that medical equipment and healthcare professionals could move freely.[840] Joint procurement of medical and personal protective equipment continue to be launched with the Member States, and a common reserve of medical equipment is being created for the first time[841]. The joint coronavirus vaccine procurement scheme, in particular, highlights the benefits of joint procurement. EU countries can leverage their better joint negotiating position to obtain coronavirus vaccines at lower prices with more consumer protection guarantees.[842]

836 Standard Eurobarometer 94 – Winter 2020-2021.

837 T. Evas et al., Coronavirus and the cost of non-Europe, EPRS, May 2020.

838 European Commission, Coronavirus: Commission encourages and facilitates cross-border treatment of patients and deployment of medical staff, press release, 3 April 2020.

839 European Commission, Coronavirus research and innovation, April 2022.

840 European Commission, Green lanes – Ensuring the free flow of goods and services, April 2022.

841 European Commission, Ensuring the availability of supplies and equipment, April 2022.

842 Carnegie Europe, Why the EU's vaccine strategy will pay off in the end, February 2021.

All the initiatives taken to tackle the coronavirus crisis could provide even more added value if they were formalised and ready to use when the next cross-border disease hits, and beyond. More EU action in the areas of joint procurement, prevention and research,[843] in particular, would generate considerable added value.

An EPRS study,[844] which investigates the optimal allocation of budgetary resources within the EU finds no added value in shifting spending in the main areas of healthcare provision, such as curative care. However, in the areas of procurement and prevention a reallocation of spending to EU level could generate significant value-added in terms of improving budgetary efficiency. To quantify this, the study first calculates so-called 'budgetary waste' for each Member State. This is done by comparing Member States' ability to produce public services efficiently. The quantified inefficiency is then thought of in terms of a 'budgetary waste rate'. Whether budgetary waste can be reduced by consolidating spending at EU level then depends on whether spillover and scale effects are present. The vaccination effort during the COVID-19 pandemic, for example, highlights the role of spillovers in the area of prevention.

An effective immunisation strategy against the coronavirus cannot rely on high levels of vaccination coverage against COVID-19 only in certain countries. Similarly, the EU's joint procurement efforts during the pandemic put a focus on the effects of economies of scale in procurement more generally. The waste rate study quantifies the yearly added value of shifting Member State-level spending on procurement and prevention to EU level to be €17 billion and €3.5 billion respectively.

Concerning the leveraging of joint procurement, prevention and research to tackle vaccination, as pointed out by a EPRS briefing, 'Towards a joint European approach on vaccination', published in 2019, all EU Member States have effective immunisation programmes. However, the cross-border dimension of vaccine hesitancy and the consequently declining vaccination coverage has led to vaccination appearing on the EU's radar,[845] and the pandemic has put this problem into sharp relief.

Figure 28 shows that, in 2020, only 70 % of the EU population agreed that vaccines are very important. This number roughly corresponds to the percentage of EU citizens that have completed the primary course of a coronavirus vaccine (around 75.2 %, as of July 2022 – see Table 15). A higher percentage of vaccination coverage is thought to go a long way towards ending the COVID-19 pandemic.

Table 15: Cumulative COVID-19 vaccine uptake (%) in the total population of the EU Member States, as of 22 December 2022, by reporting week (data for week 50)

At least one dose	Primary course	Booster/additional dose
75.5 %	73 %	54.6 %

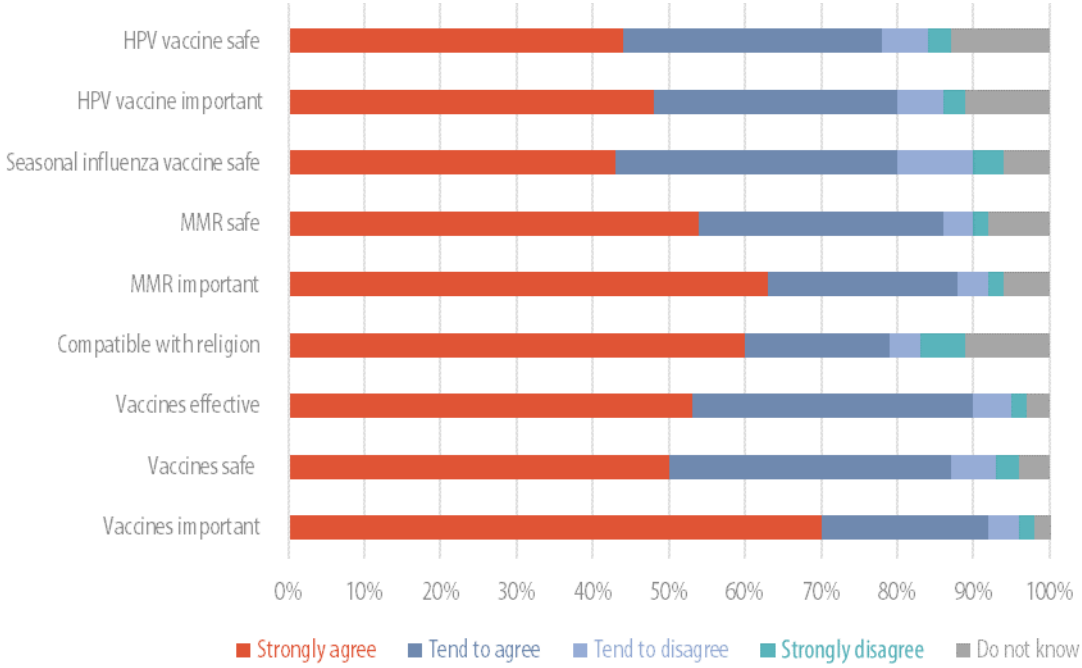
Source: European Centre for Disease Prevention and Control.

[843] On the impact of EU action and inaction in the field of research and innovation, see sub-chapter 24.

[844] J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, October 2020.

[845] N. Lomba, Towards a joint European approach on vaccination, EPRS, April 2020.

Figure 28: Percentage of the EU population that strongly agreed with the assessment that vaccines were very important, 2020



Source: European Commission report on the state of vaccine confidence in EU and the UK, 2020.

Additionally, it is common knowledge that known and unknown pathogens have the potential to cause epidemics. Investing in research aimed at finding effective vaccines against these types of pathogens is therefore essential. This needs to be maintained even after the topic has lost urgency. After the 2003 SARS outbreak, researchers were close to finding a vaccine. However, the topic lost salience, and funding was reduced. COVID-19 vaccines have been developed in record time, but this could likely have been achieved in an even shorter time if a vaccine against a coronavirus had been developed after the SARS outbreak in 2003.[846]

The current pandemic also highlights the fact that diseases do not stop at borders. An effective immunisation strategy needs to keep this cross-border dimension in mind and ensure worldwide access to safe and effective vaccines. Currently, less than 50 % of the population in middle and low-income countries is vaccinated against COVID-19, while high-income countries have vaccinated around 70 % of their populations.[847] Because of economic interdependencies, this discrepancy is thought to have cost high-income economies up to €1.7 trillion in 2022.[848] Keeping these arguments in mind, joint EU action could generate added value in the following areas:

Joint investing in research, infrastructure, and procurement:[849]

- Improving and developing vaccines against diseases of pandemic potential
- Improving vaccinology training and education for healthcare workers
- Investing in vaccine protection and preparedness infrastructure
- Enforcing and leveraging the benefits of immunisation information systems

[846] N. Lomba, Towards a joint European approach on vaccination, EPRS, April 2020.

[847] UNDP, Tracking three divergences in 2022, January 2022.

[848] CEPR, Economic costs of inequitable vaccine distribution across the world, February 2021.

[849] On the impact of EU joint investment in research and innovation in health, see sub-chapter 24.

- Joint procurement to ensure that vaccines are available in all Member States at affordable prices
- Facilitating worldwide access to safe and effective vaccines

Joint action on information and communication activities:

- Improving vaccine risk communication
- Improving access to vaccine consultation
- Enabling the general public to access key scientific information
- Studying and communicating the economic cost of lower vaccine coverage in the EU

European Parliament position

The European Parliament is strongly in favour of establishing a coherent EU public health policy.[850]

In its **April 2020 resolution** on **EU coordinated action to combat the COVID-19 pandemic and its consequences**, the Parliament called for the competencies, budget and staff of the European Centre for Disease Prevention and Control (ECDC) and the European Medicines Agency (EMA) to be strengthened substantially, to enable them to coordinate medical responses in times of crisis. The Parliament also called for the creation of a European health response mechanism, to improve preparation and respond in a common and coordinated way to any type of health or sanitary crisis that emerges at EU level. The Parliament welcomes the creation of HERA and emphasises the importance of establishing HERA as a fully-fledged independent agency subject to the same scrutiny requirements as other agencies, such as the EMA and the ECDC.[851]

In its **July 2020 resolution** on the **EU's public health strategy post-COVID-19**, the Parliament called for the European institutions and the Member States 'to draw the right lessons from the COVID-19 crisis and engage in far stronger cooperation in the area of health', calling for several measures to set up a European Health Union.

The Parliament expresses its support for a **temporary waiver of the WTO TRIPS Agreement on patents** in a resolution in **June 2021**, to ensure worldwide access to safe and affordable vaccines. Expressing its concern at the rise in vaccine hesitancy, the Parliament calls on the Commission and the Member States to take effective counter-measures.[852] The Parliament is in favour of extending the use of joint procurement procedures, but stresses that these need to be transparent and ensure sustainable and crisis-resilient supply chains.[853]

Commission and Council responses so far

The Commission's main answer[854] to the challenge of making Europe more resilient to future cross-border diseases, the November 2020 Health Union package, encompasses measures to improve the

850 EPRS, Towards a more resilient Europe post-coronavirus: Options to enhance the EU's resilience to structural risks, Study, April 2021.

851 European Parliament resolution of 21 October 2021 on EU transparency in the development, purchase and distribution of Covid-19 vaccines.

852 European Parliament resolution of 19 April 2018 on Vaccine hesitancy and drop in vaccination rates in Europe.

853 European Parliament resolution of 24 November 2021 on A pharmaceutical strategy for Europe.

854 European Commission, Questions and Answers: Building a European Health Union: Stronger crisis preparedness and response for Europe, November 2020.

EMA, upgrading the ECDC and creating legislation that would make ad hoc emergency measures permanent.

The most ambitious initiative, a European Health Emergency Preparedness and Response Authority (HERA),[855] was created through a decision in September 2021. It aims to provide the EU with better preparedness and response to serious cross-border health threats. During the preparedness phase, HERA will focus on anticipatory threat assessments, foresight, market intelligence, and horizon scanning of emerging pathogens. The Commission also put forward a draft regulation that would repeal the current Cross-Border Health Threats Decision No 1082/2013/EU,[856] by encompassing lessons learned during the pandemic. Among other initiatives, the Commission proposes including an exclusivity clause in joint procurement contracts that would require countries that choose to participate in joint procurement not to procure the same goods through parallel negotiations.

Another initiative under the Health Union Package is the adoption of a pharmaceutical strategy for Europe.[857] Its goal is to give the EU's pharmaceutical policy a long-term vision: to ensure it is crisis-resilient and sustainable, and to reinforce the EU's position as a global leader in this critical area, while ensuring access to affordable medicines for patients. Europe's beating cancer plan,[858] another initiative under the Health Union Package, was presented in February 2021. With a particular focus on prevention, the plan aims to support Member States' efforts at every stage of the disease.

Through initiatives such as the EU's vaccine-sharing mechanism, as well as COVAX, the Commission coordinated the distribution of over 400 million COVID-19 vaccine doses to countries around the world. In May 2021, the Commission announced an initiative that aims to incentivise and facilitate access and manufacturing of vaccines, medicines and health technologies in Africa.[859] This initiative is backed by €1 billion from the EU budget and the European development finance institutions. In April 2018, the Commission proposed a Council Recommendation[860] to strengthen EU cooperation on vaccine-preventable diseases. The initiative aims to tackle vaccine hesitancy, improve coordination on vaccine procurement, support research and innovation, and strengthen EU cooperation on vaccine-preventable diseases. The Recommendation was adopted by the Council on 7 December 2018 and includes a timeline through to 2022.

Looking forward

The COVID-19 pandemic has once more highlighted the need for the EU to have a rapid response capacity to enable it to react to major health threats in a coordinated manner. It would thus be of the utmost importance to enhance transparency, cooperate more closely and intensify dialogue. The Parliament welcomes the creation of HERA and emphasises the importance of its establishment as a fully-fledged independent agency. The new dedicated €9.4 billion EU4Health Programme is strongly welcomed, and MEPs believe that long-term investments and commitments are needed. They request the establishment of a dedicated EU fund to improve hospital infrastructure and health

855 C. Evroux, HERA, the EU's new Health Emergency Preparedness and Response Authority, EPRS, February 2022.

856 Proposal for a regulation on serious cross-border threats to health, European Commission, November 2020.

857 Communication on a pharmaceutical strategy for Europe, COM(2020) 761, European Commission, November 2020.

858 Communication on Europe's Beating Cancer Plan, COM(2021) 44, European Commission, February 2021.

859 European Commission, Team Europe initiative on manufacturing and access to vaccines, medicines and health technologies in Africa, Press release, May 2021.

860 Council Recommendation on strengthened cooperation against vaccine-preventable diseases (2018/C 466/01), December 2018.

services. On top of that, the European health agencies (the ECDC and the EMA), as well as joint health research, must be strengthened.

During the first plenary session on 4 October 2022, the Parliament voted on two political agreements on proposals related to the European Health Union initiative: the proposed regulation on serious cross-border health threats (SCBHT), and the proposed regulation on extending the mandate of the ECDC. Complementing the launch of HERA, and the adoption of a renewed mandate for the EMA, the proposed legislative acts are intended to enhance EU preparedness and its response to health crises.

28. Ensuring equitable access to and affordability of medication across EU Member States

Potential benefit: €14 billion per year

Key proposition

The overall state of health within the European Union is improving. Up until 2020, indicators such as healthy life years and life expectancy were steadily increasing. In fact, according to preliminary estimates, 2020 is likely to become the first year in decades that life expectancy in the EU-27 decreases relative to the year before. This expected decrease in life expectancy is due to the excess mortality caused by the ongoing COVID-19 pandemic. Both positive and negative overall trends in health outcomes hide significant health inequalities, across Member States as well as within Member States.[861] These inequalities represent serious obstacles to achieving the goals set out in the European Pillar of Social Rights and cost European societies around €980 billion per year.[862]

Especially of note in this context is the unequal access to medication across Member States. Leveraging joint procurement would enable Member States to reduce prices paid for pharmaceuticals while ensuring more equitable access to medication, representing yearly added value of €14 billion.

More detailed analysis of the potential benefit

By international standards, the overall state of health in Europe is good and, abstracting from the COVID-19 pandemic, steadily improving.[863] Overall life expectancy reached an all-time high in 2019. However, despite the overall positive trend, looking at indicators like life expectancy, healthy life years at birth and infant mortality rates, reveals significant inequalities in health outcomes across Member States. Life expectancy ranges from 85 years in Spain to 75.1 years in Bulgaria. The gap between male and female life expectancy is substantial, ranging from 3.1 years in the Netherlands to 9.1 years in Lithuania.[864] Similarly, healthy life years at birth ranged from 54.1 for Latvian woman and 52.2 for Latvian men to 73.5 for Maltese woman and 73.8 for Swedish men.[865] Infant mortality ranges from 6.7 per 1 000 live births in Malta to 1.6 per 1 000 live births in Estonia.[866]

[861] Eurostat, Health in the European Union – facts and figures, March 2022.

[862] J. Mackenbach et al., [Economic costs of health inequalities in the European Union](), Journal of Epidemiology and Community Health (1979-), Vol. 65, No 5, 2011, pp. 412-19, JSTOR – accessed 25 May 2022.

[863] A. Bucher, Does Europe need a Health Union?, Policy Contribution 02/2022, Bruegel.

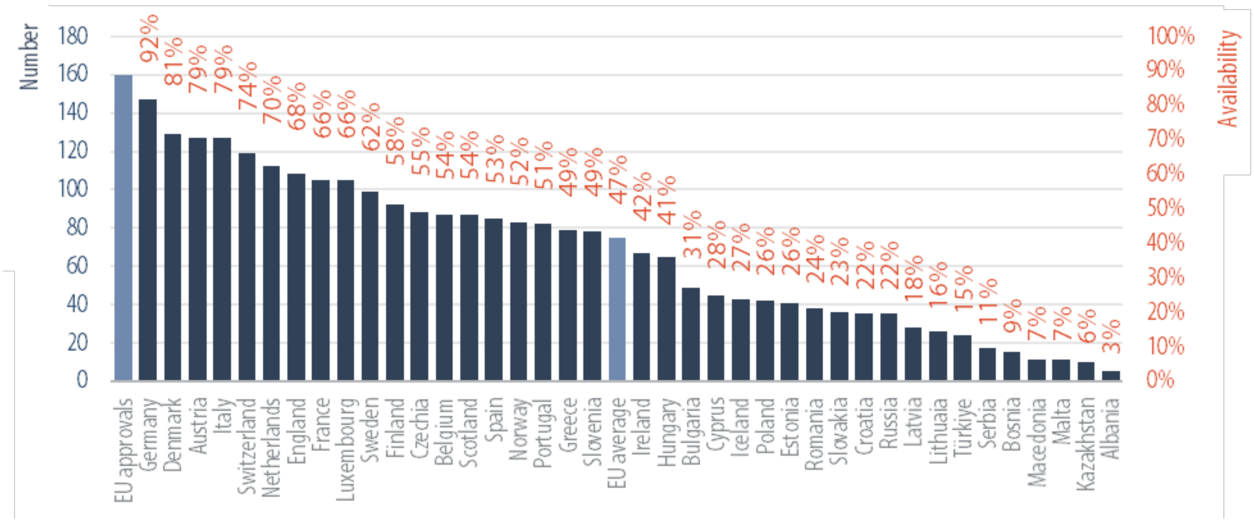
[864] Eurostat, Life expectancy by age and sex, May 2022.

[865] Eurostat, Healthy life years statistics, March 2021.

[866] Eurostat, Infant mortality sharply declined over the past decades, June 2021.

An EPRS study points especially to the large discrepancy between Member States in deaths due to cardiovascular diseases as well as cancer.[867] Standardised death rates from cardiovascular diseases, the leading cause of death in Europe overall, were almost five times higher in Bulgaria than in Spain. Similarly, there are vast differences in standardised deaths due to cancer across Member States.[868] The EPRS study mentions, in this context, the considerable differences in access to medication across Member States (see Figure 29).

Figure 29: Number of medicines approved by the EMA from 2017 to 2020 and proportion available to patients in European countries as of January 2022



Note: For most countries, this is the point at which the product is included on the reimbursement list, including products with limited availability.

Source: EFPIA Patients W.A.I.T. Indicator 2021 Survey.[869]

Figure 29 shows the rate of availability of medication authorised by the EMA from 2017 to 2020 as of January 2022 across Europe. Availability ranges from 92 % in Germany to just 7 % in Malta. The reasons for this discrepancy are multifaceted and interdependent. Literature suggests that the probability of a particular medication being launched in a country at a given time depends on the size of the market, the regulatory environment of the country in question and expected spillovers in the given geographical environment.[870] For Member States with smaller markets, this translates into longer delays in the availability of new medication. Member States with a lower capacity or willingness to pay face longer delays in the availability of new medicines (see Figures 30, 31 and 32).

Spillover effects (cross-referencing of pharmaceutical prices, parallel importing of pharmaceutical products and price regulatory spillover effects) affect availability proportionally more negatively in poorer and smaller Member States.

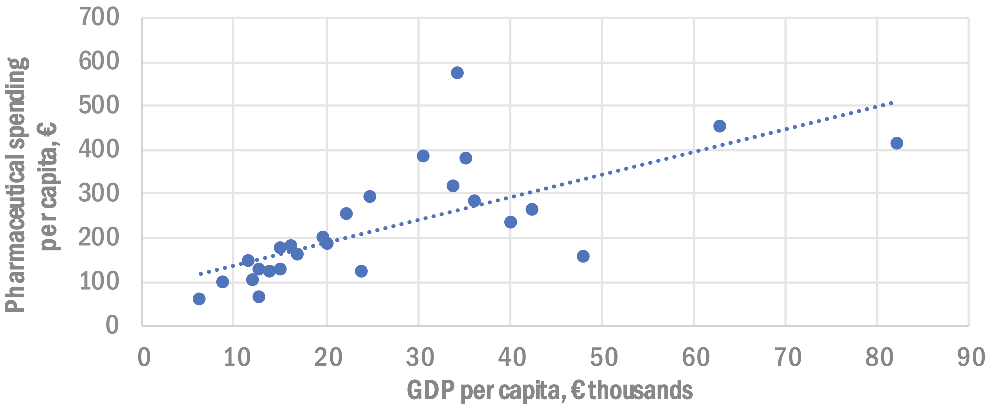
[867] N. Scholz, Addressing health inequalities in the European Union, EPRS, February 2020.

[868] Eurostat, Causes of deaths – standardised death rate by NUTS 2 region of residence, April 2022.

[869] M. Newton, K. Scott and P. Troein, EFPIA Patients W.A.I.T. Indicator 2021 Survey, updated in July 2022.

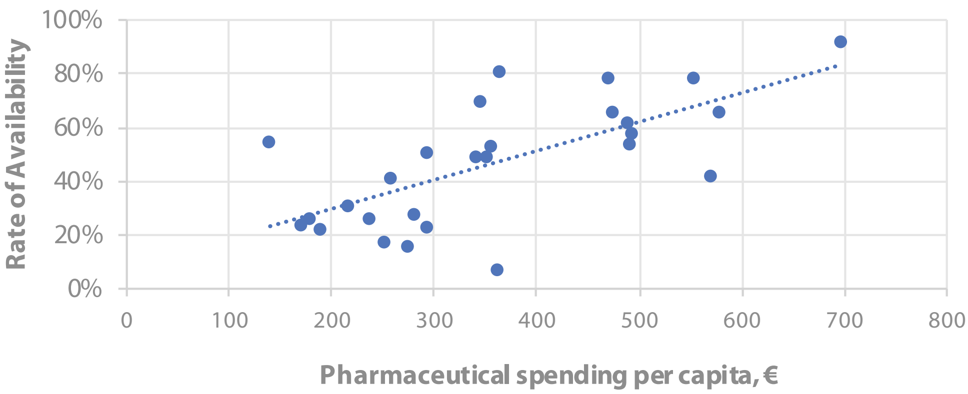
[870] J. Costa-Font et al., Regulation effects on the adoption of new medicines, Empirical Economics, 2015, Vol. 49(3), pp. 1101-1121.

Figure 30: Correlation between GDP per capita and pharmaceutical spending per capita in Member States



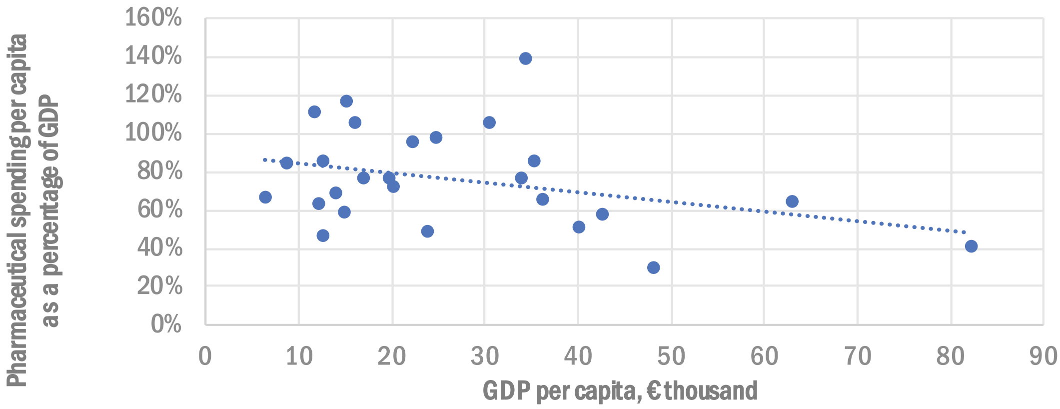
Source: Eurostat.

Figure 31: Correlation between rate of availability of medication and pharmaceutical spending per capita in Member States



Source: Eurostat.

Figure 32: Correlation between GDP per capita and pharmaceutical spending per capita as a percentage of GDP in Member States



Source: Eurostat.

The EPRS waste rate study quantifies the added budgetary efficiency of internalising the above-mentioned spillover and scale effects through joint procurement. The study finds that joint procurement would allow Member States to spend 12 % less on procurement without reducing the quantities bought.[871] Applying this percentage to Member States' total pharmaceutical expenses implies added value of €14 billion.[872] Similarly, other literature on joint procurement of pharmaceuticals finds a reduction in prices across a wide array of countries and healthcare systems.[873] Successful joint procurement initiatives among EU countries include the joint procurement mechanism during the COVID-19 pandemic, as well as the Nordic Pharmaceutical Forum, the Baltic Procurement Initiative and the Beneluxa Initiative. However, by international standards, joint procurement of medication is underutilised among EU Member States.[874]

Considering the structure of the inequality in access to medication across Europe described above, internalising spillover and scale effects through joint procurement of medication would proportionally benefit smaller and poorer Member States more. Moving towards joint procurement of medication would therefore be a way to reduce prices for pharmaceuticals while ensuring more equitable access to medication across Member States. In the light of increasingly tight healthcare budgets and the rising cost of pharmaceuticals, the former point is relevant for all Member States.[875] In addition, joint procurement has been shown to reduce operational costs and administrative burdens, and improve quality assurance and governance.

Short of moving to joint procurement, improving transparency on **pricing**, **market launch intention** and **added value** of a new medication is thought to be an important step to improving access.[876] To this end, the European Medical Agency launched a survey from March 2021 to August 2022 to elicit companies' intentions regarding what products they plan to launch in which markets and the reasons behind these intentions. However, participation was voluntary.[877] To ensure more transparency about companies' launch intentions, further steps might be necessary. One such suggestion is to link marketing authorisation to transparency. Legislation would require companies to reveal research and development expenses, public investment received, the number of patents they hold and their expiration date, the sources of their pharmaceutical ingredients and whether they want to market their products in the EU. Another option being discussed in the context of the upcoming overhaul of the EU's pharmaceutical strategy is changing the incentive structure that companies face under the current legislation.

To ensure that policymakers can make evidence-based decisions on health policies, Health Technology Assessments (HTA) are consulted. Currently the process is fragmented, with around 50 European HTA agencies using different systems to evaluate new treatments and their prices. A regulation passed in January 2021 aims to change this by streamlining the process. This regulation establishes a support framework and procedures for Member States to cooperate on health technologies at EU level. It introduces a mechanism whereby any information, data, analyses and

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871 J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, October 2020. See also sub-chapter 27 (Towards a joint EU health policy).

872 The latest data available on Member States' spending on pharmaceuticals and other medical non-durable goods is available on Eurostat for the year 2019. Because the OECD quantifies the added cost for other medical non-durable goods to be about 5-10 % of total Member States' expenses, 10 % is subtracted. Furthermore, only spending by government and non-voluntary insurance schemes is considered.

873 P. Dubois, Y. Lefouili and S. Straub, Pooled procurement of drugs in low and middle income countries, European Economic Review, Vol. 132, 2021.

874 S. Vogler, M. Haasis, R. van den Ham, T. Humbert, S. Garner and F. Suleman, European collaborations on medicine and vaccine procurement, Bull World Health Organ, 2021.

875 Communication on a pharmaceutical strategy for Europe, COM(2020) 761, European Commission, November 2020.

876 WHO/Europe, WHO/Europe releases report on mechanisms for improving transparency of markets for medicines, vaccines and health products, accessed May 2022.

877 European Commission, Pilot project 'Market launch of Centrally Authorised Medicinal Products', accessed May 2022.

other evidence required for the joint clinical assessment of health technologies is submitted by the health technology developer only once at EU level. It also lays out common rules and methodologies for the joint clinical assessment of health technologies. The regulation will apply from January 2025 and the necessary infrastructure is currently being set up.[878]

European Parliament position

In its November 2021 resolution on a pharmaceutical strategy for Europe, the Parliament calls on the Commission to develop policy options to ensure that centrally authorised medicines are marketed in all Member States, not just those that are commercially interesting. It further stresses the need to ensure that any form of incentive at EU level ensures fair and affordable prices for pharmaceuticals, especially innovative ones, across all Member States. In this context, the Parliament stresses the importance of new joint EU public procurement contracts by the Commission and the Member States, especially for, but not limited to, emergency medicines and unmet therapeutic needs to improve their affordability and access to them at EU level. The Parliament calls for exploration of such practices also in areas such as rare diseases and cancer.

Commission and Council responses so far

In its pharmaceutical strategy for Europe from November 2020, the Commission expressed its intention to increasingly support more coordination in procurement of medication, while stressing that pricing and reimbursement decisions are Member State competences. The Commission will step up cooperation with and among Member States on the affordability and cost-effectiveness of medicines and launch a group to steer cooperation between national pricing and reimbursement authorities and healthcare payers. It will support mutual learning through information and best-practice exchange, including on public procurement and the coverage of pharmaceutical costs by social protection systems, price-increase criteria and rational prescribing. Such measures will be complemented by enhanced cooperation between Member States – for example, improved procurement approaches and strategies, joint procurement for critical medicines, and EU-level cooperation on tools and instruments for national policymaking on prices and reimbursement.

Looking forward

The Commission is planning to **overhaul** the EU's **legislative framework for pharmaceuticals**, and the initiative scheduled to be delivered in **December 2022** was postponed and should be presented in 2023. The revision of the general pharmaceutical legal framework aims to ensure the availability of safe, effective and affordable medicines across EU Member States, also in the area of unmet medical needs. To this end, the revision of the legislation aims to ensure crisis-proof supply chains, incentivise innovation, facilitate the uptake of new technologies and new scientific developments, and to reduce the regulatory burden.

[878] European Commission, Regulation on Health Technology Assessment, Press release, accessed May 2022.

29. Protecting workers from asbestos

Potential benefit: €12 billion per year

Key proposition

Asbestos was used for its strength and ability to resist heat and corrosion before its dangerous effects on health were discovered; asbestos is responsible for more than half of the deaths from occupational cancer in the world. Europe carries the majority of the global asbestos-related disease burden as a result of heavy asbestos use in earlier decades. Although all forms of asbestos have been banned in the EU since 2005, asbestos remains present in older buildings and poses a health threat when materials containing asbestos are distributed and fibres are released and inhaled, for instance during renovations. Asbestos-related risks are expected to appear in the context of the European Green Deal renovation wave, when buildings will be renovated or demolished.

The most important asbestos-related diseases are asbestosis, mesothelioma (a cancer of the pleural and peritoneal linings caused almost exclusively by exposure to asbestos) and lung cancer. The numbers of asbestos-related lung cancer cases and mesothelioma cases[879] are about the same.

The social costs are enormous. Further European action (legislation and enforcement) could lead to a reduction of around 30 % in asbestos-related diseases. Due to the long latency period for this type of disease, which in some cases can be more than 40 years, it must be underlined that measures taken now will have an impact in 30 years at the earliest. This would enable savings of €12 billion (for example, in medical costs, indirect costs like pensions, loss of productivity, and including elements related to pain and suffering) per year from 2050 onwards.

More detailed analysis of the potential benefit

Almost all countries that used asbestos at very high or high levels between 1920 and 1970 demonstrated high mortality rates from mesothelioma and/or asbestosis. Between 2001 and 2012, Europe used 7.8 million metric tonnes of asbestos, 31 % of global use. However, the absolute use declined significantly in 1971-2000, with very low levels in 2001-2012.[880] Pursuant to Directive 1999/77/EC, no asbestos fibres have been allowed in the European Union since 1 January 2005.[881]

All forms of asbestos are carcinogenic. Asbestos causes cancer of the lung, asbestosis and also mesothelioma. The incidence per year of mesothelioma is the significant marker of past exposure to asbestos, because asbestos is the only important cause of mesothelioma. The extraordinarily high mesothelioma incidence in men born around 1945-1950 reflects the increasing extent of asbestos use in the 1960s and 1970s at the beginning of their working lives. Annual raw asbestos imports to EU countries peaked in the early to mid-1970s and remained above 800 000 tonnes per year until 1980, falling to about 100 000 tonnes by 1993.[882]

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[879] European Forum of the Insurance against Accidents at Work, Asbestos-related occupational diseases, 2006.

[880] J. LaDou, The Case for a Global Ban on Asbestos, Environmental Health Perspectives, July 2010, p. 897.

[881] European Commission, Directive 1999/77/EC of 26 July 1999.

[882] J. Peto, A. Decarli, C. La Vecchia, F. Levi and E. Negri, The European mesothelioma epidemic, 1999.

Asbestos fibres released into the air have made this substance the number one cause of death among occupational diseases in the EU. Once absorbed, asbestos fibres cannot be removed from the body. There is no therapy for diseases due to asbestos, only a modest influencing of symptoms is possible: 'The diagnosis of a mesothelioma is a death sentence.'[883] Due to the long latency period, neither the workers affected nor the employers responsible are alerted after exposure by specific symptoms. The parties responsible for the practical maintenance of occupational health measures often do not have to bear the resulting high financial, but also social-ethical costs. The monetary consequences are shifted to subsequent generations from 30 years to a maximum of 60-70 years later. Therefore, such costs fall onto the shoulders of the state and society in general.[884] Given the long latency time for this type of disease, it must be underlined that today's mortality and morbidity cases relate to past exposures, before the entry into force of the directives adopted to prevent these forms of work-related ill health.[885] The very long latency periods also mean that asbestos victims are often unable to substantiate the causality of their occupational asbestos exposures.[886]

About 125 million people are exposed to asbestos in the workplace worldwide. In 2004 alone, asbestos-related lung cancer, mesothelioma and asbestosis from occupational exposures resulted in 107 000 deaths and a loss of 1 523 000 Disability Adjusted Life Years (DALYs). The estimations are that exposure to asbestos claims about 88 000 lives annually in Europe, accounting for 55-85 % of lung cancers developed at work; mortality rates from this exposure will continue to increase until the late 2020s and 2030s.[887]

In 2009, the directive on the protection of workers from the risks related to the exposure of asbestos (Asbestos at Work Directive)[888] was adopted. It aims to protect workers and prevent their exposure to asbestos-related health risks, including by defining occupational exposure limit values. The legal basis for occupational safety and health legislation is laid down in Article 153 TFEU, providing the basis for both national and EU-wide action to support and complement Member States' activities in improving the working environment to protect workers' health and safety. The Asbestos at Work Directive aims to prevent risks arising from exposure to asbestos at work by defining a series of measures including the prohibition of certain[889] activities using asbestos, the introduction of measures to reduce exposure to asbestos to a minimum, the definition of maximum limits for exposure to asbestos and the requirement to measure asbestos exposure. In the case of certain activities, such as demolition, asbestos removal work, repairing and maintenance, the Directive provides measures intended to ensure the protection of workers while carrying out their work and activities and to monitor the health of those working with asbestos.[890]

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883 European Commission, Practical Guidelines for the Information and Training of Workers involved with Asbestos Removal or Maintenance Work, 2012, p. 10.

884 European Commission, Practical Guidelines for the Information and Training of Workers. In Germany, the total number is 30 % higher.

885 European Commission, Ex-post evaluation of the European Union occupational safety and health Directives (REFIT evaluation), SWD(2017) 10 final, p. 39.

886 Opinion of the European Economic and Social Committee on Freeing the EU from asbestos, 2015.

887 European Economic and Social Committee, Working with asbestos in energy renovation (own-initiative opinion).

888 Directive 2009/148/EC of the European Parliament and of the Council of 30 November 2009 on the protection of workers from the risks related to exposure to asbestos at work.

889 According to the Asbestos at Work Directive – an example being the prohibition on the application of asbestos by means of spraying – it is also important to prohibit activities which expose workers to asbestos fibres during the extraction of asbestos or the manufacture and processing of asbestos products.

890 DG EMPL, European Commission, Evaluation of the Practical Implementation of the EU Occupational Safety and Health (OSH) Directives in EU Member States, Directive 2009/148/EC on the Protection of Workers from the Risks related to Exposure to Asbestos at Work, September 2015.

Important measures laid down in the directive include notifying the authorities and carrying out a risk assessment or a work plan before demolition work starts. In addition, employees must have the opportunity for a medical examination. Before starting with demolition and refurbishment work, companies should prove their expertise and, if required by national legislation, be in possession of an official licence for working with asbestos. The more conscientiously employers and workers respect the rules, and the less exposure to asbestos and the less mortal health risks occur, the more economically the work can be carried out.[891]

For three decades, there has been a considerable effort to reduce exposure to asbestos. However, even if exposure to asbestos was eliminated completely, deaths from asbestos-related cancers would be expected to continue for the next four to five decades[892] due to the long latency period.

In the EU, the monetary consequences for public health systems are high. In 2002-2009, the deadweight loss per year was more than €34 billion (costs for public health systems and including elements for pain and suffering) in 14 Member States (representing more than 80 % of the EU-27 population) with more than 12 000 deaths (these are only the validated death cases) per year.[893] If one extrapolates these figures including all 27 Member States,[894] the deadweight loss in 2021 alone is over €40 billion, with more than 120 000 cases, which means a similar figure for deaths, until 2029.

The measures taken during the last 30 years, since the adoption of the European Framework Directive on Safety and Health at Work[895] in 1989 and the Asbestos at Work Directive among others, will have a significant impact from 2030 onwards. New legislative initiatives accompanied by additional proposals and enforcement measures to protect workers as well as inhabitants and users of buildings can have a further impact, but not before 2060.

European Parliament position

In October 2021, the Parliament adopted a resolution which sets out a number of recommendations on protecting workers and citizens from asbestos. To that end, the resolution calls on the Commission to present a European strategy for the removal of all asbestos, including a European framework directive for national asbestos removal strategies; the update of the Asbestos at Work Directive; recognition of and compensation for asbestos-related diseases; asbestos screening prior to energy renovation works and selling or renting out a building; and the role of the Union as a global leader against asbestos.[896]

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891 European Commission, Practical Guidelines for the Information and Training of Workers, p. 16.

892 T. Driscoll, Global and regional burden of cancer in 2016, 2019.

893 As mentioned above, the validation practice is restrictive. In Germany, an important condition for validation as an occupational disease is the objective evidence of the so-called 25 'asbestos fibre years' that a worker was in contact with asbestos on 240 working days per year, Arbeitsschutz in NRW 2021.

894 Including the other 13 Member States, with a 25 % higher share of the population, and the increase of the price level since then led to a minimum amount of €40 billion, not taking into account that, based on the existing practice, the number of cases and deaths are underestimated.

895 European Agency for Safety and Health at Work, European Framework Directive on Safety and Health at Work, Directive 89/391 EEC, 1989.

896 European Parliament resolution of 20 October 2021 with recommendations to the Commission on protecting workers from asbestos.

Commission and Council responses so far

In January 2022, the Commission concurred with 'the Parliament that asbestos is a major cancer causing substance and that protecting workers and citizens against adverse health effects due to the exposure to asbestos must be a priority in the implementation of the Renovation Wave and other key strategies of the European Green Deal, in line with principle 10 of the European Pillar of Social Rights'.[897]

As a follow-up to the Parliament's resolution of October 2021, the Commission presented actions in its communication on working towards an asbestos-free future on 28 September 2022.[898] The intention of the Commission is to highlight the existing instruments and pursue additional strategies to protect workers and citizens from asbestos. Regarding national asbestos registers and building screening requirements, the Commission will examine the feasibility of EU legislative proposals, together with the call for a European framework for national asbestos removal strategies.

Together with the above-mentioned communication, the Commission presented a proposal to amend the Asbestos at Work Directive. As regards the recognition of occupational diseases and compensation for workers, the Commission is working on an update of the 2003 Commission recommendation on the European schedule of occupational diseases[899] as it is not in a position to propose legislative action.

In December 2021, the Commission proposed to align the rules for the energy performance of buildings with the European Green Deal and decarbonise the EU's building stock by 2050.[900] The Waste Framework Directive (2008/98/EC) and the Landfill Directive (1999/31/EC) already contain provisions to address the environmentally sound management of asbestos waste. However, buildings are excluded from the scope of the Directive.

Member States can use the Recovery and Resilience Facility for the removal of asbestos-containing materials. In addition, cohesion policy could be an important source of funding.

Looking forward

In recent decades, considerable efforts have been made to reduce exposure to asbestos. Even if this exposure were eliminated completely, deaths from asbestos-related cancers would be expected to continue in the coming decades due to the long latency period. It has a clear impact on public health system spending and on the productivity of businesses. The actions undertaken will continue to have a significant impact on citizens' lives, especially as a long-term investment, and need to be continued. On 14 September 2022, European Commission President Ursula von der Leyen announced in her Letter of Intent to President of the European Parliament Roberta Metsola and to Czech Prime Minister Petr Fiala a number of proposals for 2023, based on the conclusions of the Conference on the Future of Europe, including a new initiative on the screening and registration of asbestos in buildings.

[897] European Commission, Answer to the European Parliament's Resolution of 20 October 2021, 19 January 2022.

[898] Communication on [Working towards an asbestos-free future](), European Commission.

[899] European Commission Recommendation of 19 September 2003 on the European schedule of occupational diseases.

[900] Proposal for a directive on the energy performance of buildings, European Commission, 15 December 2021.

Chapter 7 – Employment, mobility, social and cohesion issues

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
30	**Measures to fight poverty and inequality**	€21.8 billion per year	Increased efficiency of public spending in social policy Positive spillovers on demand	Reduced poverty rates Reduced in-work poverty Reduced income inequalities Reduced gender inequalities Increase in wages and possibly holistic approach to reduce precarious employment Increased social inclusion		Right to life in dignity Reduce gender-based and intersectional discriminations	
31	**Free movement of workers**	€104 billion per year	Higher productivity, employment rate and wages Higher public revenues (taxes and social contributions)	Lower unemployment rates, higher social transfers in cash and in kind		The fundamental right of EU citizens to free movement is enshrined in the Treaties	
32	**Promotion of pathways for legal migration and access to employment**	€37.6 billion per year	Increased productivity and human capital	Higher social integration and lower inequality Higher wages for both migrants and national workers		Freedom to choose an occupation and right to engage in work	Improved relations with third countries

			Better capacity to address structural needs of the EU economy				
33	**European structural and investment funds**	€120 billion per year	Higher public but also private investment in Member States with a GDP lower than 75 % of the European average	More upward convergence			Multiannual programmes (for example, from 2021 until 2027) offer more planning reliability for public budgets
34	**Digitalisation of European reporting, monitoring and audit**	€1.7 billion per year	Lower error rates Increased efficiency in implementing EU funds	Lower risk of misuse of funds due to more accurate data More transparency in implementing EU funds	Not assessed in the context of the proposed EU action	Not assessed in the context of the proposed EU action	Protection of EU budget Better overview of who ultimate beneficiaries are
35	**European works councils**	€32 billion per year	More stable employment relationships	More democracy at work and better working conditions		Article 28 of the Charter of Fundamental Rights establishes the right of collective bargaining	
36	**Social enterprises and non-profit organisations**	€17 billion per year	Supporting the provision of public goods	Promoting gender equality and inclusive businesses Supporting active cross-border citizenship Promoting democratic economic organisations Support for enterprises active in the care economy	Support for enterprises active in environmental protection	Promote access to economic activity and entrepreneurship	
Total		**€334.1 billion per year**					

30. Measures to fight poverty and inequality

Potential benefit: €21.8 billion per year

Key proposition

Despite the commitments in the Europe 2020 strategy and in the 2017 European Pillar of Social Rights, poverty is still a reality in the EU and there is room for greater EU action to fight poverty and inequality, with relevant potential social and economic benefits. While indicators relating to material deprivation have improved overall, income poverty has not decreased, with about 16.5 % of the population falling below national poverty lines; this is strongly linked with increasing inequalities. The persistence of poverty and inequality in the EU is also due to the prevalence in several contexts of poor working conditions and wages that do not allow people to make ends meet: 9.4 % of employees in the EU were 'working poor' in 2020 and about 23 million workers in the EU are classified as 'low wage earners'.[901]

The EU could act to counter poverty and inequality, both within and outside the labour market. It can, moreover, favour upward convergence among Member States, as an EU-level public good, and avoid harmful competition on social standards.[902] The EU could support broad approaches to tackling poverty and intersectional inequalities in the EU, including supporting minimum income schemes and strengthening their capacity to ensure a life in dignity.[903] As regards the labour market, the EU could support the level, coverage and purchasing power of minimum wages, to guarantee adequate standards of living and support the positive impacts of these on the overall level of wages. This could go together with further action to address gender inequalities in the labour market, and to address the other root causes of in-work poverty, including precarious employment.

Only from an efficiency perspective, it can be quantified that increased coordination at EU level to support anti-poverty measures such as basic income, and to reduce inefficiencies in minimum wage regulations to allow for greater coverage and adequacy, could lead to gains of about €22 billion per year.[904] This only takes into account the efficiency gains at the budgetary level, while even more significant gains are to be expected in terms of positive spillovers on the economy of reduced inequality and improved standards of living.

More detailed analysis of the potential benefit

In the EU, 20.5 % of men and 22.6 % of women were at risk of poverty and social exclusion (AROPE)[905] in 2020. While progress has been made across the EU in addressing material deprivation (albeit with

[901] K. Muller, C. Navarra and L. Lankova, Improving the quality of public spending in Europe: Social policy, EPRS, 2022.

[902] K. Muller et al., ibid.

[903] M. Raitano et al., Fighting poverty and social exclusion – including through minimum income schemes, DG IPOL, European Parliament, 2021.

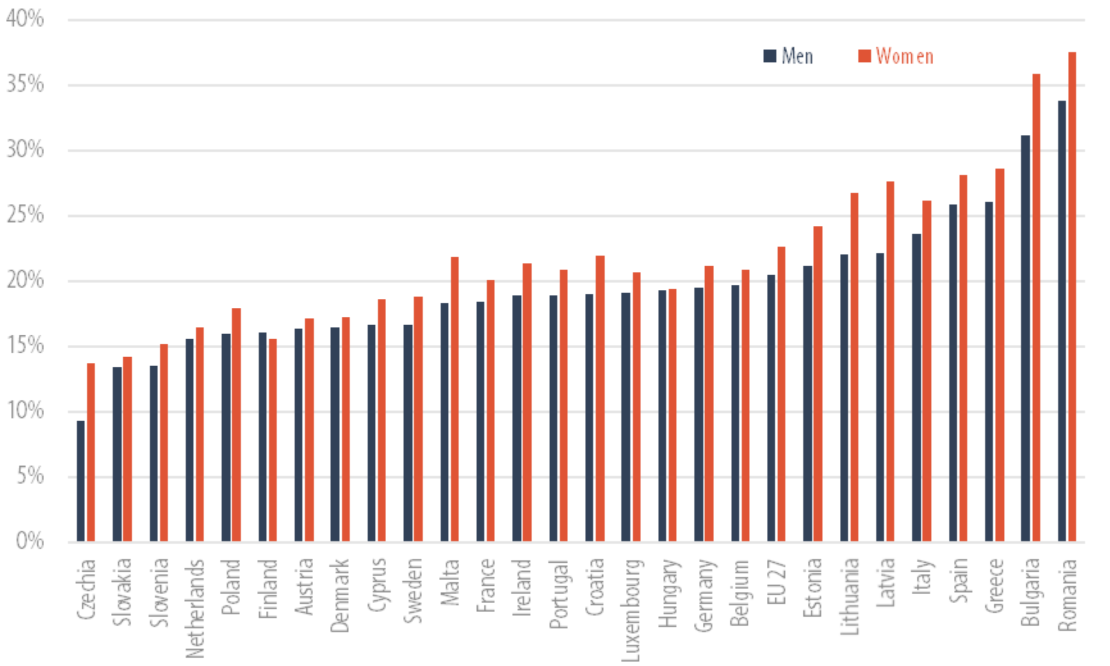
[904] K. Muller et al., ibid.

[905] An indicator that includes severe material deprivation, very low work intensity and income poverty (it covers the monetary dimension and is relative to the rest of the population).

considerable variation between countries), income poverty has not decreased. The limited outcomes obtained in reducing income poverty in the EU are closely related to the limited results in addressing inequalities (income poverty is a measure of relative poverty). Since the 1980s there has been an end to the trend of declining inequalities that occurred after the Second World War, due to the expansion of social provision – financed by progressive taxation – and the increase in the labour share of national income – supported by labour market legislation, collective bargaining and policies aimed at increasing lower wages.[906] Moreover, substantial differences persist across EU Member States, indicating limitations in the process of upward convergence in social standards. This indicates that there is room for further EU action in the area of social policies.

As regards people in employment, the share of people who live below the national poverty thresholds despite having a job is relevant and, in some cases, has increased in recent years; an even greater share are workers classified as 'low wage earners'.[907] In 2018, 15.2 % of EU employees were 'low wage earners'.[908] This is due to several factors, in particular stagnation or decline in real wages, lack of upward convergence of wages (especially in southern Europe), the limitations in adequacy and coverage of minimum wages, and the incidence of precarious employment – in the form, for example, of temporary contracts, false self-employment, involuntary part-time, or zero hours contracts. Women and workers with a migrant background are particularly vulnerable. In the EU; women are more likely to face poverty and are disadvantaged on the labour market.[909] In most Member States, the majority of minimum wage earners are women, and also women are more likely in most cases to be 'low wage earners' and, which shows a 'feminisation' of low-paid jobs.[910]

Figure 33: Share of population at risk of poverty and social exclusion by gender and Member State



906 A. Atkinson, Inequality: What can be done, Harvard University Press, 2015.

907 The share of men who are low wage earners over men employed in the EU is 12.5 %, while for women this share is 18.2 % (Eurostat, EARN_SES).

908 K. Muller et al., ibid.

909 See sub-chapter 43.

910 K. Muller et al., ibid.

Source: EPRS, based on Eurostat data (from 2020).

The EU could, on the one hand, support broad approaches to tackling poverty and intersectional inequalities, including sustaining **minimum income schemes**. As underlined by a recent study[911] carried out on behalf of the Parliament's Employment and Social Affairs (EMPL) Committee, the EU could support minimum income schemes in Member States by ensuring that these schemes abide by minimum standards to ensure livelihood in dignity, that they are designed in a way that does not exclude the vulnerable or include discriminatory rules against specific categories (e.g. youth, people with a migrant background, etc.), but that they converge towards higher protection standards across Member States. From an efficiency perspective, the EU could allow for savings in the costs of financing (since the EU can borrow money on much more favourable conditions than some Member States can do on their own), for the possibility of risk pooling (business cycles within the EU are correlated imperfectly), and for implementing anti-poverty measures on a bigger scale, which can lower the cost of provision.[912]

On the other hand, the EU could support an increase in the level of **minimum wages** (and their purchasing power) to guarantee adequate standards of living, which would have a specific impact on gender inequalities, given the feminisation of low-paid jobs; the EU could also promote the positive impacts of such an increase on the level of median and average wages.

EU action could also improve the coverage of minimum wages.[913] Moreover, the EU could support additional actions to address other root causes of in-work poverty, including precarious employment, poor protection of workers, and gender inequalities in the labour market.[914] Action on minimum wages should favour upward convergence across the EU to avoid harmful competition on wages and working conditions.

An EPRS study[915] analyses the economic impact of more EU action, based on the possible savings in public expenditure (or a better outcome that can be achieved with the same expenditure).[916] It is possible to approximate the potential impact of better coordination at EU level of anti-poverty social expenditure and minimum wage regulations.[917] Being based only on efficiency considerations, these figures should be considered a lower bound, since they do not include the possible positive spillover effects of reduced incidences of poverty and reduced inequality.

911 M. Raitano et al., ibid.

912 K. Muller et al., ibid.

913 In the EU, six Member States do not have minimum wage regulations, and the other 21 appear to have both adequacy and coverage issues that still leave a large share of workers in low-wage status and poverty.

914 This could take into account the relevance of care work (see sub-chapter 43) and the positive impact of public sector employment on the increase of mid- and high-wage employment for women (Eurofound, European Jobs Monitor, 2021).

915 K. Muller et al., ibid.

916 This is calculated using the 'budgetary waste rate' methodology: the idea is to compare all Member States and to calculate the gain if all were on the 'frontier' defined by the combination of expenditure and results obtained by the 'better performing' countries. This can be applied to social expenditure and reduction of poverty outcomes, but needs to be adapted for minimum wage regulations, since this is a measure that does not have a budgetary implication. In this case, the calculation is based on the number of 'low wage earners' that would be lifted from the low-wage condition if minimum wages were working effectively. For more details, see K. Muller et al., ibid, and the annexed research paper.

917 The result is the sum of potential gains in the two policy areas; in the case of anti-poverty measures, this is the mid-point of the estimation of the impact on inequality and on poverty indicators, assuming that they cannot be summed up because of overlaps.

Table 16: EAVA – Summary table

Policy areas	Expected impact measured on...	Potential efficiency gain of public spending
Anti-poverty measures (e.g. minimum income schemes)	Inequality and capacity of social policies to reduce poverty rate	€15.7 billion per year
Minimum wage regulations	Share of low-wage earners	€6.1 billion per year
Total		€21.8 billion per year

Source: EPRS.

European Parliament position

In a number of resolutions the European Parliament has called for social sustainability to be anchored in the ASGS (Annual Sustainable Growth Survey, published by the European Commission as the first step of the European Semester), for robust social welfare systems and for the establishment of a European unemployment reinsurance scheme.[918] As early as 2017, the Parliament called for a minimum income policy,[919] and it continues to call for a binding instrument.

In its resolution of February 2021, the Parliament requested an overarching European anti-poverty strategy and called on the Commission to present an EU framework on minimum income.[920] In this resolution, it calls for 'the Commission and the Member States to achieve the goal of comparable living conditions through upward social and economic convergence, to counter the increasing inequalities within and between Member States and to increase solidarity'. The Parliament 'encourages the Member States to strengthen collective bargaining systems and to ensure minimum social protections and a social security system for all age groups; stresses that these objectives can be achieved through instruments such as, but not limited to, a minimum income, minimum wages and minimum pensions'. In the same resolution, the Parliament demonstrated its awareness of the impact of non-standard employment.

In a 2019 resolution, the Parliament called for 'measures to ensure adequate minimum wages and fair remuneration',[921] and in 2021 it voted in favour of entering into negotiations on the Commission's proposal on minimum wage. The report underlines that minimum wages must be adequate and fair, and guarantee a decent standard of living. The Parliament states that statutory minimum wages should be considered a threshold of decency, and that Member States should monitor and report on the adequacy of statutory minimum wages[922] and support collective

918 European Parliament resolution of 22 October 2020 on the employment and social policies of the euro area 2020 (2020/2079(INI)), and European Parliament resolution of 11 March 2021 on the European Semester for economic policy coordination: Employment and Social Aspects in the Annual Sustainable Growth Strategy 2021 (2020/2244(INI)).

919 European Parliament resolution of 24 October 2017 on minimum income policies as a tool for fighting poverty (2016/2270(INI)).

920 European Parliament resolution of 10 February 2021 on reducing inequalities with a special focus on in-work poverty (2019/2188(INI)).

921 European Parliament resolution of 10 October 2019 on employment and social policies of the euro area (2019/2111(INI)).

922 This can be guided by the international reference values of 60 % of the median gross wage and 50 % of the average gross wage in a country.

bargaining; public procurement procedures should be supportive in this context.[923] Moreover, in its resolution of 17 December 2020, Parliament 'insists that statutory minimum wages are set at a level above a decency threshold, with the full involvement of social partners, as this contributes to eliminating in-work poverty, guaranteeing an income for every worker above the poverty level'.[924]

The Parliament has recalled that women continue to face inequalities on the labour market, such as the gender pay gap and job insecurity, as well as being more affected by poverty and social inclusion,[925] and has called for greater ambition on equal pay between men and women[926] and on closing the gender pay gap.[927]

Commission and Council responses so far

One of the major innovations brought about by the Europe 2020 strategy for smart, sustainable and inclusive growth, adopted in 2010, was a new common target in the fight against poverty and social exclusion: to reduce by 25 % the number of Europeans living below the national poverty line and to lift more than 20 million people out of poverty. As the target was not achieved, in March 2021 the Commission included a new headline target of reducing the number of people in poverty by at least 15 million (including at least 5 million children) by 2030 in the European Pillar of Social Rights Action Plan.[928]

As regards minimum income policies, the Commission proposes a Council Recommendation for 2022 in its Action Plan on the implementation of the European Pillar of Social Rights.

On 28 October 2020, the Commission published its proposal for a directive on adequate minimum wages in the European Union.[929] The proposal seeks to ensure that minimum wages are set at an adequate level, and that each worker can earn a decent living in the EU. It does not oblige Member States to set statutory minimum wages or set their levels, but it does support actions to strengthen collective bargaining in Member States and their coverage.

Looking forward

As regards minimum wages, the next steps will focus on the Member States' implementation of the directive adopted by the co-legislators,[930] while, as regards minimum income policies, the debate is still open and will follow the EPSR Action Plan.

923 European Parliament, Legislative train schedule – Fair minimum wages for workers in the European Union.

924 European Parliament resolution of 17 December 2020 on a strong social Europe for Just Transitions (2020/2084(INI)).

925 European Parliament resolution of 15 December 2020 on Equality between women and men in the European Union in 2018-2020 (2021/2020(INI)).

926 'MEPs want more ambition in Action Plan for implementation of European Pillar on Social Rights', Press release, Agence Europe, 6 March 2021.

927 Report on the proposal for a directive on the adequate minimum wages in the EU, European Parliament, November 2021.

928 Communication on The European Pillar of Social Rights Action Plan, COM(2021) 102 final, European Commission.

929 Proposal for a directive on adequate minimum wages in the European Union, COM(2020) 682 final, European Commission.

930 Not yet published in the Official Journal of the European Union.

A future challenge will be to incorporate the important steps taken in the field of minimum wages and the existing debate on minimum income policies within a broad approach[931] to address social inclusion and intersectional inequalities,[932] using both redistributive and pre-distributive measures.[933] This is connected with actions against gender inequalities in the labour market[934] and against discrimination towards migrant workers[935], as well as actions to address other root causes of in-work poverty, including precarious employment and poor protection of workers in some categories.

[931] K. Muller et al., ibid, 2022.

[932] European Parliament, Policy Department for Citizens' Rights and Constitutional Affairs, Precarious work from a gender and intersectionality perspective, and ways to combat it, 2020.

[933] M. Reitano et al., ibid.

[934] See sub-chapter 43. For example, the public sector, including at EU level, can act as a creator of employment: a recent Eurofound study finds that the most relevant part of the creation of mid- and high-pay employment for women in recent years has been in the public sector.

[935] See sub-chapter 46.

31. Free movement of workers

Potential benefit: €104 billion per year

Key proposition

The fundamental right of EU citizens to free movement in the European Union is enshrined in the Treaties, which give EU citizens the right to seek a job in another EU Member State, to live in that Member State and to access its labour market. EU citizens pay taxes and contribute to social security in the Member State in which they are resident and have the same rights as nationals of that country.

Among EU citizens of working age (20-64), around 4 % resided in a Member State other than their own in 2020. This level of mobility is relatively low, compared, for example, to the United States, another integrated continental economy, where usually more than 2 % of citizens move between states each year. While the US and the EU-27 both have free movement in their labour markets, there are at least three main differences: the US has a common language, it has one public employment service, and the recognition of qualifications and university degrees is much easier. The EU has 24 different official languages, 27 different public employment services, and each Member State has its own qualification regime.

In recent years, employment rates have increased for born 'nationals' and 'mobile' EU citizens in the main destination countries, especially when minimum wages and/or collective agreements are in place. The free movement of economically active citizens generally leads to higher employment, higher productivity and income (remittances), and has a positive impact on the flow of taxes and social contributions. However, as vocational qualifications are not fully recognised, the economic potential of such free movement cannot yet be fully realised. It can be estimated that the EU added value – in terms of boosting the collective GDP – achieved in 2020 through free movement of workers to the main destination countries was in the order of €104 billion.

More detailed analysis of the potential benefit

Among EU citizens of working age (20-64), 4.1 % resided in another EU Member State in 2020. The percentage of EU 'mobile' citizens varies greatly between countries, ranging between 1 % for Germans and 19.7 % for Romanians in 2017. According to Eurostat, the employment rate of mobile EU citizens has increased over time and is, at the time of writing, higher than that of the active EU population as a whole: 73.1 %[936] for mobile workers in 2020 compared to 72.4 % for the EU as a whole. According to the latest available figures, the number of people employed in the EU-27 increased by around 9 million between 2010 and 2020. The share of mobile EU-27 citizens in this increase was 2.9 million, or around 32 %.

[936] Eurostat, EU citizens living in another Member State – statistical overview, August 2021.

Intra-EU labour mobility comprises long-term labour mobility (workers residing in another Member State), cross-border mobility (workers living in one Member State and working in another), and posting of workers (workers with an employment contract in one Member State, posted to another).

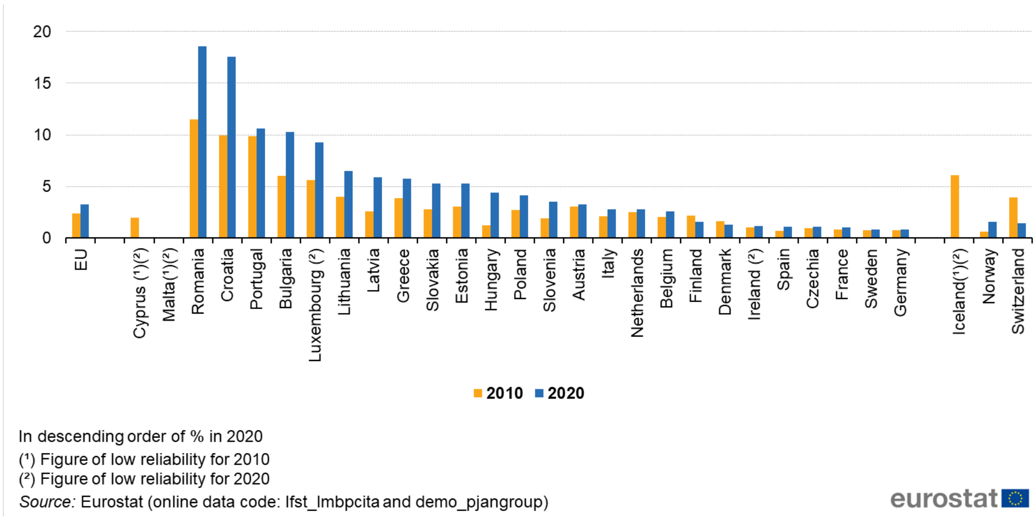
Table 17 – Composition of intra-EU-27 mobility (EU-27 citizens, 2020 type of mobility)

EU-27 citizens (employed) **(As a share of the EU-27 total employment)**	6.4 million 3 %
Cross-border workers in the EU-28 (20-64 years) **(As a share of the total employed in the EU-28)**	1.4 million 0.7 %
Number of postings (posted workers) in the EU-27 in 2019[937]	5.8 million

Source: Eurostat and European Commission.[938]

As far as long-term labour mobility is concerned, around half of all mobile EU-28 citizens are Romanian, Polish, Italian, Portuguese and Bulgarian citizens. Emigration rates in most of the EU-13 Member States remain above the EU average, with the highest found in Romania and Croatia, where emigration is up to three times higher than the EU-27 average (Figure 34). Germany (2.5 million employed) remains by far the most popular country of destination, hosting 39 % of all employed mobile EU-28 citizens. In 2020, the number of mobile EU-27 citizens residing in another Member State had increased by 38 % since 2010.

Figure 34: EU mobile citizens of working age (20-64) by country of citizenship, as a % of home-country resident population



Source: Eurostat.[939]

Between 2010 and 2021, total employment in the EU-27 rose by 5 % (see Table 18). During the same period, the percentage of intra-EU mobile citizens rose by 42 %.

[937] European Commission, Posting of workers – Collection of data from the prior notification tools – Reference year 2019, March 2021.

[938] European Commission, 2018 Annual Report on Intra-EU Labour Mobility.

[939] Eurostat, EU mobile citizens of working age (20-64) by country of citizenship, % of their home-country resident population, 2020.

The increase in employment of mobile EU citizens contributed to the overall increase in employment by 21 %, a remarkable share, given that the percentage of mobile citizens in total employment in 2021 was only 2 %. The impact on the total employment rate is also positive and amounts to more than 1 percentage point on top of the overall employment rate in the EU-27.

Table 18: Change in employment (20 - 64 years) between 2010 (Q2) and 2021 (Q2)

	2010Q2 in thousands	2021Q2 in thousands	2010 - 2021	Increase	Share of total increase	Share of total employment in 2010	Share of total employment in 2021
EU-27 movers	4 483	6 376	1 893	42 %	21 %	2 %	3 %
Non-EU	6 909	8 701	1 792	26 %	20 %	4 %	5 %
Foreigners	11 392	15 139	3 747	33 %	42 %	6 %	8 %
Reporting country	169 319	174 398	5 079	3 %	57 %	94 %	92 %
Total	**180 774**	**189 615**	**8 840**	**5 %**	**100 %**	**100 %**	**100 %**

Source: Eurostat and author's own calculations.

As regards posting of workers,[940] 1.2 % of employment can be related to the employment of posted workers. The share of employed persons was highest in Austria (8 %), Luxembourg (6 %), Belgium (5 %) and Germany (2 %) and exceeded the average of 1 %. However, in most Member States the share of incoming posted workers in total employment of the host Member State was below 0.5 %.

Another important role, in this context, is played by remittances. About 53 % of the total flow in personal remittances in 2020 took place between Member States.[941] EU residents predominantly remit among themselves, accounting for €58 billion out of €111 billion. The major economies for outflows of personal remittances (intra-EU plus extra-EU) are Germany (17.4 % of total outbound remittances), France (11.6 %), Luxembourg (11.3 %) and the Netherlands (10.7 %). Germany, Luxembourg and the Netherlands have their outflows based on income generated through border, seasonal or short-term work; remittance outflows in France mainly stem from personal transfers.

In general, with its open labour market, the incentives to citizens for greater labour mobility in Europe are high, particularly when looking at the spread of gross hourly earnings ratios.[942] For instance, citizens working in Germany and Ireland, with average gross hourly salaries of €17.7 and €18 respectively, enjoy salaries well above those in countries such as Slovenia (€8), Czechia (€6.2), Slovakia (€5.6), Poland (€5), Hungary (€4.4), and especially Romania (€3.7) and Bulgaria (€2).[943]

[940] European Commision, Annual report on intra-EU labour mobility 2020.

[941] Eurostat, Personal remittances statistics, 2021.

[942] Wages can be expressed in euro (used in this context), purchasing power standards or national currency. On average, costs of living are higher in the destination countries, but one single euro sent back to the home country is worth two in Purchasing Power Standard (PPS). The money earned by mobile EU-28 citizens will be spent in the destination country and the home country – sending money home can double PPS.

[943] Eurostat, Median hourly earnings, all employees (excluding apprentices) by sex, last update 4 August 2021.

Labour productivity also varies across the EU. In 2020, the annual compensation per employee in Germany was around €45 200, and even higher in Ireland at €53 500. At the other end of the spectrum were Bulgaria (€10 800) and Romania (€13 100).[944] The productivity gain can be measured by the difference in productivity between the sending and the destination country.

In the EU, a 'mobile' worker is not limited by national borders, when he/she looks for a job. If one compares the productivity of the main sending countries with the main destination countries, the difference – measured in GDP – is huge. The resulting higher productivity levels make it possible to pay higher salaries. One consequence is that the employment rates of mobile EU-27 citizens are significantly higher, because they are younger, more flexible and often over-qualified for the job. If one takes working conditions and wages into account, they often do jobs that could be considered unattractive. Even if the wages of mobile EU-27 citizens are lower than the wages of 'nationals', comparing these wages with the compensation per employee in the main sending countries, the incentives to move remain high.

Based on this reflection, it can be estimated that the EU added value – in terms of boosting the collective GDP – achieved in 2020 through free movement of economically active citizens to the main destination countries was in the order of €104 billion. This calculation represents the lower range, because only 50 % of all mobile citizens are taken into account. The amount would be significantly higher if one included consideration of cross-border workers, posted workers, remittances and the impact on public revenues.[945]

Table 19: GDP gain achieved from free movement to date (2020)

Compensation per employee in main destination countries	€47 000
EU-27 movers' wage level at 85 % of 'nationals'	€39 950
Compensation per employee in main sending countries	€14 500
Difference in compensation	€32 500
EU-27 movers (without cross-border and posted workers)	€6 400 000
EU-13 movers to main destination countries (share of all EU-27 movers around 50 %)	€3 200 000
Difference in compensation multiplied by EU movers in main destination countries	€104 000 000 000

Source of data: Eurostat.

944 Eurostat, Labour productivity and unit labour costs, last update 14 October 2022.

945 A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019.

European Parliament position

Social security coordination has been a fundamental pillar of the free movement of persons since the start of the European integration process. The law on coordinating social security systems within the EU aims to ensure that each EU citizen and third-country national residing in the EU has fair access to social security regardless of the country of stay.[946] In November 2018, the European Parliament's Employment and Social Affairs (EMPL) Committee emphasised the need to: extend the duration of the exportability of benefits; lay down uniform rules for aggregation of periods (insurance periods completed elsewhere should be accumulated); secure greater parity of treatment for cross-border workers; ensure that long-term care benefits for insured persons and their family members continue to be coordinated; and make sure 'parental benefits' replacing income count as personal family benefits for the parent concerned.

Commission and Council responses so far

The agreement reached between the EMPL Committee negotiators and the Council in March 2019[947] was rejected at the Coreper meeting later the same month. The trilogue meetings continued in the new legislative term (2019-2024) but came to a halt on 1 March 2021, because no agreement was possible on the arrangements concerning prior notification before sending a worker from one Member State to another. In December 2021, the Council and the European Parliament again reached a provisional agreement, which was again rejected by Coreper in the same month.[948]

The Posting of Workers Directive[949] has been reviewed in three main areas: long-term posting, the remuneration of posted workers (making it equal to that of local workers, even when subcontracting); and more coherent rules on temporary agency workers, with the changes adopted in 2018. Member States had time to adopt and publish, by 30 July 2020, the national laws, regulations and administrative provisions necessary to comply with this directive.

Looking forward

In recent years, employment rates have increased for nationals and mobile EU citizens in the main destination countries, especially when minimum wages and/or collective agreements have been in place. The free movement of workers leads to higher employment and lowers the flow of unemployment, as well as leading to higher productivity and income (remittances), and has a positive impact on taxes and social contributions. However, vocational qualifications are not yet fully mutually recognised, so the potential economic benefit of free movement cannot be realised to its full extent. Efficiency gains could still be achieved in ways that further increase employment/employment rates and increase the wages of young and qualified mobile EU-28 citizens, which result in higher remittances and increased productivity.

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946 European Commission, EU social security coordination, 2022.

947 European Parliament, Fairer and clearer rules on social benefits for EU mobile workers agreed, Press release, 19 March 2019.

948 European Parliament, Legislative train schedule – Labour Mobility Package, 2022.

949 Directive (EU) 2018/957 of the European Parliament and of the Council of 28 June 2018 amending Directive 96/71/EC concerning the posting of workers in the framework of the provision of services.

32. Promotion of pathways for legal migration and access to employment

Potential benefit: €37.6 billion per year

Key proposition

Meeting the EU's goals for smart, sustainable and inclusive growth requires a comprehensive EU labour migration policy. However, the current policy framework has a number of weaknesses that include the limited pathways for third-country nationals (TCNs) to live and work in the EU and the insufficient attention paid to the labour market potential of TCNs already present in the EU. The COVID-19 pandemic underscored the importance of migrants in the EU economy, while studies have highlighted their vulnerabilities in the EU labour market. These vulnerabilities are due, among other factors, to gaps in the EU legal migration framework.

The EU could develop pathways for legal and safe migration, including new pathways to attract specific groups of TCNs to the EU in order to address the structural needs of the economy. Such groups could include youth, low- and medium-skilled workers, and entrepreneurs. The EU could also play a role in facilitating access to employment and social inclusion of TCNs already present in the EU, especially for students who have studied in the EU, family members of migrants, and asylum-seekers and refugees. EU action could lead to an increase in the EU's GDP of about 0.27 %, or about €37.6 billion per year. More gains could be generated if supplementary measures were taken to address the discrimination faced by migrants.[950]

The potential benefits of EU action also include greater protection of fundamental rights and the bolstering of solidarity with third countries. It could also support a global governance approach that is oriented towards sustainable development.[951] Given the intersectional nature of inequalities in the labour market, women migrants are likely to benefit disproportionately, thus contributing to a reduction in gender inequalities.[952]

More detailed analysis of the potential benefit

An EPRS study investigated the challenges and the potential benefits of EU action in the area of legal migration.[953] The research found that TCNs play an important role in meeting the structural needs of the EU economy.

An analysis conducted during the COVID-19 pandemic estimates that 13 % of essential workers in the EU are TCNs.[954] However, the lack of a holistic approach in EU migration policies, and a

[950] See sub-chapter 46 for more information about actions that could be taken to tackle migrant discrimination.

[951] See sub-chapter 49 for more information about actions that could promote a multilateral approach.

[952] See sub-chapter 43 for more information about actions that could be taken to tackle gender inequality.

[953] M. Fernandes and C. Navarra, Legal migration policy and law, EPRS, 2021.

[954] F. Fasani and J. Mazza, Immigrant Key Workers: Their Contribution to Europe's COVID-19 Response, 2020.

fragmented framework, still limit the recognition of their contribution, creates situations of vulnerability and discrimination and limits the harnessing of their potential.[955]

The research found that the lack of legal pathways and employment inclusion in some cases prevents the structural needs of the EU economy and society from being met and in other cases creates situations where essential workers are the least protected, especially if they are irregular migrants, or are without an employment permit (e.g. asylum-seekers). Care work[956] showcases a situation where a structural need is not met or is often met by persons engaging in precarious work conditions that may also be irregular. Workers in this sector are most often women, which indicates that there is an intersectional dimension to their vulnerabilities.[957]

Together with the lack of legal pathways, another factor that contributes to the gaps in the status quo is the lack of pathways for integration in the labour market for a significant share of TCNs living in the EU, which was estimated at 24 million persons (or about 5.3 % of the EU's population) in 2021.[958]

Being a migrant for humanitarian reasons (asylum seeker or refugee) and for family reasons reduces access to the labour market. This can be seen in the red area of Figure 35: for a family member of a TCN or an asylum seeker, the probability of being employed is lower than for a 'similar' person (same age, education, field of studies, etc.) who is not (vertical line). On the contrary, having a long-term resident permit (blue area) substantially increases the probability of being employed, which underlines the benefits of a secure residence status (blue area of Figure 35).

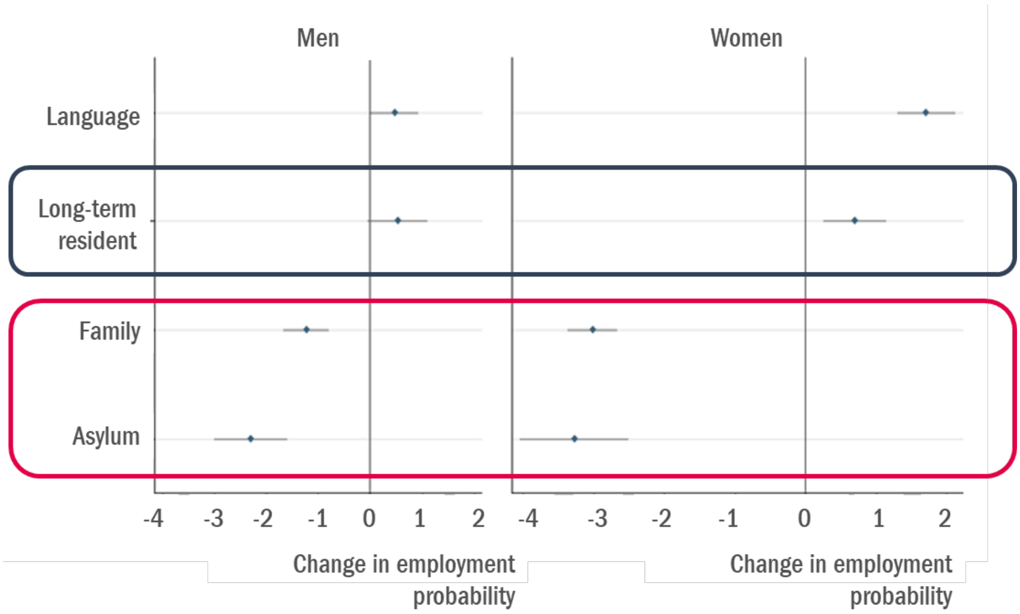
[955] See sub-chapter 46 for more information about actions that could be taken to tackle migrant discrimination.

[956] M. Fernandes and C. Navarra, [What if care work were recognised as a driver of sustainable growth]?, EPRS, 2022.

[957] C. Fiadzo et al., [Precarious work from a gender and intersectionality perspective, and ways to combat it], European Parliament, 2020.

[958] Eurostat, Migration and migrant population statistics, January 2021.

Figure 35: Factors in employment among third-country nationals



Note: Plotted coefficients (selected) are from regressions using the EU Labour Force Survey, which in addition control for marital status, age, education, field of studies, country of residence, years of stay, and other reasons of migration, language. The sample includes TCNs between 20 and 64 years old.

Source: M. Fernandes and C. Navarra, Legal migration policy and law EPRS, 2021, Annex 1.

The EPRS European added value assessment[959] explores a number of possible policy options at EU level to address these issues. These are summarised in Table 20 and belong to two main areas:

1. Facilitating access to the labour market for TCNs already residing in the EU (students, family members of other migrants, asylum-seekers and refugees).
2. Developing new pathways for legal labour migration, focusing especially on youths, low- and medium-skilled workers, and start-up entrepreneurs.

These policy options are expected to improve the protection of fundamental rights, avoid labour exploitation and reduce discrimination against migrant workers on the labour market, reduce irregular migration and improve relationships with third countries.[960]

In economic terms, these policies act on the demand side of the labour market, removing barriers to hiring TCNs, facilitating enterprise creation, and reducing the productivity gap between migrant and national workers in sectors where there is excess labour demand. This reflects in increased productivity and human capital and translates into an aggregate economic gain that has been estimated for some of the options (in bold in the table), using macroeconomic modelling tools (see last column).

Facilitating access to the labour market for refugees, asylum-seekers and family members of other TCNs could increase GDP by 1.11 %, or by about €15.3 billion per year. Mobility schemes for entrepreneurs[961] could bring a GDP increase of 0.09 %, or about €12.52 billion per year. Skill Mobility

[959] M. Fernandes and C. Navarra, ibid.

[960] See sub-chapter 46 for more information about actions that could be taken to tackle migrant discrimination.

[961] Not to be confused with investor schemes, which do not have an active investment component (see sub-chapter 38).

Partnerships,[962] including a training component, could increase GDP by 0.02 % or about €2.78 billion per year, net of the costs of implementation and training. The implementation of these measures together could bring substantial benefits and an increase in EU-27 aggregate GDP of about 0.27 %, which translates to about €37.6 billion per year. Impacts on wages for both TCNs and nationals are expected to be small but positive.

The impact of implementing all policy options together is bigger than the simple sum of each impact, indicating positive complementarities between them.

[962] According to recent research, the most promising model is the so-called 'Global Skill Partnerships' model (e.g. M. Clemens, H. Dempster and K. Gough, Maximizing the Shared Benefits of Legal Migration Pathways: Lessons from Germany's Skills Partnerships, Centre for Global Development, 2019), where support for vocational training in countries of origin is also provided for non-migrants, to maximise the development impact. According to the EPRS study, the EU could play a role in ensuring that Skill Mobility Partnerships go hand in hand with equal treatment of migrant and national workers (see sub-chapter 46) and that they are not used as a conditional tool for other migration management aims (e.g. irregular migration controls or readmission agreements).

Table 20: Summary table

Policy option	Sub-options	Channel for macro-economic impact	Economic benefits per year
Facilitate access to regular work for TCNs already present in the EU	**2a. Students**	Impact not quantified	
	2b. Family members	Reduction of hiring barriers and 'frictions' for migrants for family and humanitarian reasons, leading to improved allocation of human capital.	€15.3 billion
	2c. Asylum-seekers		
New legal channels for migrants to enter the EU	**3a. Mobility schemes for entrepreneurs**	Reduction of entry barriers for start-up entrepreneurs in the EU, leading to higher creation of firms in the EU.	€12.5 billion
	3b. Skilled refugees' mobility scheme	Impact not quantified.	
	3c. Support Skill Mobility Partnerships	Narrowing the gap in training between migrant workers and nationals of the country of destination, leading to improved allocation of human capital in sectors where there is excess labour demand.	€2.8 billion
Joint impact of the policy options			€37.6 billion

Source: EPRS.

Note: The joint implementation of all the policy options could generate benefits that are larger than the sum due to the complementarity between the options.

European Parliament position

For many years, the Parliament has voiced the need for more EU action in the area of legal migration. In its 2016 Resolution on the situation in the Mediterranean and the need for a holistic EU approach to migration,[963] it called for a comprehensive legal labour migration policy. In May 2021, in its own-initiative report on new avenues for legal labour migration, it stated that 'the New Pact on Migration and Asylum does not include any specific proposals on legal labour migration, despite legal labour migration being indispensable for a comprehensive migration and asylum policy'.[964]

In a legislative own-initiative report on Legal Migration Policy and Law voted in November 2021,[965] the Parliament states that 'in order to face upcoming demographic challenges in Member States [...] which will produce significant labour shortages at all skill levels, the Union needs to present new avenues for legal labour migration to the Union'.

[963] European Parliament resolution of 12 April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration (2015/2095(INI)).

[964] Report on new avenues for legal labour migration (2020/2010(INI)), European Parliament, 2021.

[965] European Parliament resolution of 25 November 2021 with recommendations to the Commission on legal migration policy and law (2020/2255(INL)).

The Parliament welcomes the revised Blue Card Directive 'but considers it insufficient due to the fact that the labour markets of the Union are also in need of low and medium-skilled workers'. It acknowledges the role of migrant workers in 'essential' sectors and the link between the residence rights and the protection from the risk of labour exploitation. It proposes a number of amendments to the Single Permit Directive and to the Long-Term Resident Directive to make them more accessible and attractive.

Commission and Council responses so far

On 22 June 2022, the Permanent Representatives to the European Union adopted the main elements of the first stage of the European policy reform on asylum and migration. Following the 'Fitness Check' (2018-2019), which highlighted the fragmentation of the EU framework on legal migration, the Commission proposed the 'New Pact on Migration and Asylum' (2020). Still, as acknowledged by the Parliament, the New Pact did not substantially address legal migration, besides announcing 'soft' tools, i.e. 'setting out the options for developing an EU Talent Pool' and 'develop[ing] EU Talent Partnerships with key partner countries to facilitate legal migration and mobility'. These two aspects were further developed in a 2022 communication on 'Attracting Skills and Talents'[966] that is based on three 'pillars': a legislative one (the recast of the Long Term and the Single Permit Directives), an 'operational' one based on support for Talent Partnerships and an EU Talent Pool, and a further focus on specific categories (youth, care sector and innovation).

In June 2022, the Permanent Representatives to the European Union commenced, under the French presidency, the negotiations to reform the EU's policies on migration and asylum.[967] The Council will begin its review of the Long-Term Residence Directive and the Single Permit Directive under the Czech presidency.

The Commission has also proposed a revision of the Blue Card Directive, which was adopted in October 2021, to address the shortcomings identified by the Fitness Check. In 2022, it proposed a revision of the Long-Term Residents Directive[968] and of the Single Permit Directive,[969] in order to facilitate the use of these two EU-level legal tools.

Looking forward

The negotiations on the revision of the Long-Term Residents Directive and the Single Permit Directive are ongoing. There are some differences between the positions of the Parliament and the Commission – for example, the length of the residence period required to apply for long-term residence status. Further initiatives are expected to provide details on and support the delivery of the 'Attracting Skills and Talents' package.

966 Communication on Attracting skills and talent to the EU, COM(2022) 657 final, European Commission.

967 French Presidency of the Council of the European Union, Asylum and Migration: The Council adopts the first stage of the phased Pact, June 2022.

968 The 2011 Directive regulating the possibility for TCNs who have legally and continuously resided in a Member State for five years to obtain 'EU long-term resident' status and associated rights.

969 Directive 2011/98.EU regulating the single application/permit and equal treatment provisions for TCNs applying for a residence and work permit in a Member State, as well as a common set of rights to be granted to legal immigrants.

33. European structural and investment funds

Potential benefit: €120 billion per year

Key proposition

The European structural and investment funds (ESIF)[970] are the largest investment instruments under the EU budget, accounting for more than €460 billion, with the reduction of disparities being their main objective.[971] To maximise the impact of the investment, Member States concentrate EU funding on a limited number of objectives and focus on specific territorial challenges. The highest share of the ESIF funds is thus directed to the 'less developed regions', whose GDP per capita is lower than 75 % of the EU average, and to 'transition regions' with a GDP per capita between 75 % and 90 % of the EU average. Nevertheless, the ESIF funds and their investment objectives had to be adapted severely due to the COVID-19 pandemic, which presented extraordinary and challenging circumstances for their implementation. As a response, authorities offered Member States swift support and allowed funds to be mobilised to support the recovery from the emergency and to provide liquidity and financial support for urgent needs in the health, business and social sectors.

An IMF working paper[972] estimated the role of public investment and ESIF in boosting growth, crowding-in private investment and supporting employment in the 27 EU Member States. As far as the sector-specific perspective is concerned, one can emphasise the effect of ESIF on activities that are essential for a robust and sustainable recovery (e.g. healthcare and education). There are also significant differences between countries, especially for Member States in central and eastern Europe, which are the main recipients of ESIF funds.

One finding is that the spending of ESIF funds is followed by an increase in output, whereby part of the response in terms of GDP is related to private investment and is 'crowded in' by public investment. Both impacts correspond to a cost of non-Europe of at least €260 billion per year. However, more recent estimates, based on modelling by the European Commission and the European Central Bank (ECB) on the impact of Next Generation EU (NGEU), would give a long-term GDP impact of around €120 billion per year, as illustrated in the next paragraph.

More detailed analysis of the potential benefit

ESIF is implemented through several funds. In the 2014-2020 programming period, ESIF had a profound impact on national budgets and increased the funding available for public investment. In less developed Member States, cohesion policy is the main source of financing for regional development policies.

970 These are the European Regional Development Fund (ERDF) (€226 billion), the European Social Fund (ESF) (€99 billion) and the Cohesion Fund (CF) (€48 billion), but also the European Agricultural Fund for Rural development (EAFRD) (€87 billion) and the European Maritime and Fisheries Funds (EMFF) (€7 billion).

971 European Commission, 2021 Summary Report on the Implementation of the ESIF, December 2021.

972 IMF Working Paper, The Fiscal Multiplier of European Structural Investment Funds, April 2021.

Together with €461 billion of EU financing, complemented by national co-financing, at the end of 2020 ESIF had triggered up to €640 billion of total investment (REACT-EU not included). Cohesion policy had supported more than 1.4 million enterprises, 1 544 kilometres of railway lines had been laid or upgraded, 11.3 million people had benefited from flood-protection measures, investment in childcare and education infrastructure had improved or increased capacity for 19.8 million children or students, and healthcare facilities had provided and improved services for 53.5 million people. Up to 2020, Member States had received more than 55 % of the funds; co-financing is eligible until the end of 2023.

Under the Coronavirus Response Investment Initiative package (CRII and CRII+), Member States re-allocated around €21.3 billion of cohesion funds: €7.4 billion was re-allocated to the healthcare sector, €11.5 billion to SMEs via favourable loans and emergency grants, and €4.1 billion to vulnerable groups. In addition, Member State authorities placed €50.6 billion into Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU). The first payments were made on 28 June 2021, with the formal allocation of €36 billion up to November 2021. ESIF funds allocated €275 billion for sustainable growth, €189 billion for smart growth, €174 billion for inclusive growth, €6 billion for efficient public administration, €31 billion for territorial and urban development and €12 billion for territorial cooperation. ERDF and CF 2014-2020 accounted for around 10 % of the total public investment carried out across the EU-27.

In December 2020, the European Council approved the regulation for the 2021-2027 Multiannual Financial Framework and the NGEU recovery instrument. The former is especially important, since it defines budgetary allocations for ESIF. EU cohesion policy in 2021-2027 will focus on sustainable economic competitiveness through research and innovation, digital transition, the European Green Deal objectives and the promotion of the European Pillar of Social Rights, and will be implemented through four structural and investment funds: the ERDF, the CF, the ESF+ and the Just Transition Fund (JTF).

Visibility of EU-funded projects is one of the priorities of EU cohesion policy. According to the Flash Eurobarometer 497 survey,[973] in 2021 41 % of citizens had heard about EU co-financed projects in the area in which they live. In 10 Member States, a majority of respondents had heard of EU co-financed projects, and their awareness correlates positively with the share of ESIF funds in public investment in their country. The rates range from 82 % in Poland, 73 % in Slovakia and 70 % in the Czech Republic to 19 % in Belgium, 18 % in the Netherlands and 16 % in Denmark. In all but two Member States, the majority of respondents think that regions of high unemployment should be targeted by investments. From the citizens' point of view, 42 % think that the EU should invest in the environment.

The COVID-19 crisis highlighted, once again, the decisive role of fiscal policy, which was key in limiting the negative impact on GDP in 2020. A recent IMF working paper estimated the role of public investment and ESIF in boosting growth, crowding-in private investment, and supporting employment in the 27 EU Member States. As far as the sector specific perspective is concerned, one can emphasise the effect of ESIF on activities that are essential for a robust and sustainable recovery (e.g. healthcare and education).

[973] European Commission, Flash Eurobarometer 497 'Citizens' awareness and perception of EU regional policy', October 2021.

There are also significant differences between countries, especially for Member States in central and eastern Europe, which are the main recipients of ESIF funds. One finding is that 'shocks to ESI Funds are followed by an increase in output that ranges from 1.2% on impact, to 1.8% after 1 year'.

Part of the response in terms of GDP is related to private investment and is 'crowded in' by public investment. 'A 1% increase in ESI Funds' investments increases private investment by around 0.7-0.8% of GDP'. This corresponds to a cost of non-Europe of at least €260 billion per year.

A more interesting approach, using the simulation results on the economic impact of the Investment Plan for Europe ('Juncker Plan'),[974] would suggest a long-term structural GDP impact of around €90 billion per year. More recent estimates, based on modelling by the European Commission and the ECB on the impact of NGEU,[975] would give a long-term GDP impact of around €120 billion per year.

This appears to be a reasonable and appropriate estimation given the relative similarities between the scope and the projects supported, although it is worth mentioning that there are no further studies and estimations of the possible effects of ESIF, even though all of the instruments that were implemented helped to cushion the destructive consequences of the COVID-19 pandemic, which could otherwise have had catastrophic consequences.

European Parliament position

The European Parliament held an extraordinary plenary session on 16-17 April 2020 to continue with work on measures to combat the COVID-19 pandemic. The Parliament approved the Coronavirus Response Investment Initiative (CRII) and Coronavirus Response Investment Initiative Plus (CRII+) on 26 March 2020. During its plenary session on 17 September 2020,[976] the Parliament adopted its amendments to the Commission proposal, including recommending an increase in the MFF part of the JTF to over €25 billion (in 2018 prices). The final agreement between the Parliament and the Council, reached in December 2020, confirmed the JTF budget of €17.5 billion (€7.5 billion from the core EU budget under the MFF and €10 billion from NGEU).

Commission and Council responses so far

As a response to the COVID-19 pandemic, on 13 March 2020 the Commission proposed CRII and CRII+. Within the second package they included a legislative proposal to provide flexibility for ESIF. The Commission proposed amendments with respect to the ERDF and common provision regulations that set out rules governing the use of ESIF.

The Commission proposed a 100 % temporary financing possibility from the EU budget from 1 July 2020 to 30 June 2021 for all programmes due to the possible impact of the pandemic. They also proposed several simplification measures with respect to reporting and auditing of ESIF.

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974 European Investment Bank, Macroeconomic Impact of the European Fund for Strategic Investments, 2021.

975 K. Bańkowski et al., The macroeconomic impact of the Next Generation EU instrument on the euro area, Occasional Paper Series 255, European Central Bank, January 2021; K. Bańkowski et al., The economic impact of Next Generation EU: a euro area perspective, Occasional Paper Series 291, European Central Bank, April 2022; P. Pfeiffer, J. Varga and J. In 't Veld, Quantifying Spillovers of NGEU investment, European Economy Discussion Papers, July 2021.

976 A. Widuto and P. Jourde, Just Transition Fund, EPRS, 2021.

On 27 May 2020, the Commission presented the REACT-EU package as part of Next Generation EU and as a bridge to the long-term recovery plan. The instrument of €47 billion was firstly available under the 2014-2020 programmes and in addition to the cohesion allocation of the current 2021-2027 period, thereby fuelling liquidity, fostering simplification and providing flexibility.

On 17 December 2021, the Commission published the 2021 Summary Report on the Implementation of the ESIF, which included cumulative achievements from 2014 to 2020. The Commission evaluated that ESIF, together with national co-financing, triggered overall investment of €640 billion (REACT-EU not included) to foster lasting socio-economic convergence and support a smooth digital and green transition, territorial cohesion and resilience.

The Commission also started formal negotiations on partnership agreements with the Member States to set out their national plans on how to use the funds.[977]

Looking forward

The response to the COVID-19 pandemic showed how quickly the investment strategies can be adapted, since, in 2020 alone, more than €20 billion was re-allocated. For the EU to recover completely from this crisis and become more resilient, it should speed up the green and digital transition.

New legislation provides major support and offers Member States additional flexibility to transfer resources. Synergies between different EU instruments are encouraged through the strategic planning process, identifying common objectives and common areas for activities across different programmes, and, in addition, territorial cooperation will be streamlined.

[977] European Commission, Partnership Agreements of EU funds 2021-2027, July 2021.

34. Digitalisation of European reporting, monitoring and audit

Potential benefit: €1.7 billion per year

Key proposition

The rules governing monitoring and reporting obligations relating to the implementation of EU funds under shared management have been subject to several revisions. Currently, there are 292 systems in place to report on the implementation of the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).[978] This fragmentation makes data incomparable, prevents the use of digital tools such as AI for monitoring and control, and makes it difficult to get a comprehensive overview of the beneficiaries of EU funds.

Common EU action to harmonise monitoring and reporting obligations would bring several economic and societal benefits, such as more efficiency, transparency and a decrease in errors and fraud. The Common Provisions Regulation, as well as the ongoing revision of the Financial Regulation, provide scope for EU action in this area.

This sub-chapter builds on the outcomes of the European added value assessment (EAVA) of the digitalisation of European reporting, monitoring and audit, prepared by EPRS in October 2021. The Committee on Budgetary Control (CONT) of the European Parliament requested the analysis to support its preparation of a legislative initiative (2021/2054(INL)).[979] The EPRS analysis identified gaps and barriers in the reporting, monitoring and audit of EU funds and concluded that EU action is necessary to address these gaps. The analysis assumes that EU action to support access to better quality of and timely access to data could bring potential benefits of **€1.74 billion** per year, corresponding to a lowering of the error rate to 2 %.

More detailed analysis of the potential benefit

The Commission's cohesion data platform visualises information on more than 533 national, regional and interregional programmes from national and regional authorities.[980] As the data come from different reporting systems, fragmentation remains high. The Commission has also launched a pilot project called Kohesio, a comprehensive database offering transparent access to up-to-date information on projects and beneficiaries covering the 2014-2020 financing period. Kohesio should progressively enrich the database with projects covered by the 2021-2027 period; it aims to bridge the fragmentation gap, eventually giving access to all projects and beneficiaries.[981]

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978 The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, CEPS, May 2021, requested by the CONT Committee.

979 European Parliament resolution of 23 November 2021 with recommendations to the Commission on digitalisation of the European reporting, monitoring and audit (2021/2054(INL)).

980 Cohesion Open Data Platform, European Commission, consulted in March 2022.

981 Kohesio project website, consulted in March 2022.

A report by EPRS[982] identified gaps and barriers in the monitoring, reporting and audit rules for programmes under shared management and assessed their impact. The list of gaps and barriers includes the complexity of the current rules, lack of transparency, irregularities and errors, quality and availability of data, the digital skills gap, lack of interoperability, costs and lack of clarity regarding ultimate beneficiaries.

The assessment of the impacts of the identified gaps and barriers builds on data published in the annual audits by the European Court of Auditors (ECA) from 2019 and 2020.[983] When auditing the implementation of the EU budget, the ECA takes into consideration the 'material level of error', a threshold below which errors are not considered to have a significant impact. Based on the overall estimated level of error, the ECA issued an adverse opinion on the legality and regularity of expenditure for the 2019 and 2020 accounts, as the effects of the errors are considered to be material and pervasive.[984]

The ECA examines the regularity of transactions as well as the Commission's annual activity reports, and provides outcomes for spending programmes corresponding to headings of the multiannual financial framework (MFF). Table 21 provides an overview of the budget and the likely level of error for two categories of spending under shared management – economic, social and territorial cohesion, and natural resources.

Table 21: Overview of the estimated level of error per spending area in 2019 and 2020

Spending areas	Budget subject to ECA audit (2019)	Estimated most likely level of error (2019)	Budget subject to ECA audit (2020)	Estimated most likely level of error (2020)
Economic, social and territorial cohesion*	€28.4 billion	4.4 %	€48.4 billion	3.5 %
Natural resources**	€59.4 billion	1.9 %	€60.3 billion	2.0 %

Source: Author's compilation and calculations based on the 2019 EU audit and 2020 EU audit, ECA.
* The European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and other schemes.
** The common agricultural policy (CAP) and the common fisheries policy are part of EU spending on environment and climate.

Table 22 provides an overview of total spending and estimated error rates for 2019 and 2020, including the estimation of potential EU added value that could be achieved by lowering these error rates via timely access to and quality of data.

[982] K. Muller, L. Jančová and N. Lomba, Digitalisation of European reporting, monitoring and audit, EPRS, October 2021.

[983] The EPRS report on Digitalisation of European reporting, monitoring and audit is based on data available at the time of drafting. To provide up-to-date information, data from the 2020 EU audit were added when drafting this section.

[984] 2019 EU audit, 2020 EU audit, European Court of Auditors.

Table 22: Overview of the estimated level of error for overall expenditure, including potential added value of reduced error rate, 2019 and 2020

	Amount	Estimated error rate	Corresponding amount	Potential EU added value
Total spending in 2019	€159.1 billion	2.7 %	€4.3 billion	€1.11 billion
Total spending in 2020	€147.8 billion	2.7 %	€4 billion	€1.03 billion

Source: Author's compilation and calculations based on the 2019 EU audit and 2020 EU audit, ECA.

It is important to note that the error rate level might vary between different expenditure types. While low-risk expenditure is free from material error, this is not the case for high-risk expenditure. These expenditures relate mostly to cost-reimbursement and are subject to more complex rules. More than half of the 2019 audit population is affected by material error.

Table 23 provides a similar analysis of potential EU added value in terms of benefits that could result from lowering error rates via better access to timely and better quality of data, this time for the high-risk expenditure category.

Table 23: Overview of the estimated level of error in high-risk expenditure in 2019 and 2020, including potential added value

	Type of expenditure	Amounts	Estimated level of error	Potential EU added value
Expenditure audited in 2019	Low-risk expenditure	€59.2 billion (46.9 %)	Free from material error	N/A
	High-risk expenditure	€66.9 billion (53.1 %)	4.9 % (€3.28 billion)	€1.94 billion
Expenditure audited in 2020	Low-risk expenditure	€60.6 billion (41 %)	Free from material error	N/A
	High-risk expenditure	€87.2 billion (59 %)	4.0 % (€3.49 billion)	€1.74 billion

Source: Author's compilation and calculations based on the 2019 EU audit and 2020 EU audit, ECA.

The 2021 EPRS report found that there is potential to save EU taxpayers money by lowering irregularities in the management of EU funds. This assumption is based on evidence of the ECA's audit estimating the level of error amounting to 2.7 % in the 2019 expenditure, which can reach up to 4.9 % in the case of high-risk expenditure.[985] The report estimates that having timely access to data and better quality of data could contribute to lowering the error rate by 0.7 percentage points, corresponding to €1.11 billion or, in the case of high-risk expenditure, up to 2.9 percentage points, amounting up to €1.94 billion.[986]

The estimation assumes that better quality and timely access to data could help lower the level of error to at least 2 %, corresponding to the level of material error, which the ECA considers

[985] 2019 Annual reports, 2020 Annual reports, European Court of Auditors.

[986] K. Muller, L. Jančová and N. Lomba, Digitalisation of European reporting, monitoring and audit, EPRS, October 2021.

acceptable. The decrease in the error rate could therefore be understood as the added value of EU action.

Based on the above assessments of the gaps and potential benefits, the EPRS study puts forward three key recommendations:

1. To address the fragmentation, the study recommends revising the monitoring process and requirements on data collection, and establishing a common EU-level database covering all programmes under shared management. Such a database should be open, machine-readable and accessible and fulfil open data requirements.

2. To prevent fraud, conflict of interest and irregularities, the study recommends making active use of an integrated IT data tool, ARACHNE, for mining and enrichment. The tool is free of charge for Member States and the Commission offers technical support and training.

3. To enable identification of beneficiaries of EU funds, the study suggests developing an EU-wide unique identifier as the current national identifiers are not sufficient in the case of companies operating across different EU countries.

European Parliament position

The lack of understanding of who the ultimate beneficiary is remains the main concern for the European Parliament's Committee on Budgetary Control (CONT),[987] which has been advocating for the modernisation of the European reporting, monitoring and audit.[988] In April 2021, the Parliament adopted the 2019 discharge on the general budget of the EU, calling on the Commission to propose a regulation on the establishment of an interoperable IT system to be used by Member States for reporting in a uniform and timely manner on their implementation of EU funds. In June 2021, the Parliament adopted an additional resolution on conflict of interest,[989] raising its concern over the distribution of EU funds and recalling the need to establish an interoperable digital reporting and monitoring system.

In November 2021, the Parliament adopted a resolution requesting the Commission to include, as part of the upcoming revision of the Financial Regulation, necessary legislative proposals to enhance the protection of the Union budget. This should include obligations to provide data on ultimate beneficiaries, including data on beneficial owners of the recipients of EU funding. These provisions should cover projects funded under shared management and under the Recovery and Resilience Facility.[990]

The CONT Committee working document[991] also highlights the fact that a relevant and reliable estimated level of error is key in monitoring and estimating whether expenditure complies with the

987 European Parliament resolution of 23 November 2021 with recommendations to the Commission on digitalisation of the European reporting, monitoring and audit (2021/2054(INL)).

988 European Parliament resolution of 14 May 2020 on discharge in respect of the implementation of the general budget of the European Union for the financial year 2018, Section III – Commission and executive agencies (2019/2055(DEC)).

989 European Parliament resolution of 10 June 2021 on the conflict of interest of the Prime Minister of the Czech Republic (2021/2671(RSP)).

990 European Parliament resolution of 23 November 2021 with recommendations to the Commission on digitalisation of the European reporting, monitoring and audit (2021/2054(INL)).

991 Working Document from 10 January 2022 by the Committee on Budgetary Control, European Parliament, January 2022.

respective provisions, and notes that the Commission's compliance audits are provisional and therefore the error rate represents only a minimum estimation level. The document also notes that additional errors in operations previously audited by national authorities were found by ECA, and therefore a reliable error rate can be obtained only if the Commission's audit work compensates for the limitations on the side of national audit authorities.

Commission and Council responses so far

In 2018, the Commission proposed an obligatory use of an integrated and interoperable monitoring system, allowing for the collection and comparison of information on beneficiaries of EU funds as part of the Common Provisions Regulation.[992] The proposal would help to avoid irregularities and conflicts of interest, but this provision failed to become part of the adopted regulation. The Commission also presented a targeted revision[993] of the Financial Regulation to align it better with the legislative acts adopted as part of the MFF.

In February 2022, the Commission replied to the legislative initiative by the Parliament and confirmed its intention to address the request as part of its proposal for a targeted revision of the Financial Regulation.[994] The proposal, published in May 2022, aims to improve the efficiency and quality of controls and audits by using digitalisation and emerging technologies, including data mining and machine learning. The Commission proposes to use a single integrated IT tool for data mining and risk scoring to access and analyse data about recipients of EU funds, helping to identify risks of fraud, corruption, double funding or other irregularities.

The Commission will be responsible for the development, management and supervision of the IT system, access to which will be provided to Member States as well as relevant agencies, including the European Anti-Fraud Office, the European Public Prosecutor's Office and the European Court of Auditors. Finally, the Commission will extend the existing financial transparency system, a database currently covering funds under direct management, with data on funds under shared management.[995]

The Council has not explicitly addressed the need to further harmonise rules governing monitoring of and reporting on the implementation of EU funds under shared management. Member States agreed on measures to tackle fraud and irregularities, including efforts to make data more comparable, but the final text remains short of details on what such measures should look like in practice.[996]

[992] Proposal for a regulation on common provisions, COM(2018) 375 final, European Commission, 29 May 2018.

[993] Targeted revision of the financial rules applicable to the general budget of the EU, European Commission, March 2021.

[994] Letter to the President of the European Parliament, A001535, European Commission, 16 February 2022.

[995] Proposal for a regulation on the financial rules applicable to the general budget of the Union (recast), COM(2022) 223 final, European Commission, 16 May 2022.

[996] Council conclusions of 21 July 2020 on the Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020).

Looking forward

The proposal for a targeted revision of the Financial Regulation will be subject to negotiations by the Parliament and the Council. Within the Parliament, the Committee on Budgets (rapporteur: Monika Hohlmeier, EPP) and Committee on Budgetary Control (rapporteur: Nils Ušakovs, S&D) are jointly responsible for the file. The Commission has committed to assisting the two institutions to facilitate a swift adoption of the new rules so that applicants and recipients of EU funds can benefit from them as soon as possible.

Once adopted, the new regulation will enter into force on the twentieth day after its publication in the Official Journal and new measures will be directly applicable in all Member States. Certain measures related to electronic transmission of data and the use of the integrated IT systems will only apply to funds received from the post-2027 MFF to allow for necessary adaptation of electronic data systems, guidance and training.[997]

[997] Proposal for a regulation on the financial rules applicable to the general budget of the Union (recast), COM(2022) 223 final, European Commission, 16 May 2022.

35. European works councils

Potential benefit: €32 billion per year

Key proposition

Information, consultation and participation of employees are all part of EU social policy. Article 28 of the Charter of Fundamental Rights establishes the right to collective bargaining.

European works councils (EWCs) are standing bodies that facilitate the information and consultation of employees with a focus on transnational issues, as regulated by the 1994 European Works Council Directive (Directive 94/45/EC, updated by Directive 2009/38/EC (Recast)). EWCs are the first European institutions to represent the interests of workers at company level.

Without the Directive, EWCs would exist only on a voluntary basis, with a significantly lower number of companies and worker representatives involved. In 2016, the European Trade Union Institute (ETUI) estimated that the multinational companies with a EWC represent over 17 million employees (last available figures).[998] In 2020, around 1 200 EWCs were in place (compared with 62 in 1994), with 18 000 individual representatives in these EWCs, meeting at least once a year to discuss transnational developments in their companies.[999]

In 2020, in the second quarter in particular, Member States were hit heavily by the coronavirus containment measures. Seasonally adjusted GDP decreased by around 12 %, while employment fell by only 2.8 %. Member States[1000] with well-developed industrial relations systems performed even better and far fewer workers (0-2 %) lost their jobs. This was a much better result compared with the 2009-2010 economic crisis (Eurostat).[1001] An update with 2020 figures led to efficiency gains of at least €32 billion a year.

In the future, more systematic provision of information to and consultation of workers could lead to even greater economic benefits – by reducing the rate at which people leave their jobs (known as the 'quit rate'), increasing employability, and/or easing the effects on social welfare systems and the related costs. The European Pillar of Social Rights has further developed this idea in principles 7 and 8: 'Information about employment conditions and protection in case of dismissals' and 'Social dialogue and involvement of workers'.[1002]

More detailed analysis of the potential benefit

Since 1994, European works councils have responded to the 'Europeanisation' of business as the result of the single market, supplementing national worker information and consultation systems.

[998] Commission Staff Working Document, Evaluation, SWD(2018) 187 final, May 2018.

[999] ETUI, Can anybody hear us?, 2019.

[1000] Eurostat, GDP main aggregates and employment estimates for the third quarter of 2020, Press release, December 2020.

[1001] Eurostat, GDP down by 12.1 % and employment down by 2.8 % in the euro area, Press release, August 2020.

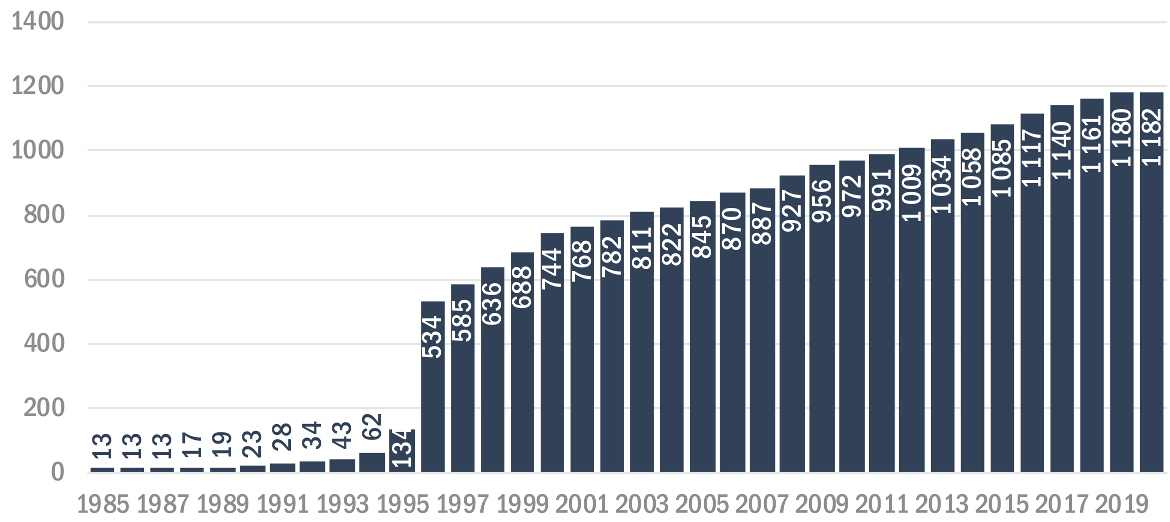
[1002] European Commission, Monitoring the Implementation of the European Pillar of Social Rights, SWD(2018) 67 final.

EWCs are only required in bigger companies. The thresholds for a company to be covered by the European Works Council Directive are, for a community-scale undertaking, 'at least 1 000 employees within the Member States and at least 150 employees in each of at least two Member States' (Article 2(1)(a) Directive 2009/38/EC).

After the implementation of the European Works Council Directive 94/45/EC, the numbers of active EWCs increased significantly and reached approximately 1 200 EWCs and European Companies (SE) councils in 2020, covering over 17 million employees (last available figures); around 50 % of an estimated 2 400 companies where the threshold for establishing a EWC is met.[1003] In 1994, before the EWC Directive 94/45/EC[1004] was adopted, the share was less than 3 %.

In terms of the sectors they represent, 90 % have their activities in the following sectors: metal (36 %); services (22 %); chemicals (17 %); food, agriculture and tourism (9 %); and building and woodwork (7 %). Regarding the category of employment, 481 are 'small' companies (between 1 000 and 5 000 employees in the European Economic Area – EEA), 186 are medium-sized companies (between 5 000 and 10 000 employees in the EEA) and 378 are large companies (more than 10 000 employees in the EEA).

Figure 36: Active European Work Councils and European Companies – Growth over time



Source: ETUI website.

Situations of transnational corporate restructuring constitute the principal context in which the recast directive for EWCs makes provision of information and consultation compulsory.[1005] Company restructuring refers to a wide range of different activities that lead to the reorganisation of an enterprise.

One challenge of corporate restructuring is that companies often restructure in a reactive rather than a proactive way. They tend to avoid public discussion about change and restructuring, 'namely, having to manage both workers' and public opinion, as well as the possible impact on

[1003] Commission Staff Working Document, Evaluation, SWD(2018) 187 final, May 2018, p. 19. This was an estimate, as no EU register of companies meeting the thresholds exists.

[1004] Council Directive 94/45/EC of 22 September 1994 on the establishment of a European Works Council for the purposes of informing and consulting employees.

[1005] V. Pulignano and J. Turk, European Works Councils on the Move: Management Perspectives on the Development of a Transnational Institution for Social Dialogue, KU Leuven, 2016, p. 40.

competitiveness through revealing plans to competitors', so an announcement tends to be made, when redundancies are virtually certain. 'As a result, workers do not benefit enough from support measures in advance (training, job guidance, etc.) which would help them find a new job more quickly; workers' representatives intervene too late in the management decision'. Case study research has found that the application of good practice varies widely depending on the size of the company, policy frameworks and the level or intensity of industrial relations.[1006]

In this regard, central and eastern European countries lag behind. 'The development of a joint understanding on a EWC's role as a transnational body of meaningful information, consultation and workers' involvement seems to be easier to achieve in countries characterised by cooperative forms of labour relations and workers' participation'.[1007] Much restructuring is transnational in scope and has effects in more than one country, and indeed can be Europe-wide or worldwide. Transnational restructuring is a situation in which the intensity of information and consultation within EWCs increases.[1008] The dialogue between European and national levels of the company is particularly useful and mechanisms to promote bottom-up communication can bring added value.

There is evidence that early consultation has a substantial impact on job security during restructuring processes. There is also evidence that this can have a positive impact on job quality. Early consultation appears to be more cost-effective in cases of large-scale restructuring and where the average duration of unemployment is long.[1009] EWCs created according to the conditions of the Recast Directive (Article 6), seem to have a more significant impact on corporate restructuring decisions than the pre-existing EWCs (Article 13).

'Companies with "trusting" forms of social dialogue were able to introduce even difficult restructuring measures with trade union or employee support, especially where there had been consultation at an early stage to allow compromises to be reached and to build commitment to a common goal [...] Companies in the "trusting" social dialogue group had the most positive outcomes for both organisations and employees'[1010]. Cases analysed by Eurofound show that information and consultation of EWCs do play a significant role at company level, particularly in countries where such practices are less widespread.[1011]

More systematic provision of information to and consultation of workers could lead to significantly greater economic benefits – by reducing the rate at which people leave their jobs (known as the 'quit rate'), increasing employability, and/or easing social effects on social welfare systems and the related costs. The European Pillar of Social Rights has further developed this idea in principles 7 and 8: 'Information about employment conditions and protection in case of dismissals' and 'Social dialogue and involvement of workers'.[1012]

Based on a cautious assumption regarding the average labour productivity at EU-27 level of €24 per hour in 2019, the economic added value of the proposed measure was estimated to be around

[1006] European Commission, Stocktaking report on the application of the EU Quality Framework for anticipation of change and restructuring, 2018.

[1007] E. Voss, Report to the ETUC, May 2016.

[1008] S. Rüb, Das Management als Akteur transnationaler Arbeitsbeziehungen, SOFI-Göttingen, 2018.

[1009] European added value assessment, European added value of an EU measure on information and consultation of workers, anticipation and management of restructuring processes, November 2012.

[1010] Eurofound, Win-win arrangements: Innovative measures through social dialogue at company level, 2016.

[1011] Similarly, see S. Rüb, Summary of Das Management als Akteur transnationaler Arbeitsbeziehungen, 2020.

[1012] European Commission, Monitoring the Implementation of the European Pillar of Social Rights, SWD(2018) 67 final.

€37 800 per year per unit of labour.[1013] The average labour productivity per hour gives a figure of approximately €32 billion. This estimation is prudently low, and could be affected by recent economic developments.

Table 24: Potential efficiency gains from informing and consulting workers (2020 update)

Building blocks – Potential efficiency gains from information and consultation of workers	Cost of non-Europe (€ billion)
Early consultation and reduction of 400 000 redundancies (by approximately 20 %)	16.1
Helping 35 % of redundant workers find new jobs	8.1
Training to help 36 % of redundant workers find new jobs	7.8
Total:	**32.0**

Source: EPRS, Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24 and updated calculations.[1014]

In 2020, especially in the second quarter, Member States were heavily hit by the coronavirus containment measures. Seasonally adjusted GDP decreased by around 12 % compared with the first quarter, the sharpest decline in GDP since Eurostat began the time series in 1995 (including the 2008-2009 economic crisis). In the second quarter of 2020, employment fell by only 2.8 % (-3.9 million employees) compared with the significant loss of employment in the US of 8.7 % (-13.3 million employees) in the same period.[1015]

EU Member States with well-developed industrial relation systems, working arrangements and short-working schemes (already in place at the beginning of the pandemic) performed even better than the EU average and far fewer workers (0-2 %) lost their job. This was a significantly better result compared with the 2009-2010 economic crisis.[1016]

Another effect became visible in the third quarter of 2020: the moderate loss of employment in the second quarter (-2.8 %) was almost offset in the third quarter of 2020 (only -0.4 %). Well-developed industrial relations combined with flexible working time schemes had an important stabilisation function: fewer employees lost their jobs and the recovery began from a higher level, as no costly recruitment procedures had been necessary. Compared with the first quarter of 2020, the loss of employment was slightly negative (-0.4 %), and in 12 Member States it was even positive.

European Parliament position

In 2012, in preparation for the Parliament's resolution on information and consultation of workers, anticipation and management of restructuring,[1017] a European added value assessment examined

1013 European added value assessment, European added value of an EU measure on information and consultation of workers, anticipation and management of restructuring processes, November 2012.

1014 A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019, and updated calculations.

1015 U.S. Bureau of Labour Statistics, December 2020.

1016 Eurostat, Euro area GDP down by 12.1 % and employment down by 2.8 % (EU 11.8 % and 2.6 %), Press release, August 2020.

1017 European Parliament resolution with recommendations to the Commission on information and consultation of workers, anticipation and management of restructuring (2012/2061(INL)).

the costs and benefits of possible improvements to the legislative framework of democracy at work and concluded that it could have generated efficiency gains of at least €12 billion a year (2012).[1018]

In 2013, the Parliament noted that, during the 2009-2010 economic crisis, relatively few workers lost their jobs in EU Member States with well-developed industrial relations systems, where workers and their representatives have relatively strong rights in the areas of consultation, information and board-level representation on the basis of laws and collective agreements. The use of working time reduction and/or short-time working arrangements to avoid redundancies was widespread in these Member States.[1019]

Commission response so far

The European Commission's report on the implementation of Directive 2009/38/EC noted weaknesses in the means in place allowing European works councils to enforce their rights.[1020] Even in companies 'where information and consultation works comparatively well, the EWC would not be able to organise proper involvement due to a lack of time and resources'.[1021]

Looking forward

In 2020, loss of GDP and working hours seem to have had a much less negative impact on employment than might have been expected, if compared with the 2008-2009 economic crisis (especially in southern Europe) and with the reaction of the US labour market. This is partly due to the fact that information and early consultation have had a substantial impact on job security/stability, and were the necessary condition for the massive implementation of national short-time working schemes, complemented by the EU's SURE instrument. How resilient this development is will depend a lot on developments in the coming years.

Against this backdrop, some questions for future developments remain. There are currently 1 200 EWCs in operation, representing millions of employees in the EU. The estimation is that this number could increase depending on which legislative and/or non-legislative measures will be undertaken.

[1018] M. Del Monte, European added value of an EU measure on information and consultation of workers, anticipation and management of restructuring processes, European Parliament, November 2012.

[1019] Eurofound, Impact of the crisis on industrial relations and working conditions in Europe, 2014.

[1020] European Commission, Report on the implementation by Member States of Directive 2009/38/EC on the establishment of a European Works Council, COM(2018) 292 final.

[1021] E. Voss, Report to the ETUC, May 2016.

36. Social enterprises and non-profit organisations

Potential benefit: €17 billion per year

Key proposition

Social and solidarity-based enterprises combine societal goals with entrepreneurial spirit. They can take a variety of legal forms and statuses – as foundations, cooperatives, associations, mutual societies (mutuals), companies or in legal forms designed specifically for them. Their number depend crucially on the definition adopted. They often operate in the areas of work integration, social services, the environment, sports, arts, and culture, but, depending on the definition adopted, they could, in principle, act in any sector. Their defining features can be their social aim and/or their governance and ownership structure.[1022] They generate economic value together with social outcomes, especially social cohesion, and may play a role in addressing discrimination.

There is currently no specific EU legal framework to support social enterprises and non-profit organisations in fully benefiting from the single market. However, specific policy action at EU level could generate economic and social added value, including a more simplified and coordinated framework for their activity, especially across national boundaries. If the sector accounts for 5 % of the EU economy and measures adopted at EU level were to promote it only by 2 % of that total,[1023] it would boost the sector by €17 billion per year (in 10 years). This estimate is highly sensitive to the measure of the size of the sector and can be considered a conservative assessment.

More detailed analysis of the potential benefit

As it is very challenging to define and collect harmonised data on social enterprises, measuring their activity in the EU is complex. The definition of social economy given by a 2017 study commissioned by the European Economic and Social Committee (EESC)[1024] is 'the set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote, or at all events are decided through democratic, participatory processes'.[1025] According to this definition, there are 2.8 million social economy entities in the EU employing about 13.6 million people, equivalent to about 6.3 % of the working population,[1026] although this share varies substantially across Member States (between about 1 % to about 10 %).

1022 For example, democratic decision-making and specific rules on the appropriation and distribution of profits.

1023 Assumptions derived from A. Teasdale (ed.), Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24, EPRS, April 2019, and based on projected GDP figures for 2032.

1024 J. Monzon and R. Chaves, Recent evolutions of the Social Economy in the European Union, EESC, 2017.

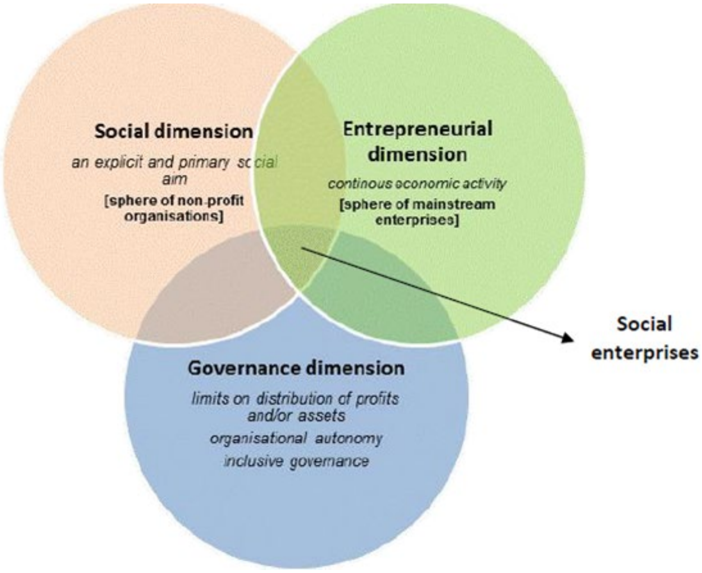
1025 This definition adds that 'The SE also includes private, formally-organised entities with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them', EESC, ibid, 2017.

1026 This analysis still included the UK and refers to the EU-28.

This definition includes cooperative enterprises, mutual societies and associations, including the non-profit sector. In the 2021 Single Market Report, the European Commission considers the social economy and the 'proximity economy'[1027] together and estimates that these amount to 6.5 % of EU GDP.[1028]

More recently, the Commission produced a report on social enterprises and their ecosystems.[1029] This report adopts a more specific focus on social enterprises and follows a narrower definition that includes three main dimensions: the entrepreneurial dimension, the social dimension, and the governance dimension, as can be seen in Figure 37.

Figure 37: Definition of social enterprises at the crossroads of three areas



Source: European Commission, A map of social enterprises and their eco-systems in Europe: Synthesis Report, 2020.

According to this report, the social enterprise must:

- engage in economic activity, i.e. in a continuous activity of production and/or exchange of goods and/or services;
- pursue an explicit and primary social aim, that benefits society;
- have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit-making;
- be independent, i.e. enjoying organisational autonomy from the State and other traditional for-profit organisations; and,
- have inclusive governance, i.e. characterised by participatory and/or democratic decision-making processes.

[1027] This includes businesses fostering local consumption and short value chains, and the civil security services (such as firefighters, which operate at the local level and are performed by public entities, including a significant share of volunteering work).

[1028] European Commission, Annual Single Market Report 2021, SWD(2021) 351 final, May 2021.

[1029] European Commission, Directorate-General for Employment, Social Affairs and Inclusion, A map of social enterprises and their eco-systems in Europe: Synthesis Report, 2020.

According to this definition, the report maps between 126 000 and 180 000 social enterprises in the EU,[1030] corresponding to slightly less than 1 % of EU businesses. Nevertheless, the report identifies strong growth dynamics; this is due to several factors, including the ongoing withdrawal of public agencies from supplying social services of general interest, which increases pressure on traditional non-profit organisations to diversify their income sources, and the rising interest in social innovation among mainstream enterprises. In this expanding phase, European social enterprises are undertaking a growing breadth of activity beyond work integration and social services, and can play an important role in inclusion of vulnerable groups.[1031]

A category that is included in the definition of 'social economy', but not necessarily in the narrower definition of 'social enterprises', is non-profit organisations (NPOs). According to a recent EPRS study,[1032] they mainly include three types of organisation: associations (that are about common interests, civic engagement and self-organisation), non-profit corporations (that are largely about service delivery, e.g. in areas such as healthcare, social services and education), and foundations (that are about philanthropy and private financial contributions to the public good). According to the economic literature, the main feature of the non-profit sector is the impossibility of distributing profits (the 'non-distribution constraint').

This heterogeneity within the social economy is acknowledged by the European Commission in the action plan on social economy,[1033] which highlights that it is commonly considered to include several types of organisation: cooperatives, mutual benefit societies, foundations, associations and social enterprises. Depending on the definition used, the measurement of social economy operators/social enterprises varies between 1 % (strictly speaking, social enterprises) and 10 % (using a broader definition of social economy entities) of EU businesses. This suggests that estimates should be taken with caution. For the purpose of indicating the potential cost of non-Europe, we follow the approach used by EPRS,[1034] assuming that EU action could boost the sector by 2 % and that the size of the sector corresponds to a mid-point between the given estimates.

At EU level, there is a growing convergence, but important differences remain, especially with respect to the interpretation and relevance of the 'governance dimension' of a social enterprise. There is also little harmonisation of legal frameworks and only 16 Member States have some form of legislation that recognises and regulates social enterprise activity.

As identified by an EPRS study in 2017,[1035] **social and solidarity-based enterprises** that are willing to scale up in the single market could benefit from an enabling EU legal framework, bringing economic and social benefits to themselves and the European economy as a whole. The assessment explored several policy options, including the creation of an EU certification/label system, which was

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1030 Sum of the estimates at country level in Table 3.2.

1031 Commission Staff Working Document accompanying the Communication on Building an economy that works for people: an action plan for the social economy, [SWD(2021) 373 final.]

1032 K. Muller and M. Fernandes, [A statute for European cross-border associations and non-profit organisations], EPRS, 2021.

1033 Commission Staff Working Document accompanying the Communication on Building an economy that works for people: an action plan for the social economy, [SWD(2021) 373 final].

1034 A. Teasdale (ed.), [Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24], EPRS, April 2019, and based on projected GDP figures for 2032.

1035 E. Thirion, [Statute for social and solidarity-based enterprises], EPRS, December 2017.

then proposed by the European Parliament in a legislative resolution.[1036] EU action is expected to allow social and solidarity-based enterprises to access a larger market, reduce transaction and enforcement costs, and increase both their visibility and consumer confidence in them. The 2020 Commission report[1037] identifies a number of barriers to the development of the sector that EU action could help to reduce:

- poor understanding overall of the concept of social enterprise and lack of specialist business development services and support;
- the lack of supportive legislative frameworks and the lack of legal recognition of social enterprises in many Member States;
- limited access to markets – for example, the low use of social clauses in current public procurement practices; also, disproportionate pre-qualification requirements and payment delays make it difficult for social enterprises to compete effectively in public procurement markets;
- limited access to finance, since conventional investors and lenders do not typically understand the dual purpose and hybrid business models of social enterprises; a 2019 study for the European Commission confirms the relevance of the funding gap, due to gaps in the market for social finance.[1038]

There is also an overall absence of common mechanisms for measuring and demonstrating impact.

Non-profit organisations face major barriers in cross-border operations. While the majority of activities NPOs conduct is domestic, a growing number of them operate across borders and the connections of EU citizens through NPO networks have substantially increased.[1039] The 2021 EPRS study reports that, in total, there were an estimated 4 996 international NPOs (i.e. with activities in several Member States) established across the EU Member States in 2020; an average international NPO has members in nine Member States. EU action could serve to promote NPOs by addressing the inconsistent treatment of cross-border transactions and the significant administrative costs and compliance costs when operating across borders. According to the study, these barriers are especially due to four underlying problems: the lack of consistent definitions and data on NPOs, an uneven approach to tax exemptions for NPOs across the Member States, inconsistency of procedures to test comparability between national and foreign NPOs, and barriers to cross-border charitable donations.

Social enterprises and NPOs could contribute to the EU economy and society much more than is currently happening, and EU action could help to tap this potential. Moreover, a boost to the social economy could improve gender equality. From available evidence, it appears that many women have access to the labour market via jobs created by the social economy and that the gender entrepreneurship gap is lower in the social economy if compared to the 'mainstream' economy.[1040]

[1036] European Parliament resolution of 5 July 2018 with recommendations to the Commission on a Statute for social and solidarity-based enterprises (2016/2237(INL)).

[1037] European Commission, Directorate-General for Employment, Social Affairs and Inclusion, A map of social enterprises and their eco-systems in Europe: Synthesis Report, 2020.

[1038] European Commission, Social enterprise finance market: analysis and recommendations for delivery options, 2019. It identifies an average annual gap of about €6.7 billion.

[1039] K. Muller and M. Fernandes, ibid, 2021.

[1040] Commission Staff Working Document accompanying the Communication on Building an economy that works for people: an action plan for the social economy, SWD(2021) 373 final.

The social economy is, moreover, relevant in the care sector, which is crucial for the employment of women both as professional carers and unpaid carers that need accessible and quality care services.[1041]

European Parliament position

The European Parliament adopted a resolution on a statute for social and solidarity-based enterprises in July 2018.[1042] It acknowledges the diversity and innovative character of the existing legal forms of social enterprises and calls on the European Commission to introduce a 'European social economy label', to be obtained by social enterprises optionally on request and upon meeting a set of criteria.

In February 2022, the Parliament voted a resolution on a statute for European cross-border associations and non-profit organisations,[1043] which acknowledges that NPOs do not have an EU-wide legal form to put the representation of civil society interests on an equal footing with commercial undertakings and economic interest groups. The Parliament therefore calls on the Commission to submit a regulation establishing a statute for a European association; this statute should set out the conditions and procedures governing the creation, governance, registration and regulation of legal entities in the form of a European association, and submit a proposal for a directive on common minimum standards for non-profit organisations in the EU. Among the aims is the protection of civil society and freedom of association.

In its resolution[1044] on the action plan for the social economy, the Parliament welcomes the initiative of the Commission (see below). It especially stresses the possibilities for the EU to help create an enabling environment for the social economy – for example, by developing the use of public procurement and acknowledging the role of workers' buyouts. It calls on the Member States to provide targeted funding for the social economy and supports simplification of access to EU funds. It supports swift implementation of the action plan and especially welcomes the proposal for a Council recommendation on social economy framework conditions, to be approved in 2023. Finally, it supports workers' participation and democratic governance in achieving the objectives of the social economy.

Commission and Council responses so far

Regarding social and solidarity-based enterprises, the European Commission formally responded to the 2018 European Parliament resolution.[1045] In its response, the Commission underlined the need to give more visibility to the social economy and social enterprises. However, the main recommendation of the Parliament, promoting the creation of a European label, was not directly taken into account.

[1041] M. Fernandes and C. Navarra, What if care work were recognised as a driver of sustainable growth?, EPRS, 2022.

[1042] European Parliament resolution of 5 July 2018 with recommendations to the Commission on a Statute for social and solidarity-based enterprises (2016/2237(INL)).

[1043] European Parliament resolution of 17 February 2022 with recommendations to the Commission on a Statute for European cross-border associations and non-profit organisations (2020/2026(INL)).

[1044] European Parliament resolution of 6 July 2022 on the EU action plan for the social economy (2021/2179(INI)).

[1045] Follow-up to the European Parliament non-legislative resolution of 5 July 2018 with recommendations to the Commission on a Statute for social and solidarity-based enterprises, SP(2018)630.

On 9 December 2021, the Commission adopted a new action plan on the social economy.[1046] The aim of the action plan is to enhance social investment and support social economy actors and social enterprises, intervening in three areas: framework conditions for the social economy, opportunities and support for capacity building, and recognition of the social economy and its potential. Overall, the plan acknowledges both what defines the social economy and also the diversity within it. It also acknowledges the potential that still has to be harnessed, including in good job creation. The Commission announced the development of guidelines for appropriate legal frameworks; it also called on Member States 'to make better use of their margin of discretion in defining services of general economic interest with a view to allowing qualifying activities carried out by social enterprises to be covered' and to foster the uptake of socially responsible public procurement, acknowledging that most public tenders are still awarded based on the price criterion only. Other actions aim, for example, to support scaling up and internationalisation of the social economy and to promote access to finance. The Commission plans three key actions: a Recommendation on developing social economy framework conditions, a new EU Social Economy Gateway, and a new European Competence Centre for Social Innovation.

In May 2022, the Commission replied to the Parliament's legislative initiative on a statute for cross-border NPOs, stating that it shares the objectives of the Parliament's initiative. It announced a legislative initiative to allow associations, 'and potentially other non-profit organisations, if relevant and feasible', to enjoy fully the single market freedoms. The Commission will examine how to build on existing initiatives (e.g. the 2022 report on the application of the Charter of Fundamental Rights and Rule of Law report) to strengthen civil society and improve EU dialogue with citizens' organisations. It referred to the action plan on social economy regarding taxation issues.

Looking forward

The action plan was approved in 2021 and the main issue now at stake is how this can translate into concrete steps to support social enterprises and their ecosystems.

[1046] Communication on Building an economy that works for people: an action plan for the social economy, European Commission, 2021.

Chapter 8 – Justice and the rule of law

		Impacts					
	Sub-chapter	Additional GDP	Other economic	Social	Environmental	Fundamental rights	Other
37	**Rule of law and control of government**	€59.7 billion per year	Higher foreign direct investment Healthier business environment Strengthen the single market	Greater public trust in institutions Reinforce democracy		Right to life Freedom of expression and information	Better standing in the world
38	**Corruption**	€58.5 billion per year	Healthier business environment Fairer competition Lower misuse of public funds	Greater public trust in institutions Reinforce democratic participation		Freedom of expression and information, right to vote Right to an effective remedy and to a fair trial	Lower risks of money laundering and tax avoidance Better public administration Strengthen international credibility
39	**Serious crimes and terrorism**	€14.7 billion per year	Reduced losses for legitimate businesses Healthier business environment	Less violence and exploitation, in particular for women Lower human injuries and higher life satisfaction	Lower risk of environmental crimes and destruction	Right to life Prohibition of torture, inhuman or degrading treatment or punishment	Higher internal security
40	**Access to justice**	€8.5 billion per year	More cross-border activities	Lower rates of unreasonable arrest and detention	Greater protection of the environment	Right to a fair trial Right to effective remedy	More effective resolution of disputes

				Better physical and mental health Enhanced freedom of movement		Rights to liberty and dignity	
41	**Border control and visa policy**	€12.5 billion per year	Enhanced cross-border trade and tourism	Less violence and exploitation Greater freedom of movement		Rights to dignity Right to liberty Right to asylum and non-refoulement	Improved relations with third countries Greater internal security
Total		**€153.9 billion per year**					

37. Rule of law and control of government

Potential benefit: €59.7 billion per year

Key proposition

Democracy, the rule of law, and respect for fundamental rights are founding values of the EU, enshrined under Article 2 of the Treaty on European Union (TEU). The obligation of Member States to comply with the rule of law is a cornerstone of the EU legal system and can help to ensure the proper functioning of the single market. Threats to these fundamental EU values can challenge the legal, political and economic basis of the EU itself.[1047]

At its core, the rule of law is about the functioning of government within well-defined, predictable laws and systems of checks and oversight. The powers of the government should be within the oversight and control of the country's legislative bodies, judiciary, comptrollers, auditors and citizens. Information about laws and government activities should be easily available to the public.

This sub-chapter focuses on the potential benefits of further EU action to promote the control of government in the Member States. Other sub-chapters in this study concern related aspects of the rule of law.[1048]

In recent years, the European Commission has introduced the annual rule of law reports and the Rule of Law Conditionality Mechanism.[1049] Further EU action could be taken to strengthen monitoring efforts and application of the conditionality mechanism, and expand its application to apply to breaches of the law apart from the budget, as was called for by citizens in the Conference on the Future of Europe.[1050]

Further EU action to promote the rule of law could promote trust in public institutions, reinforce democracy and strengthen the internal market, leading to enhanced economic growth. In terms of economic benefits alone, research by EPRS finds that further targeted EU actions to promote the rule of law in terms of control of government could generate up to €59.7 billion per year.

[1047] W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

[1048] See, for example, corruption (sub-chapter 38), access to justice (sub-chapter 40), equal treatment, non-discrimination and hate crime (sub-chapter 44), and media freedom and pluralism (sub-chapter 26).

[1049] Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget.

[1050] Conference on the Future of Europe – European Citizens' Panel 2: European democracy/Values and rights, rule of law, security – Recommendations, 2021. Recommendation 10: 'We recommend that the conditionality regulation (2020/2092, adopted on 16 December 2020) is amended so that it applies to all breaches of the rule of law rather than only to breaches affecting the EU budget.'

More detailed analysis of the potential benefit

An EPRS study investigated the impacts of violations of the rule of law on individuals and society and the potential benefit of EU action.[1051] From the perspective of individuals, there are dire impacts on human dignity and fundamental rights, namely the right to life, and restrictions on the freedom of expression and information. Member States can also experience negative impacts to the extent that the depreciation of EU values in one Member State has negative EU-wide impacts. This is most notable in cross-border activities and movements that rely on effective mutual recognition of decisions, as well as the level of domestic and foreign investment. A number of studies have found that foreign direct investment (FDI) is correlated with a more stable regulatory and political environment.

The estimation of the potential benefit is based on a quantitative analysis of rule of law and governance indices in the EPRS study; these indices included the World Justice Project's Rule of Law Index,[1052] Freedom House's Freedom in the World Index,[1053] and the World Bank's Worldwide Governance Indicators.[1054] These indices differ in methodology, aggregation and ultimate focus, but all cover a wide range of issues for a sufficiently large number of countries and years to allow for in-depth study. In the absence of an EU-specific dataset or scoreboard,[1055] these indices provide the best tool available to investigate the impacts of violations to the rule of law and poor governance.

The investigation found that higher rule of law scores were correlated with lower economic output, after controlling for other factors. EU action to promote stronger monitoring and enforcement of the rule of law could lead to stronger restraints on government powers as well as more open government over time, which would be reflected in a higher rule of law score. The quantitative analysis suggests that improving the rule of law through increased efforts by the EU could generate about €59.7 billion per year by 2032 in terms of additional GDP.[1056]

European Parliament position

The European Parliament has repeatedly called on the European Commission to strengthen the rule of law review cycle in order to be an effective guardian of the Treaties. In 2020, the Parliament adopted a resolution that proposed to establish an EU Mechanism on Democracy, the Rule of Law and Fundamental Rights.[1057] The Parliament considers that the annual rule of law reports issued by the Commission should be more analytical, broader in their coverage of the elements of the rule of law, and more prescriptive.[1058]

1051 W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

1052 World Justice Project, 'Rule of Law Index 2020', Washington, DC, 2020.

1053 Freedom House, 'Freedom in the World Research Methodology', Washington, DC, 2020.

1054 D. Kaufmann, A. Kraay and M. Mastruzzi, 'The Worldwide Governance Indicators: Methodology and Analytical Issues', World Bank Policy Research Working Paper, No 5430, 2010.

1055 While the EU Justice Scoreboard provides an important tool for assessing justice systems in Europe, it is limited in scope and relies on institutional data.

1056 Additional analysis, drawing on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020; M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

1057 European Parliament resolution of 7 October 2020 on the establishment of an EU Mechanism on Democracy, the Rule of Law and Fundamental Rights (2020/2072(INI)).

1058 European Parliament resolution of 24 June 2021 on the Commission's 2020 Rule of Law Report (2021/2025(INI)).

The Parliament considers that the rule of law reports should support the adoption of recommendations for the Member States and be linked to the operation of other mechanisms such as the Rule of Law Conditionality Mechanism adopted by the Commission in 2021 and infringement procedures through the European Court of Justice. In response to the 2021 rule of law report, the Parliament highlighted the lack of clear country-specific recommendations and follow-up, and the lack of distinction made between deliberate backsliding on the rule of law and general developments. The Parliament also called for an additional chapter in the Commission's report on the rule of law in EU institutions.[1059]

The Parliament has called on the Commission to immediately and fully apply the Rule of Law Conditionality Mechanism, which became operational in January 2021.[1060] In addition, the Parliament welcomed the judgments of the European Court of Justice in February 2022 and called on the Commission to proceed with the application of the Rule of Law Conditionality Mechanism.[1061]

Commission and Council responses so far

Since 2020, the European Commission has issued an annual report on the rule of law.[1062] These reports monitor four key areas in the Member States, one of which is anti-corruption frameworks. In the 2021 report, the Commission presented specific recommendations to Member States for the first time, which would be followed up in subsequent annual rule of law reports. Following the judgments of the European Court of Justice in February 2022, the Commission proceeded to launch the conditionality mechanism with respect to Hungary and Poland.

Looking forward

The continuation and resolution of the budget conditionality procedures in Hungary and Poland will shed further light on the effectiveness of the EU's existing rule of law framework. Closer cooperation between the European Commission, the European Parliament and the president of the Council on the rule of law can be expected, and could be formalised in an inter-institutional agreement.

[1059] European Parliament resolution of 19 May 2022 on the Commission's 2021 Rule of Law Report (2021/2180(INI)).

[1060] European Parliament resolution of 10 June 2021 on the rule of law situation in the European Union and the application of the Conditionality Regulation (EU, Euratom) 2020/2092 (2021/2711(RSP)).

[1061] European Parliament resolution of 10 March 2022 on the rule of law and the consequences of the ECJ ruling (2022/2535(RSP)). The cases C-156/21 and C-157/21 relate to Hungary and Poland.

[1062] See, for example, the Communication on the 2022 Rule of Law Report: The rule of law situation in the European Union, COM(2022) 500 final, European Commission.

38. Corruption

Potential benefit: €58.5 billion per year

Key proposition

Corruption – defined broadly as 'abuse of power for private gain' – can take many forms, including paying bribes or exercising power so as to give privileged access to public services, goods or contracts. Corruption has been shown to undermine the rule of law, lead to the inefficient delivery of public services and corrode the institutions and foundations of democracy.[1063] A survey found that about a third of respondents in the EU felt that corruption was getting worse in their country, while about half (44 %) considered that it was not improving. In particular, respondents were concerned about government corruption and governments' impunity from wrongdoing, including the use of personal connections to obtain better access to public services.[1064]

In recent years, the EU has taken a number of actions to tackle corruption, but it could do more to expose corruption and prosecute it more effectively. Possible avenues for EU action include:

- advancing a legislative framework on corruption;
- boosting transparency requirements, including for Recovery and Resilience Facility funds;
- reinforcing the mandate of the European Public Prosecutor's Office (EPPO) and the European Anti-Fraud Office (OLAF) to investigate allegations of corruption; and
- regulating and/or banning citizenship and residence by investment schemes.

These measures, which would be both legislative and non-legislative, could promote trust in public institutions and the rule of law. It could also reinforce democratic participation and boost long-term growth by strengthening international credibility. In terms of economic benefits alone, research by EPRS finds that further targeted EU actions to tackle specific aspects of corruption could generate up to €58.5 billion per year by 2032.

More detailed analysis of the potential benefit

The analysis of potential benefits stems from analyses on different aspects of corruption and is summarised in Table 1. The first analysis, which is a European added value assessment, considers the extent to which the misuse of public office for private gain (a form of corruption) affects the rule of law, international credibility and attraction of investment.[1065] The assessment finds that the rule of law index, which is composed of seven elements, including one on corruption, is positively correlated with economic output, after controlling for other factors that could be related to economic output.

1063 See sub-chapter 37 on the rule of law and control of government.

1064 Transparency International, Global Corruption Barometer – EU, 2021. The survey was conducted with more than 44 000 individuals in all 27 EU Member States.

1065 W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

A breakdown of the results suggests that an EU legislative framework on corruption could generate up to €38.4 billion per year in terms of additional GDP.[1066] This action could also promote public trust in institutions and consequently the life satisfaction of citizens. An EPRS analysis confirms the role of public trust in institutions as a mediating factor between experience of corruption and life satisfaction and monetises the impact using a well-being valuation approach. If an EU legislative framework could reduce experience of corruption by 10 %, the potential benefit in terms of citizens' life satisfaction could reach €13.9 billion per year.[1067]

Another aspect of corruption concerns citizenship by investment (CBI) and residence by investment (RBI) schemes. These schemes allow wealthy third-country nationals (TCNs) to obtain residence or citizenship in a host country in exchange for a passive financial contribution that may include government bonds, real estate, or bank deposits. An EPRS analysis found that these schemes raise several concerns, one of which is the potential for weak vetting and due diligence systems, which raises the risks of corruption and money laundering.[1068] Three Member States had such schemes in 2011, compared to 13 Member States in 2021. At present, the EU does not regulate these schemes, thus generating negative impacts on society.

EU action to enforce existing laws and limit improper influence could also promote international credibility and economic output. A breakdown of the findings from a European added value assessment suggests that the potential benefit of such action could be at least €6.0 billion.[1069] The potential benefits of greater enforcement can also be ascertained by considering the benefits generated by a new organisation dedicated to the fight against corruption. In its first seven months of operation since June 2021, the EPPO opened 576 investigations for estimated damages of €5.4 billion.[1070]

Public procurement is one of the government activities most vulnerable to corruption and the risks are evident at all five stages of the process: pre-selection activities, tendering process, bid evaluation, post-selection activities, and record keeping and auditing. Corruption in public procurement has incurred significant costs for EU economies, both in monetary terms but also its impact on the quality of the work provided.[1071] The COVID-19 pandemic amplified the risk of fraud at EU level through the simplification of procedures to award contracts and distribute funds. An EPRS analysis found that that the relationship between corruption risk and relative contract prices was greater for public procurement contracts awarded after the start of the pandemic in March 2020.[1072]

[1066] Additional analysis, drawing on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020; M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

[1067] M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

[1068] M. Fernandes and C. Navarra, Avenues for EU action on citizenship and residence by investment schemes – European added value assessment, EPRS, October 2021.

[1069] Additional analysis, drawing on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020; M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

[1070] European Public Prosecutor's Office, 2021 Annual Report.

[1071] A. Abdou, O. Basdevant, E. David-Barrett and M. Fazekas, Assessing Vulnerabilities to Corruption in Public Procurement and Their Price Impact, Working Paper No 2022/094, 2022.

[1072] M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

The EU could counter this risk by boosting transparency requirements in its public procurement contracts and notices; greater transparency requirements could promote the reporting of information and reduce the risk of single bidding.[1073] EU action to halve the number of missing fields in public procurement data could generate about €248 million in estimated benefits each year.[1074]

Table 25: Summary table

EU action	Potential impacts	Estimated potential benefits
Introducing a legislative framework on corruption	Improved public administration	€38.4 billion per year
	Greater exposure and prosecution of corruption Greater trust in public institutions	€13.9 billion per year
Greater enforcement of regulations, including the mandate of EPPO and OLAF	Recovery of misspent public funds	€6.0 billion per year
Transparency in public procurement	Less misuse of public funds	€238 million per year
Regulate citizenship and residence by investment schemes	Lower potential risk of corruption, money laundering and tax evasion	Not quantified

Source: EPRS.

European Parliament position

In June 2018, the European Parliament set up a monitoring group with a general mandate to monitor the rule of law and the fight against corruption within the EU.[1075] In 2019, the Parliament called on Member States and national law enforcement authorities to 'resolutely fight systemic corruption and to devise effective instruments for preventing, combating and sanctioning corruption and fighting fraud, as well as regularly monitoring the use of public funds'.[1076] The Parliament highlighted that 'crisis creates opportunities for numerous violations of integrity and could intensify fraud and corruption, as well as non-fraudulent irregularities, particularly in public procurement, economic stimulus packages and public organisations'.[1077]

1073 M. Bauhr, Á. Czibik, J. Licht and M. Fazekas, Lights on the Shadows of Public Procurement: Transparency as an Antidote to Corruption, Governance 33 (August), 2019.

1074 M. Fernandes and L. Jančová, Stepping up the EU's efforts to tackle corruption – Cost of non-Europe report, EPRS, January 2023.

1075 European Parliament resolution of 28 March 2019 on the situation of the rule of law and the fight against corruption in the EU, specifically in Malta and Slovakia (2018/2965(RSP)).

1076 Ibid.

1077 European Parliament resolution of 15 December 2021 on the evaluation of preventive measures for avoiding corruption, irregular spending and misuse of EU and national funds in case of emergency funds and crisis-related spending areas (2020/2222(INI)).

To combat this risk, the Parliament has called for more traceability of funds, increased resources and enhanced information sharing between relevant EU bodies – in particular, Europol, OLAF, the EPPO and the European Court of Auditors – and making data on public procurement contracts available to citizens.[1078] Digitalisation in monitoring and reporting could also promote transparency and reduce errors in the implementation of EU funding programmes.[1079] The Parliament has also called for increased resources for Europol and Eurojust to investigate cases related to corruption such as the murder of journalist and activist Daphne Caruana Galizia.[1080]

In March 2022, the Parliament's Committee on Budgetary Control called for a motion for a resolution to fight against oligarch structures and protect EU funds from fraud and conflict of interest. The motion calls for greater transparency concerning the beneficiaries of EU funds and a strengthening of anti-oligarch practices through the revision of the EU Financial Regulation.[1081] In 2022, the Parliament put forward a legislative own-initiative report to call for further EU action on citizenship and investment schemes, which pose risks of corruption.[1082] The Parliament has also called for more transparency in the financing of European political parties and foundations to support the fight against fraud and corruption.[1083]

Commission and Council responses so far

In 2017, the EU adopted a directive to tackle fraud and other offences that affect the EU's financial interests via criminal law.[1084] The directive seeks to harmonise definitions, sanctions and limitation rules across the EU to support prosecution. In 2017, the mandate for the EPPO was established to support the investigation and prosecution of crimes against the EU's financial interests, including corruption.[1085] In 2019, the EU adopted a directive on whistle-blower protection with the aim of supporting the reporting of offences, including corruption.[1086]

Since 2020, the European Commission has issued rule of law reports each year.[1087] These reports monitor four key areas in the Member States, one of which is anti-corruption frameworks. In addition, the Commission introduced the European Rule of Law Mechanism in 2021.

1078 European Parliament resolution of 15 December 2021 on the evaluation of preventive measures for avoiding corruption, irregular spending and misuse of EU and national funds in case of emergency funds and crisis-related spending areas (2020/2222(INI)).

1079 See sub-chapter 36. See also European Parliament resolution of 23 November 2021 with recommendations to the Commission on digitalisation of the European reporting, monitoring and audit (2021/2054(INL)).

1080 European Parliament resolution of 28 March 2019 on the situation of the rule of law and the fight against corruption in the EU, specifically in Malta and Slovakia (2018/2965(RSP)).

1081 Motion for a European Parliament Resolution on MFF 2021-2027: fight against oligarch structures, protection of EU funds from fraud and conflict of interest (2020/2126(INI)).

1082 European Parliament resolution of 9 March 2022 with proposals to the Commission on citizenship and residence by investment schemes (2021/2026(INL)).

1083 European Parliament resolution of 11 November 2021 on the application of Regulation (EU, Euratom) No 1141/2014 on the statute and funding of European political parties and European political foundations (2021/2018(INI)).

1084 Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law.

1085 Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO'). The regulation is currently supported by 22 Member States: AT, BE, BG, CY, CZ, DE, EE, EL, FI, FR, HR, IT, LV, LT, LU, MT, NL, PT, RO, SK, SI.

1086 Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

1087 See, for example, the Communication on the 2022 Rule of Law Report, COM(2022) 500 final, European Commission.

Looking forward

In her September 2022 State of the Union address, Commission President von der Leyen noted that the Commission will propose an update of the EU's legislative framework to tackle corruption in 2023. In this address she noted that corruption erodes trust in institutions and that more attention would be given to offences such as illicit enrichment, trafficking in influence and abuse of power. A proposal to include corruption in the EU's human rights sanction regime can also expected.[1088]

[1088] 2022 State of the Union Address by President von der Leyen, 14 September 2022.

39. Serious crimes and terrorism

Potential benefit: €14.7 billion per year

Key proposition

Serious crime and terrorism pose grave threats to the internal security of the EU. Europol highlights the trade in illegal drugs as the most concerning due to the number of criminals involved in its networks, the level of criminal profits and the violence imposed on others. Other serious crimes that are prevalent in the EU include organised property crime, excise fraud, trafficking in human beings and migrant smuggling. The COVID-19 pandemic led to increases in certain types of crime – for example, the production and distribution of child sexual abuse material, goods counterfeiting and organised property crime.[1089] Seven out of 10 criminal networks are typically active in more than three countries, which underscores the cross-border dimension of these phenomena and the need for coordinated EU action.[1090]

While the number of terrorist attacks has declined in recent years, concerns over jihadi terrorism and right-wing extremism remain high. The internet is increasingly used by terrorist organisations to recruit new members and disseminate terrorist content. The landscape of security threats is also evolving, with elevated risks of cyber-attacks and the use of disinformation and emerging criminal activities such as environmental crime and trafficking in cultural goods. Attention must also be paid to countering the root causes of terrorism and radicalisation, which include social inequalities and disenfranchisement.

The revenue from nine criminal markets in the EU is estimated to range from €92 billion to €188 billion per year.[1091] Some repercussions of serious crime are challenging to monetise, though, such as the loss of life and psychological distress to victims. For example, at least 9 000 fatalities in the EU each year can be attributed to drug use.[1092] With regard to terrorism, the costs are estimated to reach €16 billion per year.[1093]

Some negative repercussions are challenging to quantify, such as violence, exploitation and the losses to legitimate businesses and environmental destruction. There is also a gender dimension to those who are impacted. For example, sexual exploitation is the most prevalent form of human trafficking and primarily affects women (95 %), while labour exploitation, which is a less prevalent form, primarily affects men (80 %).[1094]

1089 Europol, How COVID-19-related crime infected Europe during 2020, November 2020.

1090 Europol, Serious and organised crime threat assessment, 2021.

1091 European Commission, Mapping the risk of serious and organised crime infiltrating legitimate businesses – final report, 2021. The nine criminal markets reflected in the estimate are: illicit drugs, trafficking in human beings, smuggling of migrants, fraud (MTIC fraud, IPR infringements, food fraud), environmental crime (illicit waste and illicit wildlife), illicit firearms, illicit tobacco, cybercrime activities and organised property crime.

1092 EMCDDA, European Drug Report 2021: Trends and Developments, June 2021.

1093 W. van Ballegooij and P. Bakowski, The fight against terrorism: Cost of Non-Europe Report, EPRS, May 2018.

1094 A. Dinu, Implementation of Directive 2011/36/EU: Migration and gender issues, EPRS, September 2020.

The EU could do more to tackle the risks of serious crimes and terrorism. With regard to serious crime, the EU could:[1095]

- further approximate definitions and sanctions;
- build on and improve the current EU policy cycle on serious crime;
- further strengthen police and judicial cooperation at operational level; and
- further improve EU measures on the tracing, freezing and confiscation of criminal proceeds and assets.

With regard to terrorism, the EU could:

- develop an evidence-based criminal policy cycle involving the European Parliament and national parliaments;
- monitor the effectiveness and fundamental rights compliance of counter-radicalisation programmes; and
- foster a European law enforcement culture in which relevant information is shared and analysed and judicial cooperation tools are properly used.

To ensure the effective implementation of these measures, the EU could help to ensure the provision of adequate funding and training at national level. Such measures could generate benefits in the order of €14.7 billion per year by 2032.

More detailed analysis of the potential benefit

The assessment of potential benefits stems from an estimated reduction of costs related to serious crimes and terrorism; EU action was assumed to reduce these costs by up to 10 %. The costs of serious crime in the EU were approximated by the revenue or total amount of income generated from the sale of goods and services associated with each type of serious crime. Revenue generated by serious crimes may undermine legitimate businesses, promote corruption and loss of trust in institutions and inhibit economic growth.

The approach taken requires a number of assumptions, as there are no official statistics on criminal earnings and there are incentives to present inaccurate data – law enforcement officers have the incentive to inflate data on the income of criminals and the assets recovered, while criminal actors are likely to understate their earnings. There is also a risk of double counting due to the overlaps in actors and activities in criminal markets and the increasing prevalence of poly-crime. Revenues from some types of serious crime, such as trafficking in illicit drugs and illicit waste trafficking, appear to be increasing over time. Assuming that further EU action could reduce the prevalence of the four most costly forms of serious crime (MTIC fraud, illicit drugs, illicit waste and illicit cigarettes) by 10 % could yield potential benefits in the order of €12.1 billion to €22.4 billion per year.

Research has shown that terrorist attacks can have severe psychological impacts and wider societal effects in terms of reduced life satisfaction and lower interpersonal and institutional trust. EPRS investigated the costs of terrorism in the EU with respect to injuries and costs to human health, infrastructure and economic growth.[1096] The analysis was based on data from the Global Terrorism Database, which offers annual, country-specific data on terrorist attacks and their damage to

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[1095] W. Van Ballegooij and T. Zandstra, Organised Crime and Corruption: Cost of Non-Europe Report, EPRS, March 2016.

[1096] W. Van Ballegooij and P. Bakowski, The fight against terrorism: Cost of Non-Europe Report, EPRS, May 2018.

property and human lives. Overall, the cost of non-Europe in the area of terrorism were estimated to reach €2.53 billion on an annual basis. The risk of terrorism is also related to the rule of law, which was the focus of another EPRS assessment.[1097] The findings from this study suggest that the benefits of further EU action to limit the risk of terrorism could be greater, in the order of €9.9 billion per year. The lower, more conservative estimate was considered more reliable as it draws from a study that focused exclusively on terrorism.

Table 26 presents an overview of the costs for a selection of serious crimes with the highest estimated revenue and key cost categories related to terrorism. The estimated potential benefits of EU action to address them are also depicted.

Table 26: Summary table

	Cost category	Potential benefits of EU action
Terrorism[a]	Human costs	€83 million per year
	Property damage	€2 million per year
	Economic damage	€2.45 billion per year
	Total	€2.53 billion per year
Serious crime[b]	MTIC fraud	€6.9 billion to €14.1 billion per year
	Illicit drugs	€3.6 billion to €4.8 billion per year
	Illicit waste	€506 billion to €2 079 million per year
	Illicit cigarettes	€1.09 billion to €1.37 billion per year
	Total	€12.1 billion to €22.4 billion per year
Total		**€14.7 billion to €24.9 billion per year**

Source: EPRS.

Notes: Figures were estimated and inflated to 2021 using the sources indicated below.
[a] W. Van Ballegooij and P. Bakowski, The fight against terrorism: Cost of Non-Europe Report, EPRS, May 2018. Estimates from 2013-2016 were annualised and inflated to 2019 using the consumer price index.
[b] European Commission, Mapping the risk of serious and organised crime infiltrating legitimate businesses – final report, 2021. Selection of serious crimes with the highest revenue in the EU.

[1097] Analysis based on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

European Parliament position

The European Parliament supports the actions taken by the European Commission to tackle the risks posed by serious crime and terrorism, particularly with respect to information exchange and cooperation between EU agencies, Member States and non-EU countries, and greater use of coordinated operations through platforms and tools such as the European Multidisciplinary Platform Against Criminal Threats (EMPACT).[1098]

The Parliament draws attention to the threats posed by disinformation to security and that combating discrimination should be central in the Security Union Strategy.[1099] It welcomes the EU's Counter-Terrorism Agenda while calling for a holistic approach that encompasses not only security policies, but also education, culture, non-discrimination and social policies. It considers that social inequalities are at the root of radicalisation and considers that the immediate removal of terrorist content online, effective since June 2022, is key to this effort.

The Parliament has identified other areas for further attention. With respect to human trafficking, the Parliament has called for stronger measures to protect women, children and migrants, who are disproportionately at risk. It has also identified key areas for amendment in the Anti-Trafficking Directive and called for a specific and dedicated EU Strategy towards the Eradication of Trafficking in Human Beings.[1100]

On organised crime, the Parliament has highlighted the need to better tackle environmental crimes that affect biodiversity and natural resources – for example, by broadening the mandate of the European Public Prosecutor's Office to include cross-border environmental crimes.[1101] The Parliament has also called to widen the scope of obliged entities that will be subject to supervision as part of the EU's efforts to counter money laundering and terrorist financing, and to take technological innovation and developments into consideration.[1102]

Commission and Council responses so far

One of the four priorities of the European Commission's EU Security Union Strategy for 2020 to 2025 is to tackle terrorism and organised crime. The strategy seeks to build and strengthen EMPACT, introduce an action plan on trafficking of cultural goods, and develop a tool to monitor activities occurring in the Darknet. The strategy also recommends boosting the effectiveness of EU agencies, in particular Europol and the European Union Agency for Law Enforcement Training (CEPOL). In June 2020, the Council called for more EU external engagement on counter-terrorism and specific areas such as the prevention of radicalisation and terrorism financing.[1103]

[1098] European Parliament resolution of 17 December 2020 on the EU Security Union Strategy (2020/2791(RSP)).

[1099] European Parliament resolution of 17 December 2020 on the EU Security Union Strategy (2020/2791(RSP)).

[1100] European Parliament resolution of 10 February 2021 on the implementation of Directive 2011/36/EU on preventing and combating trafficking in human beings and protecting its victims (2020/2029(INI)).

[1101] European Parliament resolution of 15 December 2021 on the impact of organised crime on own resources of the EU and on the misuse of EU funds with a particular focus on shared management from an auditing and control perspective (2020/2221(INI)).

[1102] European Parliament resolution of 10 July 2020 on a comprehensive Union policy on preventing money laundering and terrorist financing – the Commission's Action Plan and other recent developments (2020/2686(RSP)).

[1103] Council of the European Union, Council Conclusions on EU External Action on Preventing and Countering Terrorism and Violent Extremism, 16 June 2020.

The Commission has also proposed to create a new EU agency dedicated to tackling money laundering (the Anti-Money Laundering Authority).[1104] This new authority could help to enhance the enforcement of EU legislation and promote coordination across the Member States.

In addition, the Commission has proposed EU-wide rules on crypto-assets as part of its priority to make Europe fit for the digital age.[1105] These rules include disclosure requirements for the issuance and trading of crypto-assets, consumer protection rules, and the authorisation and supervision of crypto-asset providers. While the regulation's general objectives do not include the tackling of serious crime, one of its specific objectives is to ' [limit] the risks of fraud and illicit practices in the crypto-asset market'. The European Parliament has also noted that the unregulated crypto-assets market is exploited by criminal and terrorist networks.[1106]

The Commission presented an EU Drugs Strategy 2021-2025, which was approved by the Council in December 2020.[1107] This initiative is significant in light of the high costs of illicit drug trafficking in the EU. Compared with the previous strategy, there is increased attention paid to the consequences of drug use on health and society, the use of internet platforms and online payment systems, and environmental crimes related to the production and transportation of drugs, particularly the chemical waste resulting from the production of synthetic drugs (amphetamine, methamphetamine and ecstasy).

Looking forward

The European Commission plans to propose measures to ensure the efficient transfer of criminal proceedings across Member States and help tackle cross-border crime.[1108] The initiative encompasses several proposals for new directives and regulations that concern inter-institutional cooperation, the treatment of personal data and electronic evidence, and further harmonising rules on criminal proceedings. At present, the transfer of proceedings in criminal matters is not regulated in the EU, although about half of Member States have ratified the European Convention on the Transfer of Proceedings in Criminal Matters. This Convention was adopted by the Council of Europe in 1972.[1109]

1104 Proposal for a regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations (EU) No 1093/2010, (EU) 1094/2010, (EU) 1095/2010, COM(2021) 421 final, European Commission.

1105 Proposal for a regulation on Markets in Crypto-assets, and amending Directive (EU) 2019/1937, COM(2020) 593 final, European Commission.

1106 European Parliament resolution of 15 December 2021 on the impact of organised crime on own resources of the EU and on the misuse of EU funds with a particular focus on shared management from an auditing and control perspective (2020/2221(INI)).

1107 Official Journal of the European Union, EU Drugs Strategy 2021-2025 (2021/C 102 I/01).

1108 Communication on the Commission work programme 2022 – Making Europe stronger together, COM(2021) 645 final, European Commission.

1109 European Parliament, Legislative train schedule – Transfer of criminal proceedings.

40. Access to justice

Potential benefit: €8.5 billion per year

Key proposition

The EU's Charter of Fundamental Rights provides for the right to a fair trial and the right to effective remedy, including the right to legal aid for those without sufficient resources. However, there are challenges to ensuring these rights in practice, particular for cross-border situations. This is largely due to differences between Member States in terms of their civil and criminal law and their approaches to enforcement.[1110] The European Parliament has long called for EU action to help ensure access to justice for different groups, including consumers, businesses and victims of crime, across a range of issues spanning the digital sphere and the environment.

The ability for individuals to seek justice to resolve grievances and for Member States to apprehend and investigate suspects in an appropriate manner is related to the rule of law. The EU's Justice Scoreboard provides insights into the effectiveness of national justice systems and is part of the EU's Rule of Law Toolbox.[1111] Harmonised approaches across Member States in the area of justice can also promote mutual trust, citizens' freedom of movement and the efficiency of the internal market.

In recent years, the EU has made some advances towards promoting access to justice. For example, in October 2021 the EU amended the Aarhus Regulation to allow for greater scrutiny of measures 'of individual scope adopted under environmental law'.[1112] The European Commission has also proposed legislation to promote the digitalisation of cross-border judicial cooperation.[1113] However, further actions could be taken at EU level to generate benefits for society.

The European Parliament has called for further EU action to enforce existing legislation and introduce new measures. Such measures could promote the effectiveness of the European Arrest Warrant – an expedited cross-border judicial surrender procedure introduced after the 9/11 terrorist attacks and based on the principle of mutual recognition of judicial decisions – and harmonise procedural requirements and substantive criteria across the Member States. Promoting mutual recognition of judicial decisions could also help protect children, family relations and property relations and promote the mobility of companies in the EU.

Research carried out by EPRS finds that the net benefit of further EU action to promote access to justice could generate up to €8.5 billion per year. Further EU action could also generate social benefits such as improved health, and uphold fundamental rights such as the rights to free movement, dignity and liberty.

[1110] For example, gaps and loopholes in criminal procedural law across a selection of Member States are highlighted in: Criminal procedural laws across the European Union – A comparative analysis of selected main differences and the impact they have over the development of EU legislation, DG IPOL, European Parliament, August 2018.

[1111] European Commission, The 2022 EU Justice Scoreboard, May 2022.

[1112] V. Halleux, Access to justice in environmental matters: Amending the Aarhus Regulation, EPRS, March 2022.

[1113] The Commission proposed a regulation and a directive on the digitalisation of cross-border judicial cooperation in December 2021.

More detailed analysis of the potential benefit

As noted in the 2022 EU Justice Scoreboard, the effectiveness of judicial systems, including access to justice, is related to the rule of law, the European Semester and the Recovery and Resilience Fund. This is because the enforcement of rights can help to ensure a more stable environment for businesses to operate in and attract investment that leads to economic growth. Poor judicial cooperation can thus inhibit the single market. For example, one study drawing on evidence from five EU Member States concluded that EU action to promote the efficiency of commercial litigation could generate significant benefits that include greater competitiveness.[1114] Another study found that greater efficiency in court proceedings can promote the formation of companies, while greater confidence in an independent and well-functioning judicial system is associated with greater productivity.[1115] Here, poor judicial cooperation can inhibit the single market to the extent that it blocks the effective resolution of disputes.[1116] Findings from an EPRS assessment suggest that EU action to promote due process of the law and rights of the accused could generate benefits of around €0.6 billion per year.[1117] An EU directive on pre-trial detention would have the effect of reducing the number of individuals held in pre-trial detention and ensuring similar treatment for comparable offences.

A cost of non-Europe assessment finds that EU action on pre-trial detention could generate cost savings for Member States of around €115 million per year.[1118] The study finds other impacts, such as lower prison overcrowding and a reduction in associated impacts such as prison suicides and deaths,[1119] and promotion of the effectiveness of mutual recognition instruments in the area of EU criminal justice. EU action on pre-trial detention would be a strong signal for the promotion of the rule of law, which is related to investment and economic output. Findings from an EPRS assessment suggest that EU action to promote respect for the right to life and security (unreasonable arrest and detention) could lead to economic benefits of around €3.7 billion per year, while EU action to reduce unreasonable pre-trial detention could generate about €4.3 billion per year.[1120]

The amendments to the Aarhus Regulation could lead to members of the public directly contesting legal acts on environmental issues as well as scrutiny of administrative acts requiring implementing measures at national and EU level. These amendments could lead to more challenges in court, which could generate administrative costs for the European Commission and the Court of Justice of the European Union (CJEU) and heighten uncertainty for some businesses while generating positive impacts for NGOs and the environment.[1121]

1114 F. Van Dijk, Economic value of the judiciary: a pilot study for five countries on volume, value and duration of large commercial cases, 2021.

1115 V. Bove and L. Elia, The judicial system and economic development across EU Member States, JRC Technical Report EUR 28440 EN, 2017.

1116 European Commission, Business Journey on the Single Market: Practical Obstacles and Barriers, October 2020.

1117 Analysis based on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

1118 W. Van Ballegooij, The cost of non-Europe in the area of procedural rights and detention conditions, EPRS, December 2017. The study estimates cost savings of €162 million per year. This figure was adjusted to remove the UK and inflate costs from 2015 to 2022.

1119 Ibid. The cost of non-Europe report finds prison density exceeds 0.9 (an indicator of prison over-crowding) in at least 15 Member States.

1120 Analysis based on: W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

1121 European Commission, Study on EU implementation of the Aarhus Convention in the area of access to justice in environmental matters, September 2019. See Table 70 for a summary of the impacts of the policy options.

With regard to judicial cooperation, the EU could introduce a digital communication channel available to all Member States and suited to the needs of national judiciaries. Such a tool could generate positive economic, social and environmental impacts. A study found that economic benefits would primarily stem from time savings, lower legal fees, and lower travel costs. Overall, the net benefits for the EU would be an estimated €26 million while Member States would gain around €21 million per year, to reach a total of €47 million per year, which would offset the costs for installing and maintaining the IT system. Moreover, the digitalisation of judicial cooperation could lead to reductions in the number of staff in national authorities and courts needed to process cases as well as lower legal barriers – for example, by allowing for hearings by videoconference rather than in person. Lowering travel costs could also have positive environmental impacts.[1122]

Concerning the European Arrest Warrant (EAW), more could be done to promote the mutual recognition of judicial decisions – for example, the definition of judicial authority and the assessment of offences other than those for which double criminality is excluded – and to limit use of the EAW to serious offences.[1123] EU action could include funding to support the training of practitioners and the preparation of manuals and guidance, and supplementing legislation to clarify certain definitions and set standards, including an EU code in criminal matters. Such measures could increase the share of EAWs for serious offences and the share of EAWs that are executed, leading to lower costs of EAWs. Data suggest an upward trend in the number of EAWs issued and executed over time. In 2017, 17 491 EAWs were issued and 6 317 were executed.[1124]

Based on the evidence available, an EPRS study assumed that the costs of enforcing an EAW to the point of surrender could reach €20 000.[1125] EU action could help to avoid costs incurred for EAWs that are issued but not executed.[1126] Other potential benefits could include fewer lost working days and lower legal costs for individuals and lower costs for Member States in terms of courts and police. The potential benefits from EU action on the EAW were estimated to reach €280 million per year. The Victims' Rights Directive has helped to ensure that victims have the same rights wherever they are in the EU and wherever the crime occurred, but more could be done to promote the accessibility of support services across Member States.[1127]

Enhanced judicial cooperation across Member States could also be reflected in a code on international private law. This code could help to protect children, family relations and property relations, leading to a greater exercising of the right to free movement. The protection of property relations could also support the conclusion of contracts between companies across Member States and the protection of privacy.

[1122] European Commission, Impact assessment accompanying the proposal for a regulation on the digitalisation of judicial cooperation and access to justice in cross-border civil, commercial and criminal matters, and amending certain acts in the field of judicial cooperation, and proposal for a directive on amending Council Directive 2003/8/EC, Council Framework Decisions 2002/465/JHA, 2002/584/JHA, 2003/577/JHA, 2005/214/JHA, 2006/783/JHA, 2008/909/JHA, 2008/947/JHA, 2009/829/JHA and 2009/948/JHA, and Directive 2014/41/EU, as regards digitalisation of judicial cooperation, SWD(2021) 392 final; Section 6, see Option 2 – legislative option.

[1123] European Parliament LIBE Committee (rapporteur: Javier Zarzalejos, EPP), Report on the implementation of the European Arrest Warrant and the surrender procedures between Member States (2019/2207 (INI)), December 2020.

[1124] W. Van Ballegooij, European Arrest Warrant, EPRS, June 2020.

[1125] M. del Monte, Revising the European Arrest Warrant – European added value assessment. This figure is based on the experience of one Member State. More comprehensive and recent data has not been made available since the assessment was published. This figure was inflated to current prices for the calculation presented in the assessment.

[1126] This assessment assumes that EU action could reduce the number of EAWs issued by 30 % and increase the share of EAWs executed by 50 %. The estimate is based on the 2017 data.

[1127] The Victims' Rights Directive 2012/29/EU – European Implementation Assessment, EPRS, December 2017.

A cost of non-Europe report provides estimated benefits for 12 areas where mutual recognition could generate the most benefits.[1128] The findings suggest that EU action to address barriers to the mutual recognition of legal status or administrative decisions could reach at least €85 million per year.

Table 27: Summary table

EU action	Potential impacts	Estimated potential benefits
Promote judicial cooperation	Lower rates of unreasonable arrest and detention More effective resolution of disputes	€3.7 billion per year
Better enforcement of the European Arrest Warrant	Higher rate of executed warrants Deterrence of theft offences and criminal damage [1129]	€280 million per year
Digitalisation of justice	Higher volume of cross-border cases initiated by citizens and businesses Higher capacity of Member States to process cross-border cases	€47 million per year
Directive on pre-trial detention conditions	Less prison overcrowding and detention Lower costs to Member States to manage facilities and compensate individuals who are acquitted More rule of law	€4.3 billion per year in GDP gains €115 million per year in cost savings
Enhanced mutual recognition of legal status and administrative decisions	Enhanced freedom of movement for individuals and companies	€85 million per year
Enforcement of the Aarhus Regulation	Greater protection of the environment	Not quantified

Source: EPRS.

European Parliament position

The European Parliament has called for EU action to set standards on pre-trial detention and conditions of detention, as well as greater enforcement of procedural rights. It has also called on the European Commission to investigate how the modernisation of detention facilities could be financed via the EU Structural Funds.[1130] It considers that the European Arrest Warrant has had a

[1128] Cost of non-Europe Report – European Code on Private International Law, DG IPOL, European Parliament, 2013. The 12 areas are: laws protecting individual rights with respect to legal capacity, incapacity, names and forenames; family law with respect to recognition of de facto unions, recognition of same-sex marriages, parent-child relationships, adoption decisions, maintenance of de facto unions; property law with respect to gifts and trusts, movable and immovable property, agency and privacy.

[1129] The most common type of crime for executed EAWs is theft offences and criminal damage. Report from the Commission to the European Parliament and the Council on the implementation of Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedures between Member States, COM(2020) 270 final.

[1130] European Parliament resolution of 20 January 2021 on the implementation of the European Arrest Warrant and the surrender procedures between Member States (2019/2207(INI)).

positive impact on the Union, but that some changes could be made to promote the effectiveness of the legislation and ensure a coherent policy on mutual recognition that takes into account CJEU case law. These issues could be addressed through measures to promote implementation (e.g. training of practitioners), through the preparation of guidelines and recommendations, and through legislation on targeted issues such as the definition of judicial authorities. Additional legislation on pre-trial detention could also help to ensure procedural rights. This policy should take into consideration the harmonisation of criminal law across the Member States as well as CJEU case law. The good functioning of the criminal justice system is thus linked to the proposed EU mechanism on democracy, the rule of law and fundamental rights (see sub-chapter 37).[1131]

The Parliament has also drawn attention to the use of artificial intelligence (AI) by Member States in the areas of civil and criminal justice. It considers that the risks of automating activities under the state's authority using AI should be assessed and appropriate safeguards should be in place.[1132] It identifies core principles in the use of AI, which include transparency and traceability to ensure that AI systems are in line with the law and to promote the trust of individuals in law enforcement and criminal justice authorities.[1133]

The Parliament has repeatedly called for greater access to justice with regard to environmental issues. In June 2018, the Parliament expressed its concern that the EU's environmental rules were not in compliance with the Aarhus Convention and did not ensure sufficient access to justice;[1134] it reiterated its concerns in January 2020.[1135] The Parliament has also called for action to promote the cross-border recognition of child adoptions[1136] and representation in the case of incapacity.[1137]

Commission and Council responses so far

Following its evaluation of the European Arrest Warrant, the European Commission prepared guidelines on extradition and established a network of national contact points to expedite the exchange of information on extradition requests that may be considered unlawful.[1138] Based on a 2021 white paper,[1139] the Commission concluded that minimum standards for pre-trial detention and detention conditions could generate positive impacts and would be best achieved through soft law rather than new legislation.[1140]

1131 European Parliament resolution of 20 January 2021 on the implementation of the European Arrest Warrant and the surrender procedures between Member States (2019/2207(INI)).

1132 European Parliament resolution of 20 January 2021 on artificial intelligence: questions of interpretation and application of international law in so far as the EU is affected in the areas of civil and military uses and of state authority outside the scope of criminal justice (2020/2013(INI)).

1133 European Parliament resolution of 6 October 2021 on artificial intelligence in criminal law and its use by the police and judicial authorities in criminal matters (2020/2016(INI)).

1134 European Parliament resolution of 14 June 2018 on monitoring the application of EU law 2016 (2017/2273(INI)).

1135 European Parliament resolution of 15 January 2020 on the European Green Deal (2019/2956(RSP)).

1136 Protecting the best interest of the child (across borders) in Europe (2016/2665(RSP)) and Cross-border aspects of adoptions (2015/2086(INL)).

1137 European Parliament resolution of 1 June 2017 with recommendations to the Commission on the protection of vulnerable adults (2015/2085(INL)).

1138 Commission Notice – Guidelines on Extradition to Third States 2022/C 223/01, June 2022.

1139 Council of the European Union, Non-paper from the Commission services on detention conditions and procedural rights in pre-trial detention, 24 September 2021.

1140 T. Wahl, Commission and Council Discuss Way Forward on Pre-Trial Detention and Detention Conditions, EUCRIM, October 2021.

In December 2020, the EU adopted Directive 2020/1828 to ensure protection of the collective redress interests of consumers within the framework of the New Deal for Consumers.[1141] The Directive strengthens the role of consumer organisations and independent public bodies, not only to take legal action to protect consumers, but also so they can demand compensation for them.[1142] The Directive will take effect in the Member States from June 2023. In April 2022, the Commission launched a review of the adequacy of existing EU consumer law instruments to ensure consumer protection in the digital environment.

In December 2020, the Commission also adopted a new European judicial training strategy.[1143] The strategy's objectives include promoting e-training to address the needs of judges and prosecutors in ongoing cases, and ensuring that the EU laws on the rule of law and fundamental rights are reflected not only in basic judicial training but also in recurrent training.[1144]

In December 2021, the Commission adopted two proposals to promote the digitalisation of cross-border judicial cooperation in civil, commercial and criminal matters. The legislation would allow for oral hearings to be held online rather than in person, and for fees to be paid electronically in cross-border cases.[1145]

Looking forward

According to its 2022 work programme, the European Commission may propose a revision of the Victims' Rights Directive or new legislation by the end of 2022, with the aim of promoting access to justice for victims of all crimes, including victims of gender-based violence (see sub-chapter 42).[1146] The Commission's action would be informed by an evaluation presently underway and by stakeholder consultations.

The Commission is also preparing a legislative proposal to promote the recognition of parenthood; the establishment of parenthood is at present determined by national family law. Parenthood status is related to many rights – for example, the right to nationality.[1147]

[1141] Directive 2020/1828 on representative actions for the protection of the collective interests of consumers replaced Directive 2009/22/EC.

[1142] N. Sajn, Representative actions to protect the collective interests of consumers: A new deal for consumers, EPRS, January 2021.

[1143] Communication on Ensuring justice in the EU – a European judicial training strategy for 2021-2024, COM(2020) 713 final, European Commission.

[1144] T. Wahl, New Strategy on European Judicial Training for 2021-2024, EUCRIM, January 2021.

[1145] European Commission, Modernising judicial cooperation: Commission paves the way for further digitalisation of EU justice systems, Press release, 1 December 2021. The legislative initiatives build from the Communication on Digitalisation of justice in the European Union: A toolbox of opportunities, COM(2020) 710 final, European Commission.

[1146] Communication on the Commission work programme 2022 – Making Europe stronger together, COM(2021) 645 final, European Commission.

[1147] European Parliament, Legislative train schedule – Regulation on the recognition of parenthood between Member States.

41. Border control and visa policy

Potential benefit: €12.5 billion per year

Key proposition

EU action on border control and visa policy began with the signing of the Schengen Agreement in 1985. The Schengen external border acquis grew in subsequent years to include the Schengen Borders Code, which sets rules on cross-border movements of persons, and the Schengen Information System, which supports information sharing between national authorities. The Schengen area includes all EU countries except Cyprus and Ireland; Bulgaria, Croatia and Romania are in the process of joining the Schengen area. Iceland, Norway, Switzerland and Liechtenstein are also part of the Schengen area.

Nationals of a country in the Schengen area can travel freely to other countries in the area. Holders of a Schengen Visa can also freely travel to multiple European countries in the Schengen area for a limited time period. Yet, internal border checks present a significant obstacle to cross-border movements. Between 2015 and 2020, internal border checks were reintroduced 205 times by EU Member States, compared to 35 times between 2006 and 2014.[1148]

With regard to external borders, the European Border and Coast Guard Agency (EBCGA) monitors and screens persons arriving at these borders and carries out search and rescue missions at sea. There are, however, concerns about the occurrence of pushbacks, which may violate fundamental rights and the right to non-refoulement. There are also growing concerns regarding the instrumentalisation of migrants by State actors to threaten the stability of the EU and its Member States.[1149] More generally, the future portends widening social inequalities, climate change, environmental degradation and accelerating technological change, all of which have implications for migration, mobility and border control.[1150] Further EU action could:

- reinforce external borders with respect to public health threats and the instrumentalisation of migrants;
- clarify the conditions for reintroducing internal border checks and controls in a way that balances the need to ensure security with the need to ensure freedom of movement;
- uphold and enhance the EU rights and freedoms of mobile EU citizens and their families, third-country nationals with rights under EU migration and free movement laws, and asylum-seekers and refugees;
- digitalise visa procedures; and
- address the root drivers of displacement and irregular migration

[1148] H. Madatali, Schengen Borders Code – Revision of Regulation (EU) 2016/399, EPRS, March 2021.

[1149] For example, in 2021 Poland, Lithuania and Latvia took action to reinforce their external border with Belarus to block the passage of trafficked migrants.

[1150] European Commission, the Megatrends Hub.

Research carried out by the European Added Value Unit of EPRS for the European Parliament's Committee on Civil Liberties and Home Affairs (LIBE) concluded that the net benefit of further EU action in this area could generate at least €12.5 billion per year. Further EU action could also help to uphold fundamental rights, namely the rights to dignity, liberty, asylum and non-refoulement.

More detailed analysis of the potential benefit

Further EU action could lead to a more secure external border and greater freedom of movement in the Schengen area. This could generate benefits for the economy, particularly for tourism. The closures of internal borders due to the COVID-19 pandemic had direct impacts on the mobility of people and goods and on supply chains. In April 2020, the volume of goods traded within the EU was 30 % lower than in 2019. The decline can most likely be attributed to border closures and the uncertainty of consumer demand.[1151] In July 2022, France had internal border controls related to COVID-19, while five Member States (Austria, Denmark, Germany, Spain and Sweden) had internal border controls due to the war in Ukraine. Drawing on findings from a cost of non-Europe study, the costs associated with internal border controls in six EU countries was estimated to reach €157 million per year.[1152] A more structured approach to the process of introducing internal border controls, particularly in the face of crises, could help to secure the single market and its benefits.[1153]

EU action to reinforce external borders could reduce the level of irregular migration to the EU and its facilitation by human trafficking and smuggling networks.[1154] The assessment assumes that EU action could reduce irregular migration and its associated costs by 20 %. The associated costs concern migrant deaths at sea and forced return procedures, which were estimated to reach €1.65 billion per year. In 2021, there were 2 048 recorded deaths of migrants in the Mediterranean Sea.[1155] In 2019, about 29 % of return orders were carried out, of which about one third were forced returns.[1156] Only a small share of return orders are typically carried out and forced returns are expensive – about €3 414 per individual.[1157]

EU action to address the root causes of irregular migration, via projects aimed at education, health, infrastructure, innovation, good governance and women's empowerment, and tackling security threats could also have an impact.[1158] The digitalisation of visa procedures could also facilitate travel, thus impacting the economy, including the tourism sector. The potential benefits could reach €10.7 billion per year.[1159]

1151 J. Scott Marcus, [The impact of COVID-19 on the Internal Market](), Study requested by the IMCO Committee, DG IPOL, European Parliament, February 2021.

1152 Europe Economics, [Cost of non-Schengen – Impact of border controls within Schengen on the Single Market](), EPRS, April 2016.

1153 S. Carrera and N. Chun Luk, [In the name of COVID-19: An Assessment of the Schengen Internal Border Controls and Travel Restrictions in the EU](), Study requested by the LIBE Committee, DG IPOL, European Parliament, September 2020.

1154 See sub-chapter 39 on serious crimes and terrorism.

1155 International Organisation on Migration, [Missing Migrants Project]().

1156 Eurostat, 491 195 return orders were issued (migr_eiord) and 142 320 returns were carried out (migr_eirtn), of which 44 036 returns were forced (migr_eirt_vol).

1157 W. Van Ballegooij and C. Navarra, [The Cost of Non-Europe in Asylum Policy](), EPRS, October 2018.

1158 See sub-chapter 45 on asylum policy.

1159 Proposal for a regulation amending Regulations (EC) No 767/2008, (EC) No 810/2009 and (EU) 2017/2226 of the European Parliament and of the Council, Council Regulations (EC) No 1683/95, (EC) No 333/2002, (EC) No 693/2003 and (EC) No 694/2003 and Convention implementing the Schengen Agreement, as regards the [digitalisation of the visa procedure](), European Commission, 27 April 2022. The proposal estimates benefits of €53.3 billion over the 2025-2029 period, which were annualised for this study.

Table 28 presents an overview of the potential quantifiable benefits stemming from EU action on borders and visas. EU action could also seek to ensure that the fundamental rights of migrants are respected at the border and ensure access to effective remedy. EU action to ensure the respect of measures to promote efficiency and time limits are especially prone to curbing these rights.[1160]

Table 28: Summary table

EU action	Potential impacts	Estimated potential benefits per year
	Fewer deaths at sea	€1.65 billion
	Fewer number of forced returns	
Limit internal border controls	Promote free movement of persons and goods	€116 million
	Higher number of visa applicants due to lower costs and barriers	€10.7 billion

Source: EPRS.

European Parliament position

The European Parliament has called for EU action to set standards on pre-trial detention and conditions of detention, as well as greater enforcement of procedural rights. It has also called on the European Commission to investigate how the modernisation of detention facilities could be financed via the EU Structural Funds.[1161] It considers that the European Arrest Warrant has had a positive impact on the Union, but that some changes could be made to promote the effectiveness of the legislation and ensure a coherent policy on mutual recognition that takes into account CJEU case law. These issues could be addressed through measures to promote implementation (e.g. training of practitioners), through the preparation of guidelines and recommendations, and through legislation on targeted issues such as the definition of judicial authorities. Additional legislation on pre-trial detention could also help to ensure procedural rights. This policy should take into consideration the harmonisation of criminal law across the Member States as well as CJEU case law. The good functioning of the criminal justice system is thus linked to the proposed EU mechanism on democracy, the rule of law and fundamental rights.[1162]

The Parliament has also drawn attention to the use of artificial intelligence (AI) by Member States in the areas of civil and criminal justice. It considers that the risks of automating activities under state authority using AI should be assessed and appropriate safeguards should be in place.[1163] It identifies core principles in the use of AI, which include transparency and traceability to ensure that AI systems

[1160] Returns recast.

[1161] European Parliament resolution of 20 January 2021 on the implementation of the European Arrest Warrant and the surrender procedures between Member States (2019/2207(INI)).

[1162] European Parliament resolution of 20 January 2021 on the implementation of the European Arrest Warrant and the surrender procedures between Member States (2019/2207(INI)). See also sub-chapter 37.

[1163] European Parliament resolution of 20 January 2021 on artificial intelligence: questions of interpretation and application of international law in so far as the EU is affected in the areas of civil and military uses and of state authority outside the scope of criminal justice (2020/2013(INI)).

are in line with the law and promote the trust of individuals in law enforcement and criminal justice authorities.[1164]

The Parliament has repeatedly called for greater access to justice with regard to environmental issues. In June 2018, the Parliament expressed its concern that the EU's environmental rules were not in compliance with the Aarhus Convention and did not ensure sufficient access to justice;[1165] It reiterated its concerns in January 2020.[1166] The Parliament has also called for action to promote the cross-border recognition of child adoptions[1167] and representation in the case of incapacity.[1168]

Commission and Council responses so far

In the New Pact on Asylum and Migration, the European Commission proposes to introduce a pre-entry screening procedure to allow national authorities at the external borders to channel irregular migrants to asylum or return procedures. The Commission has also proposed changes to the Schengen Border Code to promote a more structured and EU-level approach to introducing internal border controls in times of crisis,[1169] and to limit the instrumentalisation of migrants, as has been done on the border with Belarus.[1170] The Commission has also committed to improving the visa application process, including allowing online submissions of applications by 2025.[1171] The European Travel Information and Authorisation System (ETIAS), another digital platform to monitor security risks among travellers crossing the external borders, is expected to become operational in May 2023.

Looking forward

The Commission is planning to adopt a strategy on the future of Schengen and to set up a Schengen Forum to facilitate high-level debate with the European Parliament and the Council. The Parliament welcomes this development as a means to rebuild mutual trust across the Member States following the COVID-19 pandemic. The Parliament will also be examining the Commission's proposal to revise the Schengen Borders Code to ensure that it can be more effective, particularly in a crisis.[1172]

1164 European Parliament resolution of 6 October 2021 on artificial intelligence in criminal law and its use by the police and judicial authorities in criminal matters (2020/2016(INI)).

1165 European Parliament resolution of 14 June 2018 on monitoring the application of EU law 2016 (2017/2273(INI)).

1166 European Parliament resolution of 15 January 2020 on the European Green Deal (2019/2956(RSP)).

1167 Protecting the best interest of the child (across borders) in Europe (2016/2665(RSP)) and Cross-border aspects of adoptions (2015/2086(INL)).

1168 European Parliament resolution of 1 June 2017 with recommendations to the Commission on the protection of vulnerable adults (2015/2085(INL)).

1169 Proposal for a regulation amending Regulation (EU) 2016/399 on a Union Code on the rules governing the movement of persons across borders, COM(2021) 891 final, European Commission.

1170 Proposal for a regulation addressing situations of instrumentalisation in the field of migration and asylum, COM(2021) 890 final, European Commission.

1171 Proposal for a regulation amending Regulations (EC) No 767/2008, (EC) No 810/2009 and (EU) 2017/2226 of the European Parliament and of the Council, Council Regulations (EC) No 1683/95, (EC) No 333/2002, (EC) No 693/2003 and (EC) No 694/2003 and Convention implementing the Schengen Agreement, as regards the digitalisation of the visa procedure, COM(2022) 658 final, European Commission.

1172 European Parliament resolution of 8 July 2021 on the Annual Report on the Functioning of the Schengen Area (2019/2196(INI)).

Chapter 9 – Gender equality, non-discrimination and civil rights

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
42	**Gender-based violence**	€38.1 billion per year	Lower judicial costs Lower costs of healthcare	Lower levels of assault, improved mental health Improved prevention and prosecution		Equality between women and men Protection from violence/right to life	
43	**Gender inequalities on the labour market and in care work**	€153.4 billion per year	Higher productivity	Higher employment, especially for women Reduced gender earnings gap Reduced gender pension gap Improved well-being of both workers and people in need of care	Improved investment in potentially sustainable sectors, such as the care economy	Equality between women and men Right to life in dignity Fair and just working conditions	
44	**Equal treatment, non-discrimination and hate crime**	€0.5 billion per year	Greater utilisation of human capital	Social inclusion and cohesion, improved health and well-being		Fundamental right to non-discrimination Right to liberty and security	
45	**Asylum policy**	€18.5 billion per year	Lower costs of border security and surveillance	Lower levels of irregular migration, faster integration of asylum-seekers		Right to asylum and non-refoulement, right to respect for private and family life, right to liberty and security	

46	**Migrant discrimination on the labour market**	€74 billion per year	Greater utilisation of human capital Higher productivity Higher wages for migrants and nationals	Less exploitation Greater equality and social inclusion Reduced overqualification and 'brain waste'		Freedom to choose an occupation and right to engage in work Fair and just working conditions Freedom from exploitation Freedom from discrimination	
Total		**€284.5 billion per year**					

42. Gender-based violence

Potential benefit: €38.1 billion per year

Key proposition

Gender-based violence (GBV) is defined as an act of violence 'directed against a person because of his or her gender and expectations of his or her role in a society or culture'.[1173] While forms of GBV can be inflicted on both women and men, its victims are primarily women,[1174] since GBV stems from social norms that assign predetermined and subordinate roles to women and from structural inequalities between men and women that are evident worldwide, including in the European Union.[1175] The most recent EU-wide survey indicates that 33 % of women have suffered physical and/or sexual violence since the age of 15.[1176] The forms of GBV are wide-ranging and include acts such as domestic and intimate partner violence, stalking, femicide and female genital mutilation. More and more women and girls are experiencing harassment, stalking and other threats while online. The prevalence of cyber violence is expected to rise in the coming years, especially among adolescents, alongside rising internet and social media use.[1177]

Further EU action could be taken to tackle GBV.[1178] For instance, defining gender-based violence as a new area of crime under Article 83(1) TFEU could provide the basis for adopting a directive that sets minimum standards for the prosecution of GBV and the protection of its victims. Alternatively the EU could ratify the Istanbul Convention or extend the scope of the legislative framework on discrimination to include GBV. Non-legislative actions could be relevant as well, such as expanding the mandate of the equality bodies to include GBV, supporting harmonised data collection on GBV and supporting school programmes and training for civil servants on GBV. EU action to tackle GBV could generate up to €38 billion per year in the short run (less than five years) and up to €97 billion in the long run (10 years or more). This action could also promote coherence of the EU's gender equality and non-discrimination legislation.

More detailed analysis of the potential benefit

GBV has a range of negative impacts on the physical and mental health of victims, which can translate into economic costs for society. Overall, focusing on women, the European Institute for Gender Equality (EIGE) estimates that the costs of violence against women in the EU amount to €289 billion per year.[1179] These costs do not include the societal costs of gender-based cyber

[1173] Defining Violence against Women and Girls, UN Women webpage.

[1174] What is gender-based violence?, European Institute for Gender Equality (EIGE) website.

[1175] GBV is a form of gender inequality. For more on gender inequality in the labour market, see sub-chapter 43.

[1176] Violence against women: an EU-wide survey – Main results, European Union Agency for Fundamental Rights, 2014.

[1177] N. Lomba, C. Navarra and M. Fernandes, Combating Gender-based Violence: Cyber Violence, EPRS, 2021. See also sub-chapter 14 for more on digitalisation and cybersecurity.

[1178] C. Navarra, M. Fernandes and N. Lomba, Gender-based violence as a new area of crime listed in Article 83(1) TFEU, EPRS, 2021.

[1179] European Institute for Gender Equality (EIGE), The costs of gender-based violence in the European Union, 2021.

violence, which have been estimated at €49 billion to €89 billion,[1180] or the costs of violence against LGBTIQ people, who can also be victims of gender-based violence.[1181]

The potential benefits of criminalising GBV shown in Table 29 include gains in economic output and reductions in the use of the criminal and civil justice systems. The potential benefits can reach up to €25 billion in the short run (up to five years) and up to €84 billion in the long run (10 years or more).[1182] The cost of non-Europe figures are based on the short-run calculations to present a more conservative, lower bound of the gains that could be reached by 2032. Criminalising gender-based cyber violence at EU level could, by reducing costs, generate an additional 5-15 % in potential benefits.

Table 29: Overview of the potential benefits in the short term of criminalising gender-based violence, including cyber violence

		Estimated benefits
Gender-based violence[1]	Lost economic output	€4.1 billion
	Health services	€1.2 billion
	Criminal justice system	€1.9 billion
	Civil justice system	€55.6 million
	Social welfare	€1.1 billion
	Personal costs	€342 million
	Specialised services	€102 million
	Physical/emotional impact	€16.2 billion
	Overall	€25.1 billion
Cyber violence[2]		€13 billion
Total		€38.1 billion

Sources:
[1] C. Navarra, M. Fernandes and N. Lomba, Gender-based violence as a new area of crime listed in Article 83(1) TFEU, EPRS, 2021.
[2] N. Lomba, C. Navarra and M. Fernandes, Combating Gender-based Violence: Cyber Violence, EPRS, 2021.

Ratification of the Istanbul Convention could increase the rate of prosecution, thus deterring perpetrators and lowering prevalence. The increase in legal costs would be expected to be more than offset by the reduction in costs relating to a lower prevalence of GBV. Moreover, enhanced support for victims could help to mitigate the mental health consequences of cyber violence. Overall, this action could lead to a 6-12 % reduction in costs.

Non-legislative actions, such as making more funding available for EU and national awareness-raising campaigns, training of law enforcement officers and professionals working with victims, could lead to similar impacts, but with a smaller magnitude. Extending the Code of Conduct on Countering Illegal Hate Speech Online[1183] to include gender-based cyber violence could reduce the

[1180] N. Lomba, C. Navarra and M. Fernandes, Combating Gender-based Violence: Cyber Violence, EPRS, 2021.

[1181] W. Van Ballegooij with J. Moxom, Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report, EPRS, 2018.

[1182] C. Navarra, M. Fernandes and N. Lomba, Gender-based violence as a new area of crime listed in Article 83(1) TFEU, EPRS, 2021.

[1183] Code of Conduct on Countering Illegal Hate Speech Online, European Commission, 2016.

circulation of threatening material and the negative mental health impacts on victims, generating a 15-24 % reduction in its costs.[1184]

European Parliament position

The European Parliament has long called for EU action to tackle violence against women. In 2014, it adopted a resolution calling for legislative action from the European Commission.[1185]

In September 2021, the Parliament called for the criminalisation of gender-based violence under Article 83(1).[1186]

In December 2021, the Parliament called on the Commission to include gender-based cyber violence within the scope of its forthcoming proposal on violence against women.[1187]

Commission and Council responses so far

In March 2022, the Commission put forward a proposal for a directive on combating violence against women and domestic violence.[1188] The proposed legislation seeks to introduce measures to criminalise and sanction certain forms of GBV[1189] and set minimum standards across the EU to protect victims and ensure access to justice.

Looking forward

Negotiations between the EU institutions are underway and a directive is expected to be adopted by the end of the legislative term.

[1184] N. Lomba, C. Navarra and M. Fernandes, Combating Gender-based Violence: Cyber Violence, EPRS, 2021.

[1185] European Parliament resolution of 25 February 2014 with recommendations to the Commission on combating violence against women (2013/2004(INL)).

[1186] European Parliament resolution of 16 September 2021 with recommendations to the Commission on identifying gender-based violence as a new area of crime listed in Article 83(1) TFEU (2021/2035(INL)).

[1187] European Parliament resolution of 14 December 2021 with recommendations to the Commission on combating gender-based violence: cyber violence (2020/2035(INL)).

[1188] Proposal for a directive of the European Parliament and of the Council on combating violence against women and domestic violence, COM(2022) 105 final, European Commission.

[1189] These forms include rape based on lack of consent, female genital mutilation and certain forms of cyber violence.

43. Gender inequalities on the labour market and in care work

Potential benefit: €153.4 billion per year

Key proposition

Gender inequalities in the labour market are significant; on average, women earn about 37 % less than men.[1190] This gap can be explained by the lower employment rate, lower number of hours worked and higher incidence of part time, and lower hourly wages for women compared to men. Women are disproportionately represented in low-wage jobs and less likely to advance to senior and management positions. Particularly vulnerable positions are occupied by certain groups of women – for example, women with a disability or with a foreign country of birth.[1191] The lower engagement of women in the labour market translates to lower productivity and GDP, as well as poorer mental health among women.

Tackling the gender earnings gap requires several considerations. Women are more likely than men to earn low wages. There is gender-based segregation across sectors and occupations, and occupations that are primarily carried out by women such as childcare, long-term care and domestic work are systematically undervalued and do not draw sufficient investment. Due to gender stereotypes and other factors, the burden of unpaid care work within households primarily falls on women. Women are more likely to suffer the consequences of more career breaks[1192] and of being more likely to have temporary contracts.[1193] The issue of gender-based violence is related to the extent that power relations between men and women are also not equal beyond the labour market.

A wide range of policy actions could be taken to tackle the different levers of the gender earnings gap. These actions could promote pay transparency, gender-sensitive classification of occupations and the relative wage scale, work-life balance, investment in the care economy and the formalisation and regularisation of vulnerable workers, where usually vulnerabilities are intersectional and reinforce each other – for example, worsening labour market conditions for women with a migrant background, which could also be addressed using legal migration policy instruments.[1194] Actions to ensure a minimum wage could also mitigate the gender earnings gap to the extent that women are disproportionately represented at the lower end of the wage scale.

EU action in these areas could help address systematic under-evaluation of women's work, of their unpaid care work, and of feminised professions, mitigate the gender earnings gap and generate positive impacts on the EU economy of around €153.4 billion to €197.6 billion per year in about 10 years.

[1190] D. Leythienne and M. Pérez-Julián, Gender pay gaps in the European Union – a statistical analysis, Eurostat, 2022.

[1191] EIGE, [Gender Equality Index 2019 – Work-Life balance]().

[1192] OECD 2012.

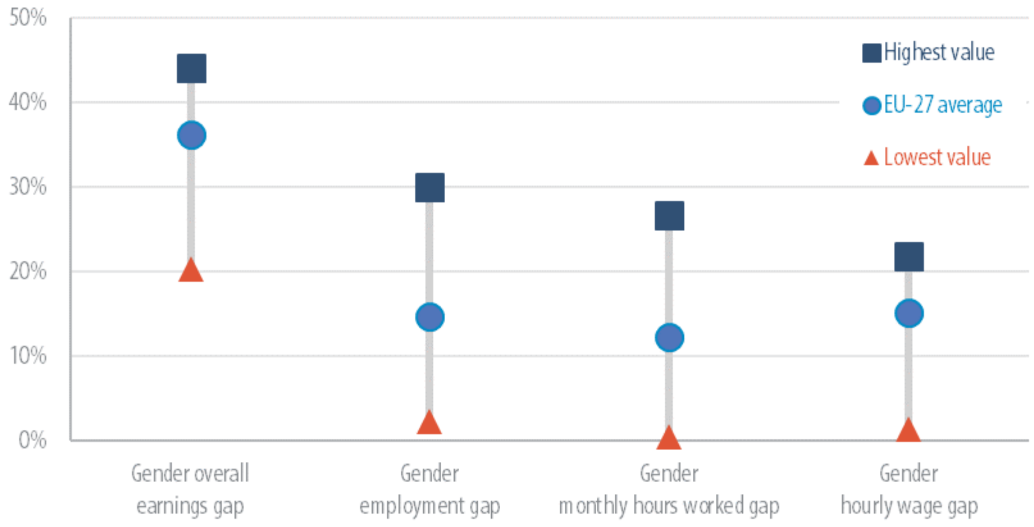
[1193] C. Boll and A. Lagemann, 2016. Other institutional factors, such as wage inequality, union coverage and decentralised bargaining can also affect the gender pay gap (OECD, 2012 and ETUC, 2008).

[1194] For example, undocumented domestic workers. See C. Navarra and M. Fernandes, [Legal migration policy and law](), EPRS, 2021.

More detailed analysis of the potential benefit

The Gender Overall Earnings Gap is composed of three levels of inequality between men and women, each of which serves as an entry point for policy intervention (see Figure 38). The first is the difference between men and women in the rate of employment, or the gender employment gap), which is estimated to be 14.6 % in the EU-27. The difference in the number of hours worked per year, which is largely driven by the higher incidence of part-time work among women, was estimated to be 12.3 %. Lastly, the difference in hourly pay between men and women, also known as the gender hourly pay gap, was estimated to be 14.4 %.[1195] About a third of this hourly wage gap can be explained by factors such as sector of work and education, while two thirds of the gap cannot be explained[1196] and is most likely due to discrimination. Gender inequalities in earnings are also reflected in the pension gap – pensions for women are about 37.2 % lower compared to men aged 65-79.[1197] The Gender Overall Earnings Gap varies widely across the Member States and is relatively higher in Austria, the Netherlands, Italy and Germany.

Figure 38: Gender gaps in the labour market in the EU



Source: EPRS, based on Eurostat.

Potential tools to address the earnings gap are:

- improving pay transparency and non-discriminatory wage-setting classifications;
- improving minimum wage legislation and employment security;
- investing in the care economy; and
- supporting work-life balance policies and rebalancing of care tasks in the household.

The potential benefits of each are described below.

Pay transparency measures typically allow workers to have more information about their pay in relation to other workers in the same organisation. Pay transparency measures can range from the

[1195] This estimate is weighted by the population of each Member State.

[1196] D. Leythienne and M. Pérez-Julián, Gender pay gaps in the European Union – a statistical analysis, Eurostat, 2022.

[1197] European Commission, Pension adequacy report 2018 and European Commission, 2018 Report on equality between women and men in the EU.

right to request information on pay to audits on pay structures within organisations, to the guarantee to have a **gender-neutral job classification** in place. The impact assessment of the proposed directive finds that pay transparency measures may reduce the unexplained part of the gender pay gap by three percentage points, leading to lower poverty, an increase in total earnings and higher government revenues due to higher tax receipts and lower social transfer outlays.[1198]

Minimum wage regulations can have greater benefits for women workers since they are over-represented among minimum wage earners. There is evidence of a process of 'feminisation' of low-paid jobs: on average, women represent the majority of workers in the bottom wage quintile. Interestingly, in Spain, France, Italy and Sweden employment in low-paid jobs was male-dominated in 1995 and female-dominated in 2019.[1199] In the EU, there is a higher share of minimum wage earners among female employees (8.7 %) than among male employees (5 %), and women account for more than 60 % of minimum wage earners (in some countries, this share reaches two thirds).[1200]

A study from Germany found that the introduction of a minimum wage would reduce the gender pay gap by 2.5 percentage points.[1201] This figure was then translated into GDP and extrapolated to the EU level.[1202] Together with minimum wage regulations, measures to limit the use of temporary and precarious contracts, of low-hours contracts and involuntary part-time would have a positive impact on women workers.

Investing in the care sector as an engine of the economy and as a provider of good employment could be a powerful driver to reduce gender inequality. Care work, whether carried out in homes or institutions, is systematically undervalued and the benefits of care work are not fully recognised by society. The result is a vicious cycle that ensures low investment in the care sector and reinforced gender inequalities.

Care is, moreover, a public good, whose provision generates benefits that go beyond those of its direct recipients. The benefits of investing in the care sector were estimated by considering that unmet needs for childcare and long-term care are reduced to 50 % and that wages of care workers

[1198] Commission Staff Working Document, Executive summary of the impact assessment report accompanying the proposal for a directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, SWD(2021) 42 final. It estimates a potential decrease of the gender pay gap by 3 percentage points. The estimated change in the gender pay gap was translated to GDP using this study: M. Del Monte, European added value assessment on the application of the principle of equal pay for men and women for equal work of equal value, European Parliament, 2016. This study found that decreasing the gender pay gap by one percentage point would increase economic growth by 0.14 %. This estimate was then adjusted to exclude care workers, who would be subject to similar benefits by other possible EU actions. The GDP reference used is the projected GDP in 2032 (EPRS projections).

[1199] Eurofound, European Jobs Monitor, 2021.

[1200] Eurofound, based on EU-SILC 2019 (EU-SILC 2018 for EU aggregate, UK and Ireland). The Member States considered here are only those with statutory minimum wages.

[1201] C. Boll, H. Hüning, J. Leppin and J. Puckelwald, Potential Effects of a Statutory Minimum Wage on the Gender Pay Gap: A Simulation-Based Study for Germany, DIW SOEP, 2015. The estimated change in the gender pay gap was translated to GDP using M. Del Monte, European added value assessment on the application of the principle of equal pay for men and women for equal work of equal value, European Parliament, 2016. This study found that decreasing the gender pay gap by one percentage point would increase economic growth by 0.14 %. This estimate was then adjusted to exclude care workers, who would be subject to similar benefits by other possible EU actions.

[1202] The GDP reference used is the projected GDP in 2032 (EPRS projections). This estimate was then adjusted to exclude care workers, who would be subject to similar benefits by other possible EU actions. To avoid double-counting, the estimate of the cost of non-Europe on minimum wages in sub-chapter 30 is subtracted here (€6.1 billion per year).

converge to the average salary to approximate better working conditions.[1203] A proper estimate of the public expenditure and investment needed to meet these needs is not available; from an EPRS approximation (that corresponds to a 10 % increase of the current expenditure of 2.5 % of GDP for childcare and long-term care), it still results in benefits that by far outweigh the costs.[1204]

Work-life balance measures and investments in care work together can also help to rebalance unpaid care work responsibilities within households. Research by the European Institute for Gender Equality (EIGE)[1205] highlights how unpaid care work plays a gendered role in labour market outcomes in the EU:

- an estimated 24 % of women who are not employed consider that they would work in the absence of care responsibilities, compared with 6 % of inactive men;
- about 30 % of women who work part-time would consider working full-time in the absence of care responsibilities, compared with 6 % of men working part-time;
- women with children and no access to childcare earn about 5 % less per hour. Men in a similar situation also earn less, but to a lower degree (3 %).

These figures were used to estimate that the 'unpaid care penalty' faced by women is at least €242 billion per year.[1206] It was assumed that EU action to promote the equal earner-equal carer model could reduce the unpaid care penalty by 10 % to 20 %. The estimated potential benefit of this EU action takes into account the expected benefits of the Work-Life Balance Directive,[1207] which were estimated to be about €13 billion per year and which derive principally from improved access to different forms of leave and of flexible working arrangements.[1208]

The expected impact of new legislation and enforcement of new measures to combat the gender earnings gap is highlighted in Table 30.

[1203] M. Fernandes and C. Navarra, What if 'care work' were recognised as work and an engine for sustainable growth?, 2022. The impact on children's future earnings is discounted by 50 % to approximate the impact over a 10-year horizon.

[1204] This analysis relied on an estimation of costs via two approaches which led to similar findings. The first approach assumed that increased investment in the care sector, spurred by EU action, could approximate to 10 % of the current public expenditure by the EU and Member States on childcare and long-term care. These additional costs were subtracted from the potential benefits (between €46 billion and €75 billion per year). The second approach relied on a study from Austria, which found that every euro spent in long term care generates 1.7 euro of added value (G. Streicher et al., The Economic Impact of Long-Term Care Services, Österreichisches Institut Für Wirtschaftsforschung, Working Paper No 580/2019). The multiplier effect was applied to the potential benefits of investment in childcare and long-term care to infer the level of costs.

[1205] European Institute for Gender Equality, Gender inequalities in care and consequences for the labour market, 2021.

[1206] M. Fernandes and C. Navarra, What if 'care work' were recognised as work and an engine for sustainable growth?, 2022.

[1207] Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU.

[1208] Since the Work-Life Balance Directive is now in force, the estimated benefits of €13 billion were subtracted from the estimated benefits of further EU action in the care sector related to unpaid care work. After this subtraction, the benefits correspond to at least €11 billion per year.

Table 30: Overview of potential benefits from EU action

Areas for further EU action	Expected gains in GDP	Other sources of European Added Value
Pay transparency	€63.3 billion per year	Gender equality; higher productivity; improved well-being, particularly for vulnerable segments of the population (e.g. elderly and migrant care workers)
Minimum wage legislation	€46.6 billion per year	
Investment in the care economy	€32.5 billion to €52.7 billion per year	
Promotion of equal earner-equal carer model	€11 billion to €35 billion per year	
Total cost of non-Europe	**€153.4 billion to €197.6 billion per year**	

Source: EPRS.

European Parliament position

In June 2022, the European Parliament voted to enter into negotiations on the proposal presented by the Commission in March 2021 for a directive to strengthen the application of the principle of equal pay for equal work[1209] or work of equal value between men and women through pay transparency and enforcement mechanisms, as well as through gender-neutral approaches to setting wages.[1210]

In its resolution on the care strategy,[1211] the Parliament called for care to be recognised as a right and as the backbone of society. It also identified a range of measures for a Care Deal for Europe, including: recognition of professional qualifications of paid care workers; investments to upgrade the skills of formal care workers in line with a harmonised career structure and to ensure good administration; a guarantee of decent wages, social rights and working conditions for care workers in line with the 2021-2017 EU strategic framework on health and safety at work, including workers' representation and collective bargaining; more EU funds and/or specific targets to upgrade care infrastructure; support for Member States to reform and integrate their social services and protection systems in order to ensure equal access to care services; recognition of the different types of unpaid care workers and support for them and the persons being cared for (e.g. financial support and rehabilitation services); and access to better working conditions for unpaid care workers (e.g. additional time off and work-life balance measures).

The Parliament's resolution of 25 November 2021 on legal migration policy and law[1212] paid specific attention to care workers. It called for the possibility for seasonal workers to change employer, in order to address the situation of numerous third-country workers, particularly low-skilled third-country workers, who hesitate to leave an exploitative employer because it would mean that they would lose their work permit and their right to stay in the Union.

[1209] Proposal for a directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, European Commission.

[1210] European Parliament, Gender pay gap: Parliament backs binding pay-transparency measures, Press release, 5 April 2022.

[1211] European Parliament resolution of 5 July 2022 towards a common European action on care (2021/2253(INI)).

[1212] European Parliament resolution of 25 November 2021 with recommendations to the Commission on legal migration policy and law (2020/2255(INL)).

In its resolution of 15 February 2022 on the challenges for urban areas in the post-COVID-19 era,[1213] the Parliament 'recognises the burden placed on women as principal caregivers in formal and informal settings, and the social value of that care, especially during the COVID-19 crisis'.

In its resolution of 21 January 2021 on the EU strategy for gender equality,[1214] the Parliament calls for affordable and good quality childcare and long-term care services that enable a return to employment, particularly for women, and facilitate a good work-life balance. It calls on the Commission to put forward a Care Deal for Europe, taking a comprehensive approach towards all care needs and services, and setting minimum standards and quality guidelines for care. It urges the Member States to swiftly and fully transpose and implement the Work-Life Balance Directive, and invites them to go beyond the Directive's minimum standards by introducing measures such as fully paid leave, the promotion of men's equal role as carers, the recognition of the role of informal carers by ensuring their access to social security and their right to pension entitlements, and flexible working arrangements that are not to the detriment or at the expense of the worker's wages, access to social and labour rights and allowances.

Commission and Council responses so far

The European Commission called for binding pay transparency measures in a legislative proposal put forward in March 2021.[1215] The legislation would oblige companies with at least 250 employees to report on the average pay of men and women by category of work defined as the same work or work or equal value. Employers would have to justify pay differences of at least 5 %. They would shoulder the burden of proof in the face of an allegation of pay discrimination, while victims could be eligible for compensation. This legislative proposal follows on from the Directive on Work-Life Balance, which came into effect in Member States in August 2019. The legislation provides for at least 10 working days of paternity leave, at least four months of parental leave, and five working days per year of carers' leave.[1216]

Building from the experience of the COVID-19 pandemic and the worsening of women's engagement in the labour market due to increased care responsibilities at home, the Commission developed a proposal for a European care strategy that would encompass support for care providers as well as care recipients and span all types of care, including childcare and long-term care.[1217] The strategy presented in September 2022 is accompanied by a proposal for a Council Recommendation on long-term care as well as a revision of the 'Barcelona targets', which were originally set in 2002 to promote high-quality and affordable childcare.

1213 European Parliament resolution of 15 February 2022 on the challenges for urban areas in the post-COVID-19 era (2021/2075(INI)).

1214 European Parliament resolution of 21 January 2021 on the EU Strategy for Gender Equality (2019/2169(INI)).

1215 Proposal for a directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, COM(2021) 93 final, European Commission.

1216 Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU.

1217 Communication on the European care strategy, COM(2022) 440 final, European Commission.

Looking forward

The Parliament is now engaging in negotiations on the care strategy. In the first committee meeting with Commissioner Dalli, FEMM Committee members welcomed the strategy, underlined the urgency of adopting it during the current legislature, and raised a number of issues, especially regarding the role of the public sector, the need for investment, and the attention paid to unpaid carers at home. The trilogue negotiations concerning the Pay Transparency Directive are underway and are expected to conclude during this legislature.[1218]

[1218] For more information, see European Parliament, Legislative train schedule – Binding pay transparency measures.

44. Equal treatment, non-discrimination and hate crime

Potential benefit: €0.5 billion per year

Key proposition

Equal treatment and non-discrimination are fundamental values of the European Union as reflected in the Treaties and the Charter of Fundamental Rights, as well as in EU secondary legislation. The prevalence of discrimination on different grounds and in different sectors is nonetheless high. As reported by the Fundamental Rights Agency (FRA), about 7 % of people in the EU-27 have experienced discrimination in a public setting in the past 12 months.[1219] Discrimination against racial and ethnic minorities, including Roma and recent migrants, is widespread and people with disabilities struggle to fully exercise their right to independent living. In addition, lesbian, gay, bisexual and transgender (LGBT) people are encountering new waves of discrimination and hate crimes. During the coronavirus pandemic, there was an uptick in racist and xenophobic incidents, as well as a disproportionately high infection and death rate among racial and ethnic minorities.[1220]

Research and evidence underscore intersectional forms of discrimination – for example, that discrimination experienced by female minorities may be different from discrimination faced by male minorities. The FRA's 2021 survey on crime, safety and victims' rights found that, while men and women experience a similar level of hate-motivated harassment, women were more likely to know the perpetrator.[1221]

Despite existing EU legislation and action, there are still significant gaps and barriers to equal treatment and to adequate prevention and prosecution of, and compensation for, hate crimes within the European Union. Further EU action could include adopting or amending legislation to extend protection against discrimination and hate crime, as well as promoting implementation and enforcement of the existing EU legislative framework. Together, the potential benefits of EU action to tackle discrimination could reach about €527 million per year. The EU could generate other significant social benefits, including better health and social cohesion, as well as the promotion of fundamental rights.

More detailed analysis of the potential benefit

A cost of non-Europe report identified a number of gaps and barriers in EU action and cooperation with respect to equal treatment, non-discrimination and hate crime.[1222] For example, international standards to empower persons with disabilities have not yet been fully incorporated. Persons with disabilities, religious minorities, and LGBTI people are not offered legal protection at EU level against discrimination outside employment. LGBTI people are also not covered by EU hate crime legislation.

[1219] Fundamental Rights Survey, 2020.

[1220] D. de Groot, EU legislation and policies to address racial and ethnic discrimination, EPRS, May 2022.

[1221] Fundamental Rights Agency, Crime, safety and victims' rights – Fundamental Rights Survey, February 2021.

[1222] W. Van Ballegooij with J. Moxom, Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report, EPRS, March 2018.

Surveys and case law also highlight shortcomings in the implementation of EU law and the need for more training, societal awareness and data collection, which could support better monitoring of the occurrence of discriminatory incidents and crimes and the response to them.

EU action to tackle these gaps and barriers could promote the fundamental rights of discriminated persons, and promote their full integration into society, as reflected in better health status, higher educational achievement, improved earnings and pension entitlements, and more adequate housing conditions. Health status may improve due to the alleviation of psychological stress due to discrimination as well as better access to healthcare. At a societal level, EU action on discrimination could also promote economic performance and social cohesion.

A wide range of EU actions could generate these potential benefits. The EU could accede to the European Convention on Human Rights,[1223] which could lead to more coherent protection of the fundamental rights of individuals across Europe. This could be especially beneficial for racial, ethnic and religious minorities, particularly by promoting their access to goods and services and consequently supporting their social inclusion and well-being. The EU could also take measures to promote the implementation and enforcement of existing legislation such as the Racial Equality Directive and the Employment Equality Directive. These measures could include reinforcing the mandate of equality bodies and promoting the training of law enforcement officers as well as investigative and prosecution authorities. An EU Pact for Democracy, the Rule of Law and Fundamental Rights (DRF) could also promote enforcement to the extent that it would monitor the situation of equality and institutional discrimination in the Member States.[1224]

Assuming that improved implementation and enforcement of EU equality legislation could reduce discrimination by 5 %, there would be an estimated net benefit of €196 million to €652 million (average: €424 million) per year.[1225]

With regard to EU legislation, protection against discrimination could be extended to grounds for which there is limited protection, including the grounds of religion and belief, sexual orientation, disability and age.[1226] Assuming that EU action would result in a 5 % improvement in the educational achievement and health status of the individuals concerned, this action would generate an estimated net benefit of €55 million per year in terms of GDP.[1227]

Lastly, EU legislation on hate crime could also be extended to offer protection to LGBTIQ people. Assuming that EU action would deter physical assault by 10 % and improve the mental health of the individuals concerned, this option could generate an estimated potential benefit of €48 million in GDP per year.[1228]

[1223] In accordance with Article 6(2) Treaty on European Union.

[1224] W. Van Ballegooij and C. Navarra, An EU mechanism on democracy, the rule of law and fundamental rights, EPRS, September 2020.

[1225] W. Van Ballegooij with J. Moxom, Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report, EPRS, March 2018.

[1226] This expansion would be in line with the 2008 proposal for a Horizontal Equality Directive, which has been blocked by the Council.

[1227] W. Van Ballegooij with J. Moxom, Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report, EPRS, March 2018.

[1228] Ibid.

Table 31: Summary table

EU action	Potential impacts	Estimated potential benefits
EU accession to the ECHR	Greater access to goods and social inclusion for racial, ethnic and religious minorities	Not estimated
Promote the implementation and enforcement of existing EU anti-discrimination legislation	Prevention of discrimination and promotion of access to justice	€424 million per year
Adoption of a horizontal directive to expand protection against discrimination to cover additional grounds	Improved health status and educational achievement of individuals at risk of discrimination and social cohesion	€55 million per year
Protection against hate crime	Better health and well-being of victims of hate speech	€48 million per year
Expand application of positive action and reasonable accommodation	Less residential segregation	Not estimated

Source: EPRS.

European Parliament position

The European Parliament has been a longstanding advocate for further EU action to tackle discrimination. In 2009, the Parliament adopted its position on a Commission proposal[1229] for a 'horizontal' anti-discrimination directive extending protections against discrimination based on religion and belief, sexual orientation, disability and age beyond the labour market,[1230] and has since called on the Council to adopt its position on the proposal as well.[1231]

In 2022, the Parliament began to prepare a report that calls for the Commission to develop a comprehensive agenda to tackle racism and discrimination on all grounds and in all areas.[1232] In 2019, the Parliament drew attention to the detrimental impacts of hate speech against people on the grounds of sexual orientation, gender identity and sex characteristics.[1233]

[1229] Proposal for a Council Directive on implementing the principle of equal treatment outside the labour market, irrespective of age, disability, sexual orientation or religious belief, COM(2008) 0426 final, European Commission.

[1230] European Parliament legislative resolution of 2 April 2009 on equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation (2008/0140(APP)).

[1231] European Parliament resolution of 1 March 2018 on the situation of fundamental rights in the EU in 2016 (2017/2125(INI)), paragraph 50.

[1232] European Parliament resolution of 10 November 2022 on racial justice, non-discrimination and anti-racism in the EU (2022/2005(INI)).

[1233] European Parliament resolution of 18 December 2019 on public discrimination and hate speech against LGBTI people, including LGBTI free zones (2019/2933(RSP)).

The Parliament has also highlighted the situation of people of African descent in Europe, in particular their high risk of being victims of hate crimes and the use of racial or ethnic profiling in criminal law enforcement.[1234]

The Parliament regularly prepares resolutions on the situation of fundamental rights in the EU. In its 2020 resolution, it condemned the structural racism faced by racial minorities, an issue raised by global 'Black Lives Matters' protests, and the 'increasing normalisation of fascism across the EU'.[1235]

The Parliament has also recognised that further benefits could be reaped from existing legislation through better enforcement and monitoring.[1236] Due to shortcomings in the enforcement of equality legislation, the Parliament has also called for the conclusion of an EU Mechanism for Democracy, the Rule of Law and Fundamental Rights (DRF), which would promote the recognition and tackling of discriminatory acts and inequality.[1237]

Commission and Council responses so far

The European Commission has set the goal of achieving a Union of Equality and making the European Pillar of Social Rights a reality for all. In December 2021, the Commission invited the Council to consider adding hate crime and hate speech to the list of crimes specified in Article 83(1) TFEU.[1238] If the proposal for a Council decision is adopted, the Commission could propose a directive establishing minimum rules and sanctions on hate crime and hate speech on the grounds of race, religion, gender or sexuality.

The Commission has also moved forward with its implementation of the 'EU anti-racism action plan 2020-2025', which proposed a mix of legislative and non-legislative measures at the EU, national, regional and local levels to tackle discrimination.[1239] Each year (the latest being 21 March 2022), the Commission organises a Summit against Racism to mark progress made in its implementation. Following the action plan, the Commission is putting forward a proposal to strengthen the role and independence of the equality bodies.

[1234] European Parliament resolution of 26 March 2019 on fundamental rights of people of African descent in Europe (2018/2899(RSP)).

[1235] European Parliament resolution of 26 November 2020 on the situation of Fundamental Rights in the European Union – Annual Report for the years 2018-2019 (2019/2199(INI)).

[1236] European Parliament resolution of 10 March 2021 on the implementation of Council Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation in light of the UNCRPD (2020/2086(INI)).

[1237] European Parliament, Report on the establishment of an EU Mechanism on Democracy, the Rule of Law and Fundamental Rights (2020/2072(INL)).

[1238] Communication on A more inclusive and protective Europe: extending the list of EU crimes to hate speech and hate crime, COM(2021) 777 final, European Commission.

[1239] Communication on A Union of equality: EU anti-racism action plan 2020-2025, COM(2020) 565 final, European Commission.

Looking forward

The European Commission is expected to launch several initiatives to support the implementation of the 'Strategy for the rights of persons with disabilities 2021-2030'.[1240] One of the strategy's initiatives is the creation of a European disability card, which is currently undergoing pilot testing. In its draft report in preparation, the European Parliament calls on the Commission and the Member States to ensure the right to live independently in non-institutional and non-segregated settings. The Parliament will also continue its efforts in calling for a horizontal anti-discrimination directive.[1241]

[1240] European Commission, Union of Equality: Strategy for the Rights of Persons with Disabilities 2021-2030, March 2021.

[1241] European Parliament resolution of 13 December 2022 towards equal rights for persons with disabilities (2022/2026(INI)).

45. Asylum policy

Potential benefit: €18.5 billion per year

Key proposition

Asylum refers to the protection granted by a State to someone who has been forced to leave his or her home country to seek safety from persecution or serious harm. The right to asylum is a fundamental right, enshrined in the Charter of Fundamental Rights of the European Union, and granting it is an international obligation, first established in the 1951 Geneva Convention on the protection of refugees. In 2020, the EU Member States received about 416 600 applications for asylum, which was about 34 % lower than in 2019.[1242]

The refugee crisis of 2015-2016 exposed significant shortcomings in the EU's policy on asylum. In response to the war in Ukraine, the EU invoked, for the first time, the Temporary Protection Directive to immediately respond to the high influx of refugees crossing the EU's borders. A cost of non-Europe study drafted by the European Added Value Unit of EPRS for the Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE), in October 2018,[1243] estimated the cost of the status quo at approximately €49 billion per year.

Further EU action could be taken at all stages of the asylum journey, from the pre-arrival phase to the arrival, application and post-application phase. These measures could introduce a new category of visas for asylum-seekers ('humanitarian visas'), expand the mandate of the European Asylum Support Office (EASO), improve implementation and monitoring of the Common European Asylum System (CEAS), take individual preferences into account when identifying the Member State responsible for examining an asylum application, foster access to employment and integration, ensure human rights and financial accountability in external funding and returns to third countries, and ensure EU accession to the European Convention on Human Rights. Once the costs are considered, the net benefit of adopting such policy options would be at least €18.5 billion per year. Significant benefits could also be gained in terms of fundamental rights, namely the right to asylum and non-refoulement, the right to respect for private and family life and the right to liberty and security.

More detailed analysis of the potential benefit

The potential benefits of further EU action would stem from the reduction of costs for individuals due to inadequate protection of fundamental rights and freedoms, and economic impacts on Member States and the EU. The potential benefits, as shown in Table 32, include better compliance with international and EU norms and values, lower levels of irregular migration to the EU and lower costs for border security and surveillance, increased efficiency of asylum procedures, faster socio-

[1242] Eurostat asylum statistics, last viewed on 22 February 2022.

[1243] W. Van Ballegooij and C. Navarra, The Cost of Non-Europe in Asylum Policy, EPRS, October 2018. The estimates draw on statistics such as the number of asylum applicants from 2016 and 2017. The cost figures are not expected to be very different if more recent data is included as the situation has not changed substantially.

economic integration of asylum-seekers, increased employment and tax revenues, and reinforced protection of human rights in countries of return.

Table 32: Overview of the costs of the status quo and the potential benefits of further EU action

Potential EU action	Impact	Description	Potential gains that can be quantified
EU legislation on humanitarian visas	Irregular migration*	Costs of border security and surveillance and search and rescue missions	€0.4 billion to €0.6 billion per year
Cooperation with third countries	Impacts on external action and development cooperation	Costs associated with the attempt to limit departures from countries of origin and transit via external action tools	€1.7 billion per year
Foster access to employment and integration	Impacts on employment and integration	Costs of limited labour market integration of refugees and tax loss due to the shadow economy	€2.1 billion to €2.7 billion per year
Improve implementation and monitoring of the CEAS	Impacts on living and health conditions of asylum-seekers	'Value of life losses', costs related to detention and poor reception facilities, healthcare costs	€11.8 billion to €17.7 billion per year
Increase the mandate of the EASO	Impacts on the efficiency of procedures	Costs of inefficiencies in Dublin transfers, at the application stage and in cases of returns	€2.5 billion to €4.9 billion per year
	Total		**€18.5 billion to €27.6 billion per year**

Note: The assessment assumes that EU action could potentially reduce the costs of the status quo by up to 50 %.

Source: W. van Ballegooij and C. Navarra, The Cost of Non-Europe in Asylum Policy, EPRS, October 2018.
* Other costs of irregular migration are reflected in other sub-chapters. For example, the risk of closing internal Schengen borders is reflected in sub-chapter 41 on border control and visa policy, while the risks of organised crime are reflected in sub-chapter 39 on serious crimes and terrorism.

European Parliament position

The European Parliament calls for a significant reform of the EU's legal framework on asylum to promote its effectiveness, efficiency and coherence and the protection of fundamental rights. For example, the Parliament considers that the Dublin III Regulation, which serves to determine which Member State should examine an application for asylum, is neither effective nor efficient.[1244] In addition, it considers that measures put into place during the COVID-19 pandemic had a negative impact on fundamental rights, including the right to asylum.[1245]

[1244] European Parliament resolution of 17 December 2020 on the implementation of the Dublin III Regulation (2019/2206(INI)).

[1245] European Parliament resolution of 13 November 2020 on the impact of COVID-19 measures on democracy, the rule of law and fundamental rights (2020/2790(RSP)).

In a resolution adopted on 11 December 2018, the Parliament requested the Commission to submit, by 31 March 2019, a proposal for a regulation establishing a European Humanitarian Visa following the recommendations set out in the annex to that resolution.[1246]

Commission response so far

In September 2020, the Commission announced the New Pact on Migration and Asylum.[1247] The Pact includes new legislative and non-legislative initiatives with the overall aim of concluding the negotiations on the reform of the CEAS that began in 2016. The legislative initiatives include a new Asylum and Migration Management Regulation, a new Screening Regulation, a new Crisis and Force Majeure Regulation, an amended proposal revising the Asylum Procedures Regulation and an amended proposal revising the Eurodac Regulation. The Commission's proposal was accompanied by a Staff Working Document, but not an impact assessment.

Among the proposals put forward, the Commission seeks to integrate the asylum procedure into its overall approach to migration management, and to strengthen linkages between pre-screening and return procedures.

Looking forward

The Parliament is preparing its response to the Commission's proposal, which will draw on a horizontal impact assessment that was completed in August 2021.[1248] The study provides a critical assessment of the five proposals as to their legal coherence, compliance with fundamental rights, and application of the principle of solidarity and fair sharing of responsibility as enshrined in the Treaties. The Parliament is entering into negotiations with the Commission and the Council with the objective of reaching an agreement by the end of the current legislature.

[1246] European Parliament resolution of 11 December 2018 with recommendations to the Commission on Humanitarian Visas (2018/2271(INL)); W. van Ballegooij and C. Navarra, Humanitarian visas, European added value assessment accompanying the European Parliament's legislative own-initiative report, EPRS, October 2018.

[1247] Communication on a New Pact on Migration and Asylum, European Commission, September 2020.

[1248] The European Commission's legislative proposals in the New Pact on Migration and Asylum, DG IPOL, European Parliament, July 2021.

46. Migrant discrimination on the labour market

Potential benefit: €74 billion per year

Key proposition

Migrants face a number of barriers to integration and social mobility in the EU. With regard to the labour market, migrants who are third-country nationals (TCNs) have poorer outcomes compared to both natives and mobile EU workers. They are less likely to be employed and, even when they are, the work is more precarious. Employed migrant workers are more likely to have atypical working hours and to be overqualified for their jobs. The relatively poor position of migrant workers in the EU labour market can be at least partly ascribed to gaps and barriers in policies and laws, including at EU level. The discrimination faced by migrants can lead to exploitative situations, with negative impacts not only for them but also for the EU.

The EU could do more to promote the equal treatment of TCNs in the labour market. EU action could help to ensure that the rights of TCN workers are aligned with those of national workers, and that these rights are properly enforced. The gains to the EU economy could amount to about €74.0 billion per year. In addition, EU action could promote the right to equal treatment and help attract talent and skills to the EU.

More detailed analysis of the potential benefit

An estimated 15.8 % of men and 11.7 % of female TCNs experience discrimination at work in the EU.[1249] About 10 % say discrimination is a major obstacle in finding a job. The extent of discrimination towards people from ethnic minority backgrounds can be even larger, since experimental research shows a 40 % lower probability for them to be invited to a job interview.[1250] Beyond employment, according to the Fundamental Rights Agency, 'ethnic origin or immigrant background' is the most common ground for discrimination, experienced by 25 % of respondents.[1251]

An EPRS study identified two key challenges in the EU's legislative framework on legal migration policy and law. These challenges were the fragmentation of the legal framework and persistent barriers to equal treatment.[1252] Fragmentation of rights and conditions across seven main directives that apply to specific categories of migrants is the first source of lack of harmonisation of TCN treatment; for example, only migrants covered by the directives are eligible (with limitations) for the

[1249] Labour Force Survey, see C. Navarra and M. Fernandes, Legal migration policy and law, EPRS, 2021, Annex 1.

[1250] E. Zschirnt and D. Ruedin, Ethnic discrimination in hiring decisions: a meta-analysis of correspondence tests 1990-2015, Journal of Ethnic and Migration Studies, 42(7), 2016, pp.1115-1134.

[1251] Fundamental Rights Agency, Second European Union Minorities and Discrimination Survey, conducted in 2015-2016. In the five years preceding the survey, discrimination on the basis of skin colour and religion follow as the next most common grounds, with 12 % of respondents each.

[1252] C. Navarra and M. Fernandes, Legal migration policy and law, EPRS, 2021.

intra-EU recognition of qualifications, but only for those acquired in the EU. The lack of recognition of previous learning and qualifications is listed as one of the main barriers to finding a job.

Concerning equal treatment, only the Long-Term Residents Directive has an extensive provision. Lack of equal treatment is not just evident with regard to employment, but also to education and training[1253] and social security.[1254] The study also finds that the EU anti-discrimination framework does not fully extend to covering the ground of nationality, including the nationality of a TCN, and leaves little space for addressing multiple and intersectional forms of discrimination. Especially on the labour market, unfavourable labour conditions and the risk of exploitative situations have an intersectional dimension, and failure to recognise it may lead to failure to identify exploitative situations in, for example, sectors such as domestic care.[1255]

The disadvantage on the labour market is seen in the extent of over-qualification: highly-educated TCNs (those with a tertiary degree) are more likely to work in low- or medium-skilled jobs than EU citizens (including intra-EU migrant workers). This may be due to a number of barriers, the most critical ones being related to language skills and the limited recognition of professional credentials and experience, although legal restrictions and discrimination are also noteworthy.

As shown in Figure 39, TCNs are more likely to be part-time, temporary and work atypical hours, and less likely to be in supervisory positions. While EU mobile workers also suffer some disadvantages with respect to national workers, the gap is higher for TCNs. This is also true for young migrants and is, in some cases, stronger for women migrants. TCNs are more likely to earn low wages; indeed, there is evidence of a negative wage gap between TCN workers and nationals, 28 % of which remains 'unexplained'.[1256]

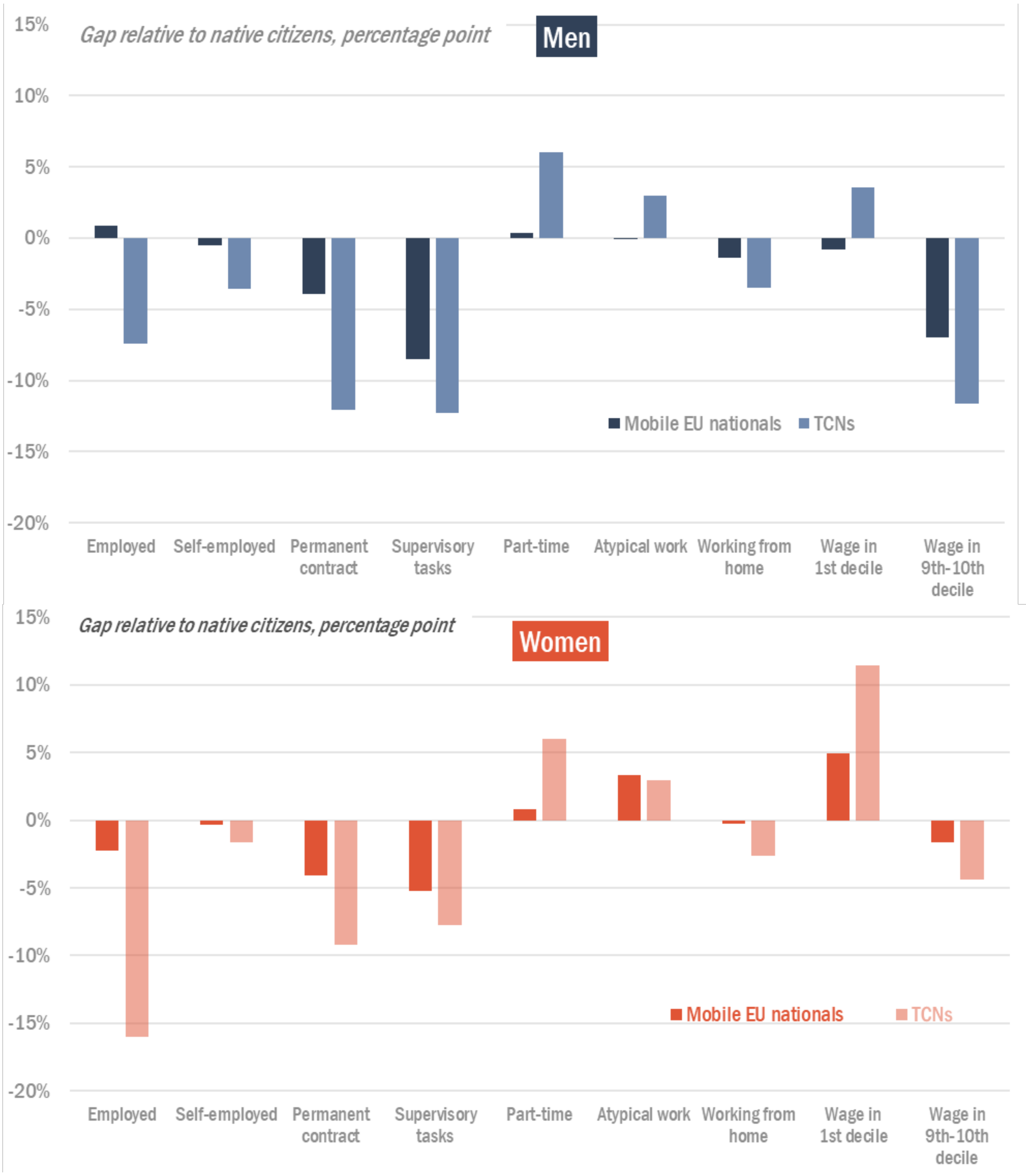
[1253] Especially the Intra-Corporate Transfer Directive, the Seasonal Workers Directive, and the Single Permit Directive. See W. Van Ballegooij and E. Thirion, The cost of non-Europe in the area of legal migration, EPRS, 2019.

[1254] See also P. Melin, The External Dimension of EU Social Security Coordination: Towards a Common EU Approach, Studies in EU External Relations, Volume 15, Brill, 2019.

[1255] See also Fundamental Rights Agency, Migrants in an irregular situation employed in domestic work: Fundamental rights challenges for the European Union and its Member States, 2011.

[1256] After accounting for personal and job-related characteristics (productivity and selection into less-paying sectors). See A. Cupák, P. Ciaian and d'A. Kancs, Comparing the immigrant-native pay gap: A novel evidence from home and host countries, LIS Working Papers, 2021.

Figure 39: Labour market differences between mobile EU nationals, third-country nationals and native citizens, 2019



Note: The sample includes individuals between 20 and 67 years old residing in the EU-27. Mobile EU nationals are migrants who are citizens of other EU Member States. TCN denotes third-country nationals. The gap is conditional on age, marital status, education, field of studies, and country of residence.

Source: [Legal migration policy and law (Annex 1)] – CEPS, using LFS data from 2019.

The EU can intervene to alleviate this situation by supporting recognition of previous learning and qualifications, by promoting the alignment of TCN workers' rights with those of nationals, by promoting the enforcement of workers' rights, and by reducing uncertainty on the pathway to accessing long-term residence status, which is an important tool to reduce discrimination against and the vulnerability of TCNs. These measures are expected to improve integration, protect fundamental rights, address intersectional inequalities, and improve economic growth (this latter impact has been quantified for some of the sub-options).

Table 33: Summary table

Policy option	Sub-options	Details and target group	Channel for macro-economic impact
Promote the recognition of professional qualifications		The target group are mainly overqualified medium- and highly skilled TCNs, especially those (48 % of highly educated TCNs) who work in low- or medium-skilled jobs and those who self-report over-qualification (34 % of all TCNs).	Greater investment in education by TCNs, with a consequent increase in human capital at high skill levels.
Improve workers' rights and work conditions for TCNs	**Align rights of TCNs with EU nationals**	The target group is composed potentially of all TCN workers, especially those who experience discrimination (15.8 % of men and 11.7 %, but the extent can be larger).	Reduction of 'institutional biases' that concentrate TCN workers in certain sectors, thus improving human capital allocation.
	Strengthen enforcement of TCN workers' rights	The EU could improve TCN workers' right to change employer, and extend the protective provisions of the Seasonal Workers Directive to all TCN workers; the EU could reinforce social dialogue and the role of trade unions and other associations in charge of migrants' rights; the mandate of the European Labour Authority could be expanded to include TCNs' working conditions and cooperation with national labour inspectorates could be improved.	The wage gap between migrants and nationals would be reduced, improving human capital allocation.
	Reduce uncertainty with respect to obtaining long-term residence status	The EU could allow new categories of TCN to be granted long-term residence status and make the residence conditions more flexible; it can also restrict the leeway that Member States use in interpreting the conditions for acquiring long-term resident status.	

Source: Legal migration policy and law, 2021. Items in bold are those quantified.

European Parliament position

In a May 2021 resolution,[1257] the European Parliament called for greater harmonisation and lower fragmentation of the EU legal framework to improve equal treatment, for the improvement of intra-EU mobility for TCNs residing in the EU, and for particular attention to be paid to vulnerable sectors, e.g. the ratification of the International Labour Organization (ILO) Convention 189 on domestic workers to ensure the full application of employment standards.

In a legislative report in November 2021,[1258] the Parliament called for a number of actions to reduce TCN discrimination and disadvantage on the labour market, namely a framework for validation and recognition of TCNs' skills and qualifications, a greater possibility for them to change employer, the possibility to apply for the single permit both from within and outside the EU, reduction of the residence period required to apply for long-term residence, and the inclusion of exploitation towards regular migrants in the Employers' Sanction Directive.

In 2022, the Parliament began to prepare a report that calls for the Commission to develop a comprehensive agenda to tackle racism and discrimination on all grounds and in all areas (e.g. employment, health, education, social services).[1259]

Commission and Council responses so far

Following the presentation of the New Pact on Migration and Asylum in 2021, the European Commission presented its proposals for a recast of the Single Permit Directive and a recast of the Long-Term Directive in 2022. The proposal for a recast of the Single Permit Directive seeks to bolster the rights of TCNs who hold single permits by allowing them to change employers during the period of the permit's validity and allowing for workplace inspections.[1260]

Looking forward

The proposed recasts of the Single Permit Directive and the Long-Term Residence Directive have entered the ordinary legislative procedure in the European Parliament and the Council. In her September 2022 State of the Union address, Commission President von der Leyen underscored the need to 'speed up and facilitate the recognition of qualifications, also of TCNs'.[1261] A legislative proposal to promote the recognition of qualifications, including for TCNs, may be expected in 2023.

[1257] European Parliament, Report on New avenues for legal labour migration (2020/2010(INI)), 2021.

[1258] European Parliament resolution of 25 November 2021 with recommendations to the Commission on legal migration policy and law (2020/2255(INL)).

[1259] European Parliament resolution of 10 November 2022 on racial justice, non-discrimination and anti-racism in the EU (2022/2005(INI)).

[1260] T. de Lange, Recasting the Single Permit Directive: furthering the protection of migrants at work in the EU?, EU Migration Law blog, 13 July 2022.

[1261] 2022 State of the Union Address by President von der Leyen, 14 September 2022.

Chapter 10 – International cooperation, external action and global governance

		Impacts					
	Sub-chapter	**Additional GDP**	**Other economic**	**Social**	**Environmental**	**Fundamental rights**	**Other**
47	**Promoting sustainable trade and value chains at the global scale**	€133 billion per year	Improved investments and innovation Improved profitability of compliant firms Improved product quality Level playing field among companies	Reduced risk of race to the bottom on social standards globally Reduced short-termism in companies' behaviour Improved working conditions in the value chains	Reduced risk of race to the bottom on environmental standards globally	Reduced risk of violations of human rights in the value chains, also outside the EU	
48	**EU common defence**	€24.5 billion per year	Savings and greater efficiency of public spending Lower duplication and administrative costs				Avoid costs of lack of coordination
49	**Common diplomacy and promotion of multilateralism**	Mostly qualitative	Potential savings of a common diplomatic representation Avoid duplication of expenditure	Support reduction of global imbalances Support conflict prevention	Support multilateral arenas to address climate change	Grant consular protection to unrepresented EU citizens abroad Better protection of human rights worldwide	Greater efficiency in crisis and emergency management Support democratisation of multilateral arena

50	**Better coordination of development policy**	€12.2 billion per year	Employment generation Efficiency gains in public spending, reduction in transaction costs	Poverty reduction Reduction of inequalities, including gender inequalities	Improved tackling of climate change in most-affected areas	Support for human rights protection and inclusive institution building	Improved solidarity at the global level
Total		**€169.7 billion per year**					

47. Promoting sustainable trade and value chains on a global scale

Potential benefit: €133 billion per year

Key proposition

The EU remains the world's largest trading power when accounting for both trade in goods and services, and this provides the opportunity to help shape global trade to promote sustainability and upward convergence in environmental, social and governance standards. Still, in the context of global value chains, there is evidence of environmental harm and violations of human rights and of decent work standards that could be addressed through proper governance of trade relations and business conduct. EU action in this area would have positive social and environmental impacts and would also promote business practices other than short-termism and aggressive cost-reduction. This would have benefits for society and for companies themselves. The improved quality of production processes and trade would increase profitability, which could result in an additional GDP gain of between €133 billion and €215 billion per year in about 10 years. This corresponds to a bit less than 4-6 % of the value of the EU-27's international trade.

These are the economic benefits from avoiding a race to the bottom on social, governance and environmental standards. It would also reduce risks along global value chains and increase their resilience, which appeared as a major need in recent years due to COVID-19 and the war in Ukraine.

More detailed analysis of the potential benefit

The EU is committed to promoting trade and protecting human rights and the environment. There is a vast amount of literature about the gains from trade deriving from multilateral and bilateral trade agreements; analysis of EU bilateral free trade agreements (FTAs) points to a possible welfare effect (impact on GDP) of about €35 billion per year for an ambitious trade agreement with an industrialised country,[1262] but this varies greatly depending on the partner countries and the method used.[1263] Still, gains are expected to be far greater when trade occurs in a context of upward harmonisation of environmental, social and governance standards.[1264] Indeed, the global economic arena is a context of strategic complementarities,[1265] where rules that encourage players to act in an undesirable way can create incentives for other players to act similarly undesirably (e.g. by competing solely on costs and therefore lowering social and environmental standards).

1262 This is an estimate regarding the EU-Japan FTA: E. Sunesen, J. Francois and M. Thelle, Assessment of Barriers to Trade and Investment between the EU and Japan, Copenhagen Economics: Report to the European Commission, 2009.

1263 For example, a cautious scenario for the agreements with Australia and New Zealand estimates a potential economic gain for the EU of about €2.1 billion per year, while, according to the European Commission, the potential gain from the TTIP (in 2013) was about €68.2 billion for the EU. EPRS research finds that the potential impact of an FTA with India is €8 billion per year.

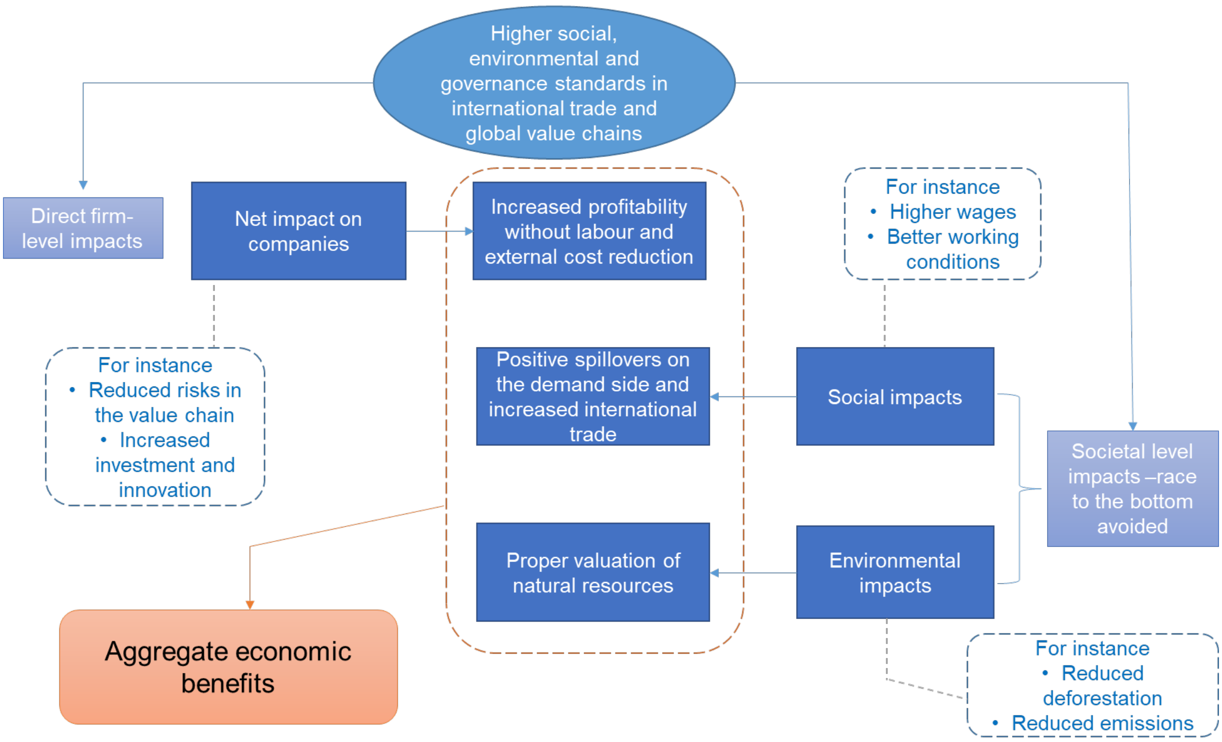
1264 C. Navarra, Assessing the potential impact of an EU-India trade agreement, EPRS, 2020.

1265 S. Reddy, International Trade as a Means to Diverse Ends: Development, Workers, the Environment, and Global Public Goods, in O. De Schutter, Trade in the service of sustainable development: Linking trade to labour rights and environmental standards, Bloomsbury Publishing, 2015.

There is therefore a gain from coordinated action aimed at reducing the incentives to lower social and environmental standards, and to avoid a 'race to the bottom'.[1266] The potential EU added value in favouring this convergence is relevant, even more in the context of the value chain disruptions due to the COVID-19 pandemic and the energy and food crisis related to the war in Ukraine, where proper coordinated governance of international trade could have major benefits.

Figure 40 depicts the potential economic gains of an upward harmonisation of global social and environmental standards. On the one hand, companies benefit from greater profitability by improving long-term goals, quality of products and incentives to innovation. On the other hand, better working conditions and environmental protection, together with being aims in themselves, would be engines of economic growth worldwide, and are also expected to benefit EU companies through increased trade.

Figure 40: Economic impacts of higher social and environmental standards



Source: EPRS.

Production has become strongly internationalised in recent decades, and its integration into global value chains (GVC) has increased sharply. This comes with potential positive consequences, and also potential downsides to be kept at bay, among which are the risk of contributing to rising inequalities: global income distribution has seen a decline in the share of labour incomes and an increase in the share of profits,[1267] most notably of large financial and non-financial corporations, that often benefit positions of market power on the global scale. The slowdown in some trade flows

[1266] European Commission, Reflection paper on harnessing globalisation, 2017.
[1267] World Bank, World Development Report: Trading for Development in the Age of Global Value Chains, 2020.

is not slowing down this phenomenon,[1268] as also shown by recent evidence on multinational enterprises (MNEs).[1269]

Business internationalisation happens for many reasons, among them seeking cost reductions; this, unless properly regulated, risks creating room for a race to the bottom and endangers human rights, the environment and social standards all over the world. According to a study,[1270] 62 % of forest loss in tropical and subtropical regions is attributed to the expansion of agricultural and tree plantations for the production of commodities. In terms of labour, the International Labour Organization (ILO)[1271] estimates that 24.9 million people are in forced labour globally and that 64 % of them are exploited in the private economy. Some value chains are particularly vulnerable to risks of human rights violations or lack of respect for social and environmental standards (the sectors considered at highest risk are agriculture, textiles, garments, apparel and footwear, extractives, and ICT manufacturing).[1272]

The EU can play an important role given its relevance as a global trade actor, and as an example of supranational governance. Furthermore, there is significant room to improve the sustainability of EU-driven trade and businesses. For example, a recent EPRS study focusing on global deforestation points to a relevant role for the EU in importing forest-risk commodities (see sub-chapter 10).[1273] The Fundamental Rights Agency has also identified a number of incidents related to rights enshrined in the Charter of Fundamental Rights involving EU companies, including within the EU.[1274]

Among the existing tools to promote sustainable development in and through trade are the Trade and Sustainable Development Chapters (TSDs) in trade agreements and codes for responsible business conduct (RBC). As regards the former, since the EU-South Korea agreement (2011) all 'new generation' FTAs include a TSD chapter.[1275] Parties agree to implement or ratify fundamental ILO conventions and multilateral environmental agreements, such as the Paris Agreement on climate change, and usually agree on a number of commitments to promote sustainable development. They have a dedicated dispute settlement mechanism, which involves recommendations by a panel of experts, but there is no formal requirement to follow up on the recommendations[1276] and there is no possibility of economic sanctions for parties that do not comply. This is one of the elements that has been criticised by some academic observers,[1277] who argue that TSD-related disputes should be settled like any other dispute in the FTA and should include sanctions. As regards human rights, the EU's bilateral agreements have an 'essential elements' human rights clause that enables one party

[1268] V. Kononenko et al., Slowing down or changing track? Understanding the dynamics of 'Slowbalisation', EPRS, 2020

[1269] UNCTAD data showed in 2014 that the top 1 % of exporting firms accounted on average for 57 % of exports. The 2022 UNCTAD World Investment Report finds that, in 2021, MNEs experienced record profits that translated into high levels of retained earnings.

[1270] F. Pendrill, U. Persson, J. Godar and T. Kastner, Deforestation displaced: trade in forest-risk commodities and the prospects for a global forest transition, Environmental Research Letters 14 055003, 2019.

[1271] ILO, Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, 2017.

[1272] These are the sectors monitored by the Corporate Human Rights Benchmark.

[1273] A. Heflich, An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment, EPRS, 2020.

[1274] Fundamental Rights Agency, Business-related human rights abuse reported in the EU and available remedies, 2019.

[1275] J. Titievskaia, Sustainability provisions in EU free trade agreements: Review of the European Commission action plan, EPRS, 2021.

[1276] J. Titievskaia, ibid, 2021.

[1277] M. Bronckers and G. Gruni, Retooling the sustainability standards in EU Free Trade Agreements, Journal of International Economic Law, 24(1), 2021, pp. 25-51.

to take appropriate measures in case of serious breaches by the other party; the generalised system of preferences (GSP), granting certain developing countries preferential trade access to the EU market, also includes human rights conditionality in case of massive violations.[1278] Still, research shows that human rights dialogues with trade partners produce non-binding conclusions and that stronger monitoring mechanisms and clearer enforcement mechanisms have been limited until now.[1279]

As regards RBC, currently, international codes of conduct for businesses do exist[1280] and play an important reference role, but they are not mandatory and their uptake by companies is limited.[1281] The EU has binding regulations only on two specific issues: a set of minerals extracted in conflict areas[1282] and timber derived from illegal logging. Still, research[1283] shows that value chain governance has an important impact on social outcomes of trade: the lead firm can actively shape the distribution of profits and risks in the value chain.[1284] Without a proper regulatory environment, market failures mean that businesses lack proper incentives to incorporate external effects and to introduce a long-term perspective in their actions, while often businesses respond to maximisation of shareholder value and risk engaging in damaging cost-cutting policies. The evidence of short-termism in corporate behaviour has also been highlighted recently by the Commission.[1285] Virtuous examples of Corporate Social Responsibility exist, but they are not systemic and there is evidence of an uneven playing field in the single market.[1286]

Recent EPRS research shows the positive expected outcomes of EU-level regulation of business conduct in global supply chains and illustrates that there is no trade-off at company level between profitability and compliance with environmental, social and governance (ESG) standards and policies. Companies that follow RBC practices increase the quality of their products and improve their production processes. On average, improving RBC on ESG standards could bring benefits to EU companies due to greater competitiveness based on quality instead of cost reduction. These are summarised in Table 34.

[1278] I. Zamfir, Human rights in EU trade agreements: The human rights clause and its application, EPRS, 2019; I. Zamfir, Human rights in EU trade policy: Unilateral measures applied by the EU, EPRS, 2018.

[1279] I. Ioannides, The effects of human rights related clauses in the EU-Mexico Global Agreement and the EU-Chile Association Agreement, EPRS, 2017; I. Ioannides, The Trade Pillar in the EU-Central America Association Agreement: European Implementation Assessment, EPRS, 2018; P. Lamy et al., Sustainable development in EU trade agreements: much ado about nothing?, Jacques Delors Institute, 2021.

[1280] Namely, the United Nations Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct.

[1281] C. Navarra, Corporate due diligence and corporate accountability, EPRS, 2020

[1282] Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas.

[1283] G. Gereffi and J. Lee, Economic and social upgrading in global value chains and industrial clusters: Why governance matters, Journal of Business Ethics, 133(1), 2016, pp. 25-38; ILO, Purchasing practices and working conditions in global supply chains: Global Survey results, INWORK Issue Brief No 10, 2017.

[1284] An example of an important criterion is the degree of dependency of contracting firms in developing countries on one or a few single buyers.

[1285] Commission Staff Working Document, Impact assessment report accompanying the proposal for a directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, SWD(2022) 42 final.

[1286] BIICL, Civic Consulting, LSE, Study on due diligence requirements through the supply chain, Final report on behalf of DG JUST, European Commission, 2020.

From the point of view of the single enterprise, we expect an increase in profitability between 1.89 % and 3 %, depending on the degree of its uptake and the ambition of its ESG standards.[1287]

Table 34: Impact of ESG responsible business conduct on companies

Scenarios		Average change in profitability[1288]	Impact on GDP
Lower scenario	All companies converge with the 'top performers'	+1.89 %	€133 billion per year
Higher scenario	All companies fully comply with ESG/RBC polices and their implementation	+3.05 %	€215 billion per year

Source: C. Navarra, Corporate due diligence and corporate accountability, EPRS, 2020.

Assuming a phasing-in of mandatory due diligence on ESG standards for all EU companies (and companies operating in the EU) over the next 10 years, this could translate into an increase in profits of between €133 billion and €215 billion per year in the next 10 years.[1289] This corresponds to between 3.7 % and 6 % of the value of the EU-27's international trade.[1290] Moreover, we know that companies that engage in global value chains have higher productivity and are often the so-called 'superstar firms', and are more likely to have higher mark-ups.[1291]

This estimate relies on two major assumptions. The first is that due diligence and RBC practices are substantial and actually change business practices away from short-termism, and are not mere tick-box exercises. Companies incur compliance costs, both one-off (instituting the due diligence policy, training, etc.) and recurring costs (data analysis, dedicated staff, etc.). The existing literature usually does not find them to be high compared to the value of sales, with some variability depending on the sector and the size of the firm.[1292] Another source of uncertainty is whether the financial market will develop accordingly in supporting investments that integrate higher ESG standards. Some signs point in this direction, reflected in the lower cost of capital for better performing companies, but policy support may play an important role.

The second assumption is that this increase in profits does not come at the expense of wages. This is the very core of RBC and due diligence: companies that implement them are more competitive (they face less legal costs, and have improved industrial relations, a better reputation, a lower cost of capital and lower risks), but their competitiveness does not derive from cost reductions on labour and exploitative relationships with the natural and social environment where they operate. This, in

[1287] A lower scenario is also explored in C. Navarra, ibid, 2020, where each company takes one step more in the implementation of ESG/RBC policies, which we consider as corresponding to a simple push to voluntary measures. Since we focus here on mandatory measures, we consider the two other scenarios only.

[1288] Return on Capital Employed. These are the results of an econometric analysis based on current ESG practices and performance indicators of a sample of EU firms in 2017. See C. Navarra, Corporate due diligence and corporate accountability, EPRS, 2020.

[1289] This is calculated assuming an average increase in profitability for EU companies that corresponds to the scenarios in Table 34 (lower bound and upper bound). This increase is applied to overall EU profits, calculated on the basis of a 41 % profit share of EU-27 aggregated income (Source: Eurostat, Online data code: nama_10_gdp) and this share is assumed to remain constant over the analysed time span. GDP is projected to increase following the current trend (EPRS calculation) and the GDP in 2032 is used for the calculation.

[1290] Eurostat, International trade in goods. In 2020, the value of the EU's international trade (export and import) was €3 646 billion.

[1291] P. Antràs, Conceptual Aspects of Global Value Chains, NBER Working Paper 26539, 2020.

[1292] C. Navarra, ibid, 2020.

turn, is expected to have positive impacts on social outcomes, as in the case of the Better Work Program of the ILO on the textile and garment industry,[1293] and on environmental outcomes, as estimated by EPRS in the event that regulation is introduced on imports of forest-risk commodities to the EU.[1294] These social and environmental outcomes are expected to increase worldwide demand, thus having a further positive impact on EU trade.

European Parliament position

The European Parliament is expressing itself increasingly strongly on EU trade policy, including raising concerns over some FTAs, such as the EU-Mercosur agreement.[1295] The Parliament has repeatedly called for greater enforcement of TSD chapters in EU FTAs – for example, in a 2021 resolution on the EU biodiversity strategy for 2030,[1296] where it called for binding and enforceable TSD chapters, including safeguards and 'effective, proportionate and dissuasive sanctions for non-compliance, including the possibility of reintroducing tariffs'. Most recently, in a 2021 resolution on trade-related aspects and implications of COVID-19,[1297] the Parliament stressed that ratification of ILO core conventions and respect for human rights are prerequisites for concluding trade agreements.

The Parliament is calling for stronger action to enforce RBC and especially to establish the obligation for EU companies to conduct due diligence on their entire value chains, including in non-EU countries. This is reflected in two recent resolutions, one calling for mandatory due diligence on imports of forest-risk commodities,[1298] and another calling for mandatory due diligence along the entire supply chain of EU undertakings.[1299] This follows a 2020 non-legislative report on sustainable corporate governance,[1300] which insisted on concrete obligations for companies to act and not only to report information.[1301]

The 2021 resolution focuses on the preventive role that due diligence can play, by establishing a 'duty of care' and setting companies on a course to caring – and having an interest in caring – for the environmental, social and governance risks that their activities may entail.[1302] The Parliament asks that companies have the duty to put in place a system to 'identify, assess, prevent, cease, mitigate, monitor, communicate, account for, address and remediate potential and/or actual adverse impacts on human rights, the environment and good governance in their value chain'.

1293 Better Work Program, Progress and Potential: How Better Work is improving garment workers' lives and boosting factory competitiveness: A summary of an independent assessment of the Better Work programme, ILO and IFC, 2016.

1294 A. Heflich, ibid, 2020.

1295 European Parliament resolution of 7 October 2020 on the implementation of the common commercial policy – annual report 2018 (2019/2197(INI)).

1296 European Parliament resolution of 9 June 2021 on the EU Biodiversity Strategy for 2030: Bringing nature back into our lives (2020/2273(INI)).

1297 European Parliament resolution of 7 July 2021 on the trade-related aspects and implications of COVID-19 (2020/2117(INI)).

1298 European Parliament resolution of 22 October 2020 with recommendations to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation (2020/2006(INL)).

1299 European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability (2020/2129(INL)).

1300 S. Spinaci, Corporate sustainability due diligence: Could value chains integrate human rights and environmental concerns?, EPRS, 2022.

1301 European Parliament resolution of 17 December 2020 on sustainable corporate governance (2020/2137(INI)).

1302 P. Lamy et al., EU Corporate due diligence proposal: Game changer or paper tiger?, Jacques Delors Centre, 2022

This process is 'contingent on the severity and likelihood of adverse impacts that an undertaking might cause, contribute to or be directly linked to, its sector of activity, the size of the undertaking, the nature and context of its operations, including geographic'. The scope should include all large companies, but also 'all publicly listed small and medium-sized undertakings and high-risk small and medium-sized undertakings', while ensuring proportionality and guidance. The Parliament explicitly suggests that the design should avoid due diligence being a mere bureaucratic process or a 'tick box' exercise. The Parliament calls for both a company-based grievance mechanism and a civil liability systems to be in place, and for the accessibility of the legal mechanism for the victims to be supported. It also calls for bringing the discussion to the global level, being in favour of an international treaty on the issue.

Commission and Council responses so far

In a 2018 non-paper,[1303] the Commission services put forward a 15-point action plan to improve implementation and enforcement of TSD chapters in EU trade agreements. The Commission identified a wide consensus on maintaining the broad scope of these chapters and leveraging them to implement global social, labour and environmental standards, but little consensus on moving to a sanction-based mechanism.[1304]

As regards corporate sustainability and RBC, the Commission put forward a proposal for a Directive on Corporate Sustainability Due Diligence.[1305] It relies on the acknowledgment that a competitive advantage built on exploitation is not sustainable and should not be pursued.[1306] At the same time, the Commission's proposal falls short of the Parliament's position. First of all, as regards the personal scope, the Commission targets only large businesses,[1307] thus adopting only partially the risk-based approach chosen by the Parliament, in favour of a more actor-based approach.[1308] Other limitations underlined by analysts[1309] and NGOs are that the approach to environmental damage is narrower, while the reporting requirements are more generic. The scope of the value chain is also narrower than the one adopted by the Parliament, establishing duty of care only as regards 'established relations'. Another element that is criticised is that the civil liability mechanism risks being limited in

1303 European Commission, Non paper of the Commission services, Feedback and way forward on improving the implementation and enforcement of Trade and Sustainable Development chapters in EU Free Trade Agreements.

1304 J. Titievskaia, ibid, 2021.

1305 Proposal for a directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, COM(2022) 71 final, European Commission.

1306 Commission Staff Working Document, Follow-up to the second opinion of the Regulatory Scrutiny Board accompanying the proposal for a directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, SWD(2022) 39 final.

1307 This was not the initial preferred policy option identified in the impact assessment, but has been added after a double negative opinion of the Regulatory Scrutiny Board. For an analysis of the IA, see V. Girard, Corporate sustainability due diligence: Initial Appraisal of a European Commission Impact Assessment, EPRS, 2022. The process of revision of the IA has been criticised by some NGOs.

1308 As regards SMEs, it could be noted that there is evidence of existing uptake of Corporate Social Responsibility practices by them, and a recent study argues that EU SMEs would benefit from a more rigorous framework of enforcement and monitoring of compliance by all companies on environmental, social and governance standards – see European Commission, Uptake of Corporate Social Responsibility (CSR) by European SMEs and start-ups – Final report, 2022.

1309 P. Lamy et al., ibid, 2022; ECCJ, Comprehensive analysis of EU Commission's proposal for a directive on due diligence, 2022.

its effectiveness by a number of features, an example being the possibility for only the affected people to lodge claims.[1310]

The Commission is putting forward other proposals that may have some impact on sustainable value chains – specifically, on environmental protection, a proposal on addressing deforestation[1311] and on environmental crimes,[1312] and a Taxonomy Regulation[1313] (a transparency tool that facilitates decisions on investment and helps tackle greenwashing). The Commission is also proposing a Corporate Sustainability Reporting Directive (CSRD),[1314] revising the Non-Financial Reporting Directive that focuses on reporting duties for large companies.

Looking forward

The work on the proposal of the Corporate Sustainability Due Diligence is ongoing. In the Parliament, this has been referred to the JURI committee, and on 7 November 2022 the rapporteur published the draft report. The topics that will likely be under closer scrutiny and discussion are: the scope of the directive, both as regards the companies involved and how far along the value chain the duty of care applies, the effectiveness of the civil liability regime (e.g. stakeholder consultations, redress mechanisms, the burden of proof), and the obligations and targets as regards both human rights and environmental impacts.

1310 P. Lamy et al., ibid, 2022 and ECCJ, ibid, 2022.

1311 Proposal for a regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) no. 995/2010, COM(2021) 706 final, European Commission. See sub-chapter 10.

1312 Proposal for a directive on the protection of the environment through criminal law and replacing Directive 2008/99/EC, COM(2021) 851 final, European Commission.

1313 European Commission, EU Taxonomy Compass.

1314 Proposal for a directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, COM(2021) 189 final, European Commission.

48. EU common defence

Potential benefit: €24.5 billion per year

Key proposition

Despite steps having been taken at EU level to reinforce cooperation, security in Europe has been for years just the 'summation' of Member States' defence systems. Cooperation occurs among some Member States under the umbrella of NATO,[1315] while some small steps are taken at EU level to reinforce synergies and start to reflect on a potential common external diplomatic position.

Given the 'public good' nature of defence and its large cross-border spillover effects, this situation potentially generates waste in Member States' spending and a lack of overall military capabilities. A consequence of the poor acknowledgment of the 'public good' nature of defence, is that, while the sum of EU Member States' expenditure is already high (about as high as China, the second highest spender behind the US), its efficiency and its positive spillovers are comparatively low.

The cost of a lack of coordination in the context of the war in Ukraine may be even higher, since uncoordinated increases in expenditure can bring inefficiencies, and the potential benefits of the EU playing a coordinated and proactive role can be bigger. This new context brings increased costs as a result of the lack of coordination, together with a renewed focus on the opportunity for more EU strategic thinking and the need to adopt more integrated policies that promote security, economic prosperity, peace and human rights considerations.

Common EU defence could bring efficiency gains in terms of lower duplication, savings in administrative costs and increased economies of scale; at the same time, common capacity could be generated that would not be generated otherwise, especially in deployable troops and R&D. Overall, gains could be between €24.5 billion and €75.5 billion per year, depending on the ambition of EU action.

More detailed analysis of the potential benefit

In spite of recent progresses, the EU defence industry is still characterised by the duplication of costly programmes and the industrial military landscape is still largely characterised by the existence of 'large national businesses' surrounded by a plethora of national sub-contractors.[1316] The intra-industry index[1317] remains very low in spite of the technology available in this industry.

The result is that the sum of Member States' military expenditure is high (and increasing), as can be seen in Figure 41, which shows that the sum of their military expenditure almost equals the expenditure of China.

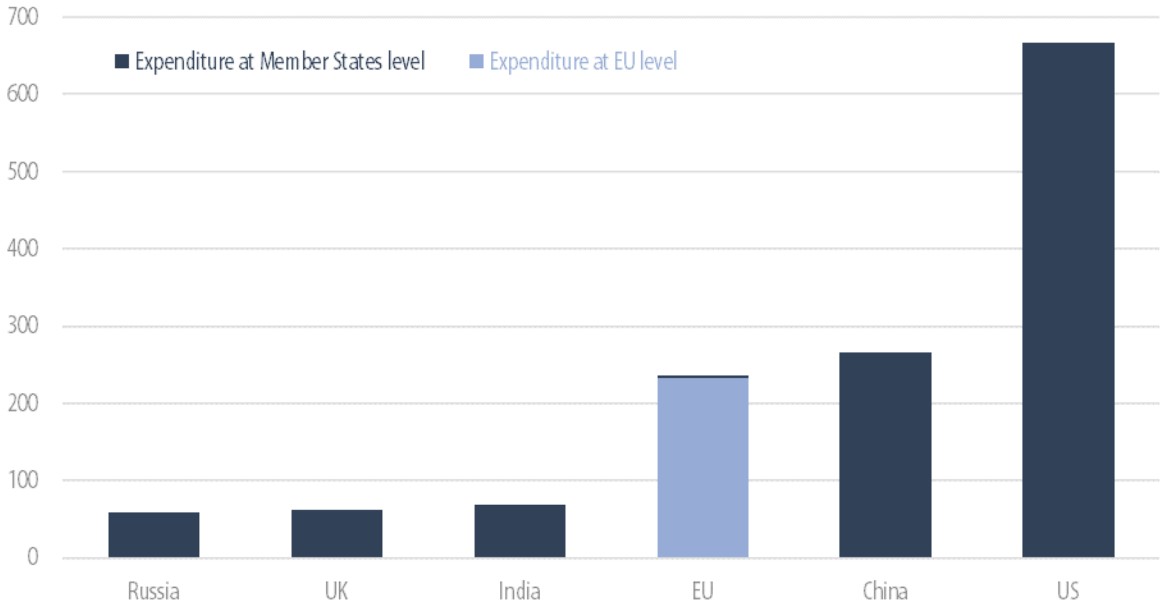
[1315] 21 EU Member States are also members of the alliance.

[1316] A. Roth, The size and location of Europe's defence industry, Bruegel, 2017.

[1317] A low intra-industry trade index means that either countries import or export in the defence sector, but there is little bilateral flow.

According to SIPRI,[1318] total military spending by EU Member States in 2021 amounted to about €233 billion, 3 % higher than in 2020 and 19 % higher than in 2012. Still, its efficiency is low, in terms of duplication, administrative costs, missed economic spillovers and economies of scale.

Figure 41: Military expenditure in 2021 (€ billion)



Source: Authors, based on SIPRI Military Expenditure Database.

According to an analysis using budgetary data and adopting the 'waste rate' methodology,[1319] it could be shown that greater coordination at EU level could bring greater efficiency, greater provision of public goods and a reduction in administrative costs. The same output could be obtained with a lower expenditure level, or a greater output could be obtained with the current expenditure level. There are positive economies of scale: as concerns deployability, Member States that spend more also show greater efficiency, and smaller Member States display lower efficiency. Still, these smaller Member States display increasing returns to scale, which means that increasing the scale of spending on defence would decrease its unitary cost, i.e. increase its efficiency.

If a 'moderate approach' is adopted, efficiency gains are realised and externalities are integrated, for a total gain of €24.5 billion per year. If a more ambitious approach is adopted, gains could also be derived from lower administrative costs in procurement and by the creation of capacity that would otherwise not be created, especially in R&D and in deployable troops, for a total yearly gain of about €75.5 billion (see Table 35).[1320]

[1318] SIPRI, SIPRI Military Expenditure Database.

[1319] The 'waste rate methodology' calculates an 'efficiency frontier' by comparing levels of inputs and outputs in every Member State. Inputs are indicators of the size of military spending, while outputs are the desired outcomes. This latter may be difficult to identify in the case of defence, so some proxi variables are identified, and these are deployability of troops and R&D in the military sector. The methodology allows the identification of the Member States that obtain the greatest outcome with the lowest expenditure, which defines the efficiency frontier. The 'waste rate' is the amount that would be saved if all Member States were on this frontier. Moreover, the methodology allows the identification of whether an increase in scale (i.e. moving from Member State to EU level) could allow a reduction of these inefficiencies. See J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, 2020.

[1320] These figures are based on J. Saulnier, Improving the quality of public spending in Europe – Budgetary 'waste rates' in EU Member States, EPRS, 2020, and updates of GDP forecasts.

Table 35: EAVA – Summary table

Main category		Moderate approach (€ billion)	Ambitious approach (€ billion)
1. Common capacity not created otherwise	Deployable troops	-	32
	R&D	-	6.4
2. Efficiency gains	Efficiency gains in industrial production	14.2	14.2
	Efficiency gains in land forces	1.3	1.3
	Efficiency gains in air force	0.2	0.2
	Efficiency gains in navy	0.5	0.5
	Efficiency gains in logistical support	0.4	0.4
3. Lower administrative costs	Procurement	-	12.7
4. Integration of externalities	Savings on offsets	7.8	7.8
Total		**24.5**	**75.5**

Source: EPRS.

Other estimates are in line with EPRS calculations. For example, it has been estimated[1321] that 30 %, or approximately €13 billion per year, could be saved on equipment investment through joint EU procurement. The spending efficiency in the EU compared to the US is often used to showcase the cost of non-Europe in this area: according to the Istituto Affari Internazionali, in 2013, for the same expenditure, the US developed 3 003 units of the Joint Strike Fighter while the German-Spanish-Italian-British consortium developed only 707 Eurofighter jets.[1322] In 2014, the Bertelsmann Foundation estimated that €6.5 billion of personnel pay could be saved by integrating Member States' land forces.[1323]

The shift of defence expenditure to EU level can bring substantial efficiency gains and allow for savings in an area where economies of scale, costs of duplication and gains from coordination rather than competition are substantial. Another debate on a possible cost of non-Europe in the area of defence regards strategic autonomy. This is a concept that was developed in the area of security and defence, especially since the European Council conclusions on an EU common security and defence policy (CSDP) of December 2013, and has been debated especially with regard to the EU-NATO relationship.[1324]

Some analysts[1325] argue for broadening the approach of strategic autonomy beyond defence, to include the civilian contribution to international security. According to this view, the EU's added

1321 Munich Security Conference, Building the European Armed Forces of the Future, November 2017.

1322 Istituto Affari Internazionali, The cost of non-Europe in the defence field, 2013.

1323 Bertelsmann Stiftung, European Added Value of EU Spending: Can the EU Help its Member States to Save Money?, 2014. This study estimates that up to €120 billion per year could be saved through comprehensive EU army integration.

1324 European Council, Conclusions of 19-20 December 2013, EUCO 217/13, and M. Damen, EU strategic autonomy 2013-2023: From concept to capacity, EPRS, 2022.

1325 A. Juncos, Elevating the EU's added value as a security provider: Strengthening the Union's peacebuilding capabilities, FEPS Policy Brief, February 2022.

value as an international security provider can be very relevant in the areas of conflict prevention, mediation, post-conflict peacebuilding and resilience-building. Moreover, the EU remains committed to the Non-Proliferation of Nuclear Weapons Treaty as the cornerstone of the global nuclear non-proliferation regime and the essential foundation for the pursuit of nuclear disarmament,[1326] and recently called on all parties to work towards a positive and substantive outcome of the conference. HR/VP Josep Borrell subsequently expressed his regret at the limited outcome of the conference.[1327]

European Parliament position

The European Parliament has been stressing the importance of EU countries stepping up their efforts to cooperate towards capability development, standardisation, certification and maintenance in order to achieve greater interoperability. In a 2016 resolution, the Parliament urged increased harmonisation of European armed forces and called for more incentives for systematic defence cooperation in order to attain greater effectiveness and military capabilities.[1328] In its 2018 resolution on the MFF, it sees financial constraints as opportunities for closer cooperation to make efficiency gains.[1329] The Parliament also expressed support for the European Defence Fund (EDF)[1330] and for military mobility, seen as a 'central strategic tool'.[1331]

In a set of recent recommendations, Parliament reaffirmed its vision for the future of the EU's foreign, security and defence policy by demanding progress in implementing the roadmap agreed by EU Heads of State or Government, as set out in the Versailles Declaration[1332] and the European Council's conclusions of March 2022.[1333] In particular, the Parliament stresses that the EU needs to do more to adapt to a changed security environment, including by strengthening its defences against cyber and hybrid attacks, including when it comes to personal sanctions regimes, and make swift progress in establishing the EU's Defence Union. In the context of the war in Ukraine, the Parliament adopted a resolution calling for the European Peace Facility (EPF) to be used to allocate significant additional funding to provide Ukraine with defensive military capacity.[1334]

In a resolution adopted on 25 February 2020,[1335] the Parliament issued recommendations concerning the EU's preparation of the 2020 Non-Proliferation of Nuclear Weapons Treaty (NPT) review process. It called on the Council and the HR/VP to reaffirm the full support of the EU and its

[1326] B. Immenkamp, Tenth NPT review conference: Nuclear weapons threat at an all-time high, EPRS, 2022.

[1327] Non-Proliferation of Nuclear Weapons Treaty: Statement by the High Representative Josep Borrell, EEAS, 29 August 2022.

[1328] European Parliament resolution of 22 November 2016 on the European Defence Union (2016/2052(INI)).

[1329] European Parliament resolution of 14 March 2018 on the next MFF (2017/2052(INI)).

[1330] European Parliament legislative resolution on the proposal for the European Defence Industrial Development Programme.

[1331] European Parliament, Report on Military Mobility, Committee on Foreign Affairs, 21 November 2018.

[1332] Informal meeting of the Heads of State or Government, Versailles Declaration, 10 and 11 March 2022.

[1333] European Council conclusions, 24-25 March 2022.

[1334] European Parliament resolution of 1 March 2022 on the Russian aggression against Ukraine (2022/2564(RSP)).

[1335] European Parliament recommendation of 21 October 2020 to the Council and the Vice-President of the Commission/High Representative of the Union for Foreign Affairs and Security Policy concerning the preparation of the 10th Non-Proliferation of Nuclear Weapons Treaty (NPT) review process, nuclear arms control and nuclear disarmament options (2020/2004(INI)).

Member States for the NPT and its three mutually reinforcing pillars of non-proliferation, disarmament and peaceful use of nuclear energy.

Commission and Council responses so far

In June 2017, the European Council[1336] welcomed the EDF and agreed on the need to launch the Permanent Structured Cooperation (PESCO). A few months later,[1337] PESCO was established as a Treaty-based framework to deepen defence cooperation between 25 Member States. Military mobility is yet another recent EU achievement with savings potential, as it involves adapting infrastructure and common military requirements. Military mobility is also a binding commitment under PESCO, a PESCO project and an action for EU-NATO cooperation.

As regards crisis management, progress has been achieved in recent years, in particular with the adoption of the civilian compact, intended to strengthen and streamline EU civilian missions. Smaller progress has been made regarding EU military operations, mainly the establishment of a military planning and conduct capability (MPCC) as a permanent command and control facility for 'non-executive' common security and defence policy (CSDP) military operations.

The Strategic Compass,[1338] endorsed by the European Council on 24-25 March 2022, called for a further strengthening of existing command and control structures in order to increase readiness and to develop an EU rapid deployment capacity of up to 5 000 troops by 2025.[1339] Another action in this direction is the European Defence Fund, which benefits from an €8 billion envelope under the EU's long-term budget, the 2021-2027 multi-annual financial framework.[1340] The fund comprises two windows, one dedicated to defence research, fully funded from the EU budget, and a second one dedicated to capabilities, which draws on EU budgetary means as well as Member State funding.[1341] On 27 February 2022, the EU also announced a proposal, based on a request for military assistance by Ukraine, to use the European Peace Facility, an off-EU budget instrument operational since 1 July 2021, to fund emergency assistance measures.

Looking forward

Given the current international landscape, and the current increase in military spending in several countries under the NATO umbrella, the debate about the potential advantages of common EU defence is likely to gain visibility. At the same time, civilian actions to promote peace and stability, which are the core aims of the common foreign and security policy, are likely to come to the forefront. Since peace and stability are the product of several external and internal policies and not only of defence, a broader approach to them should be seen in connection with the cost of non-Europe in other areas.[1342]

1336 European Council, Conclusions of 22-23 June 2017, EUCO 8/17.

1337 Council of the European Union, Notification on PESCO to the Council and the HR/VP, 13 November 2017.

1338 A Strategic Compass for Security and Defence.

1339 Future Shocks 2022: Monitoring risks and addressing capabilities for Europe in a contested world, EPRS, 2022.

1340 In the 2021 MFF, a separate Heading 5 is dedicated to security and defence, the first time that this policy area has been so visibly underlined in the EU budget structure; the allocation is €13 185 million (in 2018 prices). See S. Mazur, Security and defence: Heading 5 of the 2021-2027 MFF, EPRS, 2021.

1341 Future Shocks 2022: Monitoring risks and addressing capabilities for Europe in a contested world, EPRS, 2022

1342 See, for example, sub-chapters 47, 49 and 50.

49. Common diplomacy and promotion of multilateralism

Potential benefit: mostly qualitative

Key proposition

The 'Europeanisation' of European diplomacy received a major push with the Treaty of Lisbon and the creation of the European External Action Service (EEAS). Still, foreign policy is an area where Member States are eager to keep power and autonomy; at the same time, it has the characteristics of a 'public good' – for example, in its peacebuilding and peacekeeping outcomes. This is a source of potentially high EU added value, which is reinforced by the presence of important spillovers of each Member State's action on other Member States.[1343]

The sources of potential EU added value are multiple: first of all, an economic dimension related to the potential savings of common diplomatic representation, which avoids duplication and increases efficiency and coverage of services (this dimension alone would produce savings ranging between €420 million and €1.3 billion per year). Secondly, the EU, because of its history, can bring added value in promoting multilateralism and democratisation of the multilateral arena. Moreover, several analyses point to the potential added value of an integrated approach that includes the promotion of sustainable trade[1344] and support for human rights protection and development cooperation.[1345]

More detailed analysis of the potential benefit

Foreign policy and common diplomatic representation have the nature of public goods and there is therefore room for significant added value from EU action. Still, Member States are reluctant to give up power and autonomy in this area because of their national interests and specific trajectories, including those related to colonial and Cold War legacies.[1346] Especially since the Treaty of Lisbon, academics speak of a Europeanisation of foreign policy and a 'Brusselisation' of EU diplomacy, a process that has been strongly supported by the creation of the EEAS and the related upgrade of the EU Delegations. This has not necessarily reduced the diplomatic presence of Member States abroad, but it has reduced the personnel deployed by each Member State.[1347]

A study[1348] by the Bertelsmann Stiftung in 2013 estimated that significant savings could be achieved by providing a number of diplomatic services at EU level that are traditionally provided by national diplomatic missions. Their assessment is that savings would range between €420 million and €1.3 billion per year (lower bounds for the cautious and optimistic scenario respectively).

[1343] Bertelsmann Stiftung, The European Added Value of EU Spending: Can the EU Help its Member States to Save Money?, Exploratory Study, 2013.

[1344] See sub-chapter 47.

[1345] See sub-chapter 50.

[1346] Bertelsmann Stiftung, ibid, 2013.

[1347] F. Bicchi and D. Schade, Whither European diplomacy? Long-term trends and the impact of the Lisbon Treaty, Cooperation and Conflict, 57(1), 2022, pp. 3-24.

[1348] Bertelsmann Stiftung, ibid, 2013.

In 2015, another study[1349] looked at the sharing of premises among Member States' diplomatic missions and concluded that no less than 16 Member States already shared at least one of their diplomatic representations outside the EU with the EU Delegation.

EU citizens' right to enjoy **diplomatic and consular protection** in a country where their Member State is not represented is explicitly envisaged in Articles 20 and 23 TFEU.[1350] Member States must assist unrepresented EU citizens on the same conditions as their own nationals. Those provisions are even more relevant considering that there are few countries where all the 27 EU Member States are represented.[1351] Following the outbreak of the COVID-19 pandemic in 2020, the Member States, supported by the European Commission, the EU Delegations, and the EEAS, including its Emergency Response Coordination Centre, managed to repatriate over 600 000 European citizens affected by travel restrictions across the world. This focused effort demonstrated EU solidarity in action and the benefits of consular protection as part of EU citizenship rights.

According to the recent Commission implementation report[1352] on Council Directive (EU) 2015/637, despite the important role played by the Directive, there is room for 'clarifying and streamlining measures in order to further facilitate the provision of consular protection to unrepresented EU citizens, including increasing legal certainty with respect to beneficiaries and ensuring such protection regardless of where they are in the world'. This is particularly important in crisis situations (such as the evacuation from Afghanistan, or the war in Ukraine), for which the report suggests more foresight is needed.

The inception impact assessment[1353] of the planned revision (see below) identified a number of problems, which are exacerbated by the UK's withdrawal from the Union. These are, for example, the impact of Member States' reduced consular presence after years of shrinking budgets, the risks related to global crises, and the challenge of providing consular protection to represented and unrepresented citizens in third countries where no Member State is represented. This points to the existence of a significant and still untapped cost of non-Europe in this area.

According to the Treaties, the EU is committed to upholding the principles of **multilateralism**, namely to 'promote multilateral solutions to common problems, in particular in the framework of the United Nations', to pursue international cooperation, to respect and support human rights and to work for peace and security in the world. The EU is a vocal promoter of rules-based multilateralism, and the added value of EU action could also be ascribed to its very nature of being a case of progressive transfer of competences from national to supra-national level.[1354]

[1349] S. Schneider, European Diplomacy through co-location between Member State missions and EU Delegations in third countries, Erasmus Universiteit Rotterdam, 2015.

[1350] For more details, see E. Poptcheva, Consular protection abroad: A Union citizenship fundamental right?, Universitat Autònoma de Barcelona, February 2012.

[1351] All Member States are represented in five countries, but in 25 countries no Member State is represented; in five of these countries, the EU Delegation is the only EU diplomatic presence. In 73 countries, seven or less Member States are represented. See European Commission, Report on the implementation and application of Council Directive (EU) 2015/637, COM(2022) 437 final.

[1352] European Commission, Report on the implementation and application of Council Directive (EU) 2015/637, COM(2022) 437 final.

[1353] Consular protection – review of EU rules.

[1354] D. O'Sullivan, The European Union and the multilateral system: Lessons from past experience and future challenges, EPRS, 2021.

A number of crises,[1355] including the current war in Ukraine, are putting the UN's role under stress. This follows a number of other threats to a rules-based multilateral order in recent years, in a context where this is, on the contrary, strongly needed to promote peace and address global imbalances, as underlined by an EPRS study.[1356] The EU could play an important role in supporting the UN reform agenda proposed by the UN Secretary General, which includes reform of the UN development system and restructuring of the peace and security pillar.[1357] Several authors underline the important role played by the EU in climate change negotiations,[1358] and thus in the global coordination for the provision of a global public good (or, in this case, for the fight against a global public 'bad').[1359]

A recent EPRS study points to significant European added value not only in promoting multilateralism, but also in democratising it.[1360] It acknowledges a democratic deficit in multilateral arenas and discusses some tools to potentially mitigate it. While some of these tools have limitations and have given rise to criticism,[1361] an interesting perspective is provided by the potential role of the European Parliament. It can promote international cooperation that is not limited to executive powers, and has the potential to promote multilateralism also beyond the choices of governments.[1362]

European added value is also, according to several observers, generated by the nature of the EU as an intrinsically multilateral actor and promoter of an **integrated approach**.[1363] As underlined by Koenig and Haas,[1364] the EU is a less substantial but more balanced spender than the US in the '3D' (diplomacy, development and defence), where US expenditure is extremely unbalanced in favour of defence. The role of the EU as a security provider could be supported by common EU diplomacy to sustain peace, as acknowledged by the Nobel Peace Prize awarded in 2012. The EU is engaged in action to promote human rights and democracy[1365] on a global scale. It could play a major role in conflict prevention, but this role could be further developed and funding should be consequent to the relevance and urgency of the issue.

[1355] E. Lazarou, The future of multilateralism and strategic partnerships, EPRS, 2020.

[1356] Such threats include the unilateral withdrawal of the US from the Joint Comprehensive Plan of Action (JCPOA), a landmark agreement to ensure the peaceful nature of Iran's nuclear programme, and the announcement, in February 2019, that both the US and Russia would suspend their obligations under the 1987 Intermediate-Range Nuclear Forces (INF) Treaty. The US withdrawal from the Paris Agreement on climate change and from the UN Council on Human Rights were reversed by the Biden administration in 2021. See E. Lazarou, ibid, 2020.

[1357] E. Lazarou, ibid, 2020.

[1358] D. O'Sullivan, ibid, 2021.

[1359] See sub-chapter 9 on averted climate change impacts.

[1360] M. Damen, Multilateralism and Democracy: A European Parliament perspective, EPRS, 2022.

[1361] For example, the investment in constructing 'alliances of democracies', somehow identifying democracy with a part of the world, may risk increasing East/West and North/South divides and tensions with developing countries (M. Damen, ibid, 2022).

[1362] The European Parliament could have significant added value: since the Treaty of Lisbon, it has the power of consent to international agreements concluded by the EU, making it an international actor in its own right. From this position of relative strength, the European Parliament has become a very active player in global parliamentary diplomacy. Projecting its own experience of democracy within the EU at global level, the European Parliament can act as a promoter of the democratisation of other multilateral organisations.

[1363] A. Juncos, Elevating the EU's added value as a security provider: Strengthening the Union's peacebuilding capabilities, FEPS Policy Brief, February 2022.

[1364] N. Koenig and J. Haas, The EU as a 3-D power: Should Europe spend more on diplomacy, development and defence?, Jacques Delors Institute, 2017.

[1365] European Commission, Strengthening human rights and democracy in the world, Press release, 9 December 2021; I. Ioannides, EU Guidelines on Human Rights Defenders – European Implementation Assessment, EPRS, 2022.

The work of the EU to promote sustainable global trade that reduces imbalances and goes hand in hand with respect for human rights, labour, environmental, health and safety protection standards[1366] and coordinated development cooperation[1367] in the light of the Sustainable Development Goals, is central to this integrated approach.

A highly debated issue in EU foreign policy is its effectiveness and timeliness in relation to the decision-making rule, since common foreign and security policy (CFSP) decisions have to be taken by unanimity in the Council. The Parliament has been advocating for a revision of this rule and the potential impacts of a switch to qualified majority voting (QMV) are under assessment in a forthcoming study by EPRS.

Table 36: EAVA – Summary table

Source of European added value	Qualitative assessment	Quantitative assessment
Budgetary savings on common diplomatic representation	Economies of scale, avoid duplication, better efficiency and coverage	Savings of €420 million to €1.3 billion per year[1368]
Integrated approach to foreign relations	Sustainable trade , development policy, diplomacy, central role of human rights protection	See sub-chapters 47 and 50
Promotion of multilateralism	Multilateral 'nature' of EU, commitment to rules-based multilateral order, provision of global public goods; parliamentary component can compensate for democratic deficit	n.a.

Source: EPRS.

European Parliament position

Overall, the European Parliament has been an advocate of a greater role for EU Delegations in emergencies.[1369] In a 2017 resolution,[1370] the Parliament called on the Commission to propose a new, more secure format for an EU emergency travel document for unrepresented EU citizens outside the EU. As regards Council Directive (EU) 2015/637, the LIBE Committee proposed an amendment to Article 9 that required Member States to extend the provision of equal consular protection to all types of consular assistance that they customarily provide to nationals. While this formulation was

[1366] See sub-chapter 47.

[1367] See sub-chapter 50.

[1368] To be updated in light of the implementation of Council Directive (EU) 2015/637.

[1369] M. Moraru, An analysis of the Consular Protection Directive: Are EU citizens now better protected in the world?, Common Market Law Review, 56(2), 2019.

[1370] European Parliament resolution of 12 December 2017 on the EU Citizenship Report 2017: Strengthening Citizens' Rights in a Union of Democratic Change (2017/2069(INI)).

more in line with the constitutional formulation of the EU citizenship right to equal protection, it was not retained by the Council.[1371]

The Parliament supports the EU's engagement in multilateralism and underlines the centrality of human rights,[1372] pointing to the fact that this is not sufficiently reflected in the UN reform process.[1373]

The Parliament has repeatedly expressed its support for greater use of QMV in areas of common foreign and security policy that do not have military or defence implications. These are, for example, the adoption of statements on international human rights issues and human rights-related decisions, the introduction and implementation of sanctions under the Global Human Rights Sanctions Regime, and for all decisions regarding civilian CFSP missions.[1374]

Commission and Council responses so far

In 2015, new rules on consular protection[1375] for unrepresented EU citizens living or travelling outside the EU were adopted in order to clarify how unrepresented EU citizens could benefit from other EU countries' embassies'/consulates' assistance under the same conditions as for nationals. The directive, which has been applicable since May 2018, also aims to ensure that EU Member States coordinate their assistance in an efficient way. The directive's main purpose is to establish in EU law the applicable coordination and cooperation measures necessary to facilitate day-to-day consular protection for unrepresented EU citizens.

In May 2018, the Commission proposed to update emergency travel documents,[1376] whose common format dated back to 1996, and the proposal was adopted in 2019.[1377] According to some academics, the lives of EU citizens in vulnerable situations outside the EU are better protected due to clearer rules on the scope, content and institutional enforcement of the EU citizenship right to equal consular protection in third countries.[1378] Some limitations of the directive have been highlighted above and, in the light of these, the Commission included a revision in its 2021 work programme.

On 16 September 2020, European Commission President von der Leyen announced in her State of the Union speech a new initiative on strengthening the EU's contribution to rules-based multilateralism. The EU has reaffirmed on various occasions its strong support for multilateralism, but also the need to reform global organisations, such as the UN and the WTO, to make them more efficient and fit for purpose.

1371 M. Moraru, ibid, 2019.

1372 European Parliament recommendation of 5 July 2018 to the Council on the 73rd session of the United Nations General Assembly (2018/2040(INI)).

1373 E. Lazarou, ibid, 2020.

1374 Report on the implementation of the common foreign and security policy – annual report 2021, European Parliament, 20 December 2021.

1375 Council Directive (EU) 2015/637 of 20 April 2015 on the coordination and cooperation measures to facilitate consular protection for unrepresented citizens of the Union in third countries and repealing Decision 95/553/EC.

1376 Proposal for a Council Directive establishing an EU Emergency Travel Document and repealing Decision 96/409/CFSP, COM(2018) 358, European Commission, May 2018.

1377 Council Directive (EU) 2019/997 of 18 June 2019 establishing an EU Emergency Travel Document and repealing Decision 96/409/CFSP.

1378 M. Moraru, ibid, 2019.

In 2019, the Council adopted conclusions on EU action to strengthen rules-based multilateralism, underlining that the EU and its Member States are important players in setting the multilateral agenda. In February 2021, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy released a joint communication on 'strengthening the EU's contribution to rules-based multilateralism'.[1379] It states that growing global challenges call for more multilateral governance and rules-based international cooperation. It acknowledges that multilateralism is complex, but delivers tangible benefits for all. It supports the reform of the UN, WHO and WTO, and counters attacks against universal human rights norms and international law. It also declares that the EU will work to build alliances and partnerships with like-minded countries and will enhance its cooperation with regional organisations and make efforts towards adopting international norms to regulate new developments, such as those in artificial intelligence.

Looking forward

The 2021 Commission work programme announced a review of EU rules on consular protection to improve the EU's and Member States' preparedness and capacity to protect and support EU citizens in times of crisis. This would involve strengthening the EU's supporting role and making best use of its unique network of EU Delegations. This new legislative proposal was scheduled for the fourth quarter of 2021, but was delayed.[1380]

As early as 2018, the Commission proposed to expand the use of QMV to improve the efficiency of decision-making in three policy fields within the common foreign and security policy, including positions on human rights, decisions on sanction regimes and decisions regarding civilian missions.[1381] In 2019, in her first State of the Union speech, Commission President von der Leyen called for the use of QMV in areas such as sanctions and human rights and renewed this position more recently.[1382] Currently, the discussion is gaining new momentum following the recommendations of the Conference on the Future of Europe.[1383]

[1379] European Commission, High Representative, Joint Communication on strengthening the EU's contribution to rules-based multilateralism, February 2021.

[1380] According to the implementation report, the delay was due to the need to take into account recent major developments relevant to consular protection, namely the crises in Afghanistan and in Ukraine.

[1381] A stronger global actor: More efficient decision-making for EU Common Foreign and Security Policy, European Commission, September 2018.

[1382] Commission president calls to end unanimity in EU foreign policy decisions, Politico, 20 June 2022.

[1383] Conference on the Future of Europe, Report on the final outcome, May 2022.

50. Better coordination of development policy

Potential benefit: €12.2 billion per year

Key proposition

EU institutions and Member States together provided €78.1 billion in Official Development Assistance (ODA) in 2020.[1384] The EU is the biggest player in global development aid,[1385] even if it still falls short of the commitment to collectively spend 0.7 % of EU gross national income on aid. Challenges at the global level that call for development aid and international cooperation are still very big and pressing, especially with the COVID-19 pandemic[1386] and the ongoing conflicts.[1387]

Greater EU action in development policy can bring substantial added value through several channels. First of all, it can improve better coordination, avoiding duplication of projects, thus reducing the administrative burden for both donors and recipient countries and improving aid effectiveness. It can also improve coherence, through a clear focus on poverty eradication, addressing its multifaceted dimensions and roots, including gender inequalities. Policy coherence requires, moreover, that other dimensions of external action are consistent with the development objectives, which requires a holistic approach, involving multilateral governance and sustainable trade to address global imbalances.[1388] The European Parliament has often reiterated the centrality of Agenda 2030 and the Sustainable Development Goals in this respect.

Research carried out by EPRS argues that the EU could gain between €12.2 billion and €14.6 billion per year, including both direct savings and better results in recipient countries should aid coordination be more efficient. This quantification[1389] only covers some of the above-mentioned aspects. Nevertheless, the relevance of the broader picture has been underlined by the COVID-19 pandemic, which has shown the importance of an international cooperation effort, since health and inclusive institutions have shown to be global public goods.[1390]

1384 EU Aid Explorer.

1385 Despite a stagnating (or even declining) trend in the last five years (EU Aid Explorer).

1386 An example of the increasing divides is the big difference between vaccination rates in extremely fragile countries and in OECD countries (37 % vs 78 %), as underlined by the OECD, How can we improve development co-operation in fragile contexts?, 2022.

1387 The war in Ukraine is bringing about a risk of a worldwide food crisis and much of its impact depends on the global response and cooperation mechanisms put in place. See A. Caprile, Russia's war on Ukraine: Impact on food security and EU response, EPRS, 2022.

1388 See also sub-chapters 47 and 49.

1389 The need to take into account new policies, new data and a changing environment indicate that new analysis would be required to update the findings. The estimations have therefore to be taken with caution.

1390 UNCTAD, The Covid-19 Shock to Developing Countries: Towards a 'whatever it takes' programme for the two-thirds of the world's population being left behind, 2020; EAVA Unit, Coronavirus and the cost of non-Europe: An analysis of the economic benefits of common European action, EPRS, 2020

More detailed analysis of the potential benefit

The EU has been deeply involved in the definition of aid effectiveness criteria and tools, especially within the OECD and the processes that started with the 2005 Paris Declaration on Aid Effectiveness.[1391] Coordination is a crucial part of aid effectiveness because it allows administrative costs to be reduced and duplication to be avoided, it allows for economies of scale and scope and has a potential cost-saving effect.

Coordination may nevertheless be hindered by several factors.[1392] Klingebiel, Negre and Morazán (2016)[1393] argue that, while more coordination of development aid policies at European level would not guarantee the achievement of development aid goals, it would still lead to more aid effectiveness. More recent observations contend that coordinated action between donors and alignment with recipient countries' strategies are crucial to promote the achievement of development goals themselves, and to address the multifaceted causes of fragility, especially in extremely fragile contexts.[1394]

The analysis by Bigsten et al. (2011)[1395] and updated by Bigsten (2013)[1396] focuses on several aspects of development aid where coordination may be crucial for effectiveness. This includes both measures that directly reduce donor costs and measures that increase the impact in the recipient countries. The first cost-saving effect of greater coordination is the reduction of transaction costs at the donor level, both through a decrease in the number of partner countries (thus increasing the size of interventions in each country) and through a shift from projects to programmes. These have the effect of lowering administrative costs.

Another source of effectiveness that can be achieved through greater coordination is the 'untying' of aid,[1397] which is one of the aims of the OECD Development Assistance Committee. Achieving this goal may be easier in a coordinated way and by exploiting a sort of 'peer pressure' among Member States. Moreover, aid volatility may be an important constraint for recipient countries.[1398] Increased predictability is much harder to organise in a decentralised fashion, since all the donor countries have their own political and budgetary processes.

1391 OECD, Paris Declaration and Accra Agenda for Action.

1392 See, for example: A. Fuchs, P. Nunnenkamp and H. Öhler, Why donors of foreign aid do not coordinate: The role of competition for export markets and political support, The World Economy, 38(2), 2015, pp. 255-285; F. Bourguignon and J. Platteau, The hard challenge of aid coordination, World Development, 69, 2015, pp. 86-97.

1393 S. Klingebiel, M. Negre and P. Morazán, Costs, Benefits and the Political Economy of Aid Coordination: The Case of the European Union, European Journal of Development Research, 2016.

1394 OECD, ibid, 2022.

1395 A. Bigsten, J. Platteau and S. Tengstam, The Aid Effectiveness Agenda: The benefits of going ahead, Final Report, 2011.

1396 Annex to M. Nogaj, The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors, EPRS, September 2013.

1397 The OECD defines aid as untied when proceeds from loans and grants are fully and freely available to finance procurement from all OECD countries and substantially all developing countries (OECD (2010), DAC statistical reporting directive). This is considered able to reduce project costs by 15-30 % on the recipient side. In 2014, about 80 % of EU aid was untied (E. Pichon, Understanding development effectiveness: An overview of concepts, actors and tools, EPRS, 2017).

1398 Its cost is measured as the reduction in aid that a recipient country would be willing to accept, provided that it is completely predictable. It can be interpreted as expenses that could be avoided by donors if they provided more predictable aid flows.

Bigsten et al. (2011) also find that increasing the share of more general aid arrangements, and especially general budget support over total aid, has a positive effect on recipient countries' economic growth.[1399]

The last component is the measurement of the potential benefit of an 'optimal' allocation of aid across countries, i.e. the allocation that maximises poverty reduction, thus eliminating the 'aid orphans' and the 'aid darling' cases. This can be seen as the impact of greater coherence around the focus on poverty reduction, in line with the request of the European Parliament to target poverty better (e.g. set targets for aid going to Least Developed Countries – see below).

A broader approach to coordination and coherence is what is defined as 'policy coherence for development' (PCD),[1400] which can have significant European added value. PCD aims to incorporate development objectives in non-aid policies in order to minimise contradictions, and create synergies. PCD has become an EU legal obligation,[1401] but still its implementation is an ongoing effort. Concerns have been raised, for example, about some aspects of the EU Trust Fund for Africa and their side-effects on development objectives.[1402] The European Parliament, during the negotiations on the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI), reiterated the need to ensure that any external policy likely to affect developing countries takes account of the objectives of development cooperation.

EPRS calculations lead to the results that are summarised in Table 37; the total potential yearly benefit is between €12.2 billion and €14.6 billion.[1403] To take into account the potential impact of the NDICI-Global Europe that entered into force in 2021, some discount factors are used, which are based on a qualitative assessment of its relevance on each of the sources of the cost of non-Europe.[1404] The higher ambition scenario represents the benefits of coordination under the assumption that the EU-27 reaches the goal of spending 0.7 % of GDP on development aid (for the status quo, see Figure 42).

[1399] A. Bigsten et al. (2011) found that general budget support has a positive effect on recipients' economic growth. They then simulated the effect of an 11 % increase in the share of EU aid that comes in the form of general budget support. In 2020, the EU's overall budget support programmes amounted to about €3 billion. See European Commission, Budget support: trends and results 2021, DG INTPA/DG NEAR, September 2021.

[1400] Communication on Policy Coherence for Development, COM(2005) 134 final, European Commission.

[1401] M. Latek, Policy Coherence for Development: still some way to go, EPRS, 2015.

[1402] M. Fernandes and C. Navarra, Legal migration policy and law, EPRS, 2021 (Chapter 2.3.5), and Altai Consulting for the European Commission, Learning Lessons from the EUTF: Phase 2 – Paving the way for future programming on migration, mobility and forced displacement, February 2021.

[1403] We consider the first three impacts to be relatively independent from each other, and thus fully additional, and as being closely related to EU coordination. The extent to which the last two impacts can be added to the other depends on their independence and can only partially be tapped via greater coordination; they are thus discounted by 50 %. As underlined by Bigsten (2013), the last estimate is an upper bound of potential benefits that could be obtained by reallocation of aid. GDP figures are 2032 projections of the current baseline.

[1404] It is assumed that NDICI-Global Europe may address the reduction of transaction costs by 70 % (it makes a substantial coordination effort without replacing national aid systems), and the reduction of aid volatility and the untying of aid by 20 %. It refers to untying of aid in respect of EFSD+; moreover, untying of aid is progressing – according to the OECD, from 1999-2001 to 2008 the proportion of untied bilateral aid rose progressively from 46 % to 82 %. Coordination over poverty reduction is assumed to be affected by 10 % (the estimate is an upper bound). Under the current allocation, the top five recipient countries are Turkey, Morocco, India, Syria and Ethiopia.

***Figure 42: Official development assistance as a share of GDP

Source: EU Aid Explorer.

Table 37: EAVA – Summary table

Reduced transaction costs	408	489
Reduced volatility	2 447	2 936
Coordinated untying of aid	1 223	1 468
Moving to more general forms of aid	1 699	2 039
Coordination over poverty reduction as the only target	6 423	7 708
Total	**12 201**	**14 641**

Source: Compiled by the author, based on M. Nogaj, The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors, EPRS, September 2013.

European Parliament position

The European Parliament has called on several occasions for greater coordination in aid programming and delivery.[1405] In its 2016 resolution,[1406] the Parliament stressed the key role of official development assistance in fulfilling the development effectiveness agenda, and for poverty eradication, reduction of inequality, delivering essential public services and supporting good governance. It also recalled that sufficient funding is a prerequisite for effective development cooperation, urging the EU and its Member States to meet their long-standing commitment to devote 0.7 % of GNI to aid, in order to step up their development assistance.

[1405] M. Latek, Le défi de la coordination des politiques Européennes de développement,, EPRS, 2015.

[1406] European Parliament resolution of 22 November 2016 on increasing the effectiveness of development cooperation, (2016/2139 (INI)).

Moreover, the Parliament has called for the 'budgetisation' of the European Development Fund[1407] on many occasions to ensure the overall consistency of EU development action.

Some of these issues were reiterated in 2018 in a number of resolutions,[1408] especially regarding the MFF: together with the 0.7 % commitment, the Parliament called for 20 % of ODA to be devoted to social inclusion and human development, and 0.2 % of GNI for Least Developed Countries. The Parliament has been calling for better integration of EU Trust Funds in the budget, to increase transparency and democratic scrutiny, and has been vocal in asking for greater democratic scrutiny and ownership of cooperation actions and programmes.

In the negotiations on the Neighbourhood, Development and International Cooperation Instrument (see below), the Parliament proposed important amendments to the Commission's proposal, especially on: (i) better governance and a stronger role for Parliament, (ii) clearer and more distinct objectives for the various policies, and (iii) budgetary measures. The Parliament asked to introduce greater democratic accountability and control mechanisms – for example, by proposing delegated act procedures for secondary policy choices (notably programming) and the 'high-level political dialogue' to define primary policy choices.[1409]

Regarding development objectives, the Parliament asked to introduce a clear reference to poverty eradication and to the 2030 Agenda and the Sustainable Development Goals in the objectives of the Instrument; other requests were, for example, to introduce a cap for activities linked to capacity building of military actors and to guarantee that any activities related to migration are in line with the Instrument's objectives. Policy coherence is central for the Parliament, which underlines the need to ensure that any external policy likely to affect developing countries takes account of the objectives of development cooperation. Regarding budgetary measures, the Parliament proposed that the budget for the Instrument be increased to €93.154 billion, an increase of nearly €4 billion compared to the Commission's proposal.

Commission and Council responses so far

The 2017 European Consensus on Development[1410] adopted a holistic approach to the 2030 Agenda for Sustainable Development Aid[1411] and integrates social, economic and environmental dimensions while keeping poverty eradication as a main goal. Crucially, the fulfilment of the 0.7 % target is envisaged within the timeframe of the 2030 Agenda.

[1407] A. D'Alfonso, European Development Fund, EPRS, 2014.

[1408] European Parliament resolution of 17 April 2018 on the implementation of the Development Cooperation Instrument, the Humanitarian Aid Instrument and the European Development Fund (2017/2258(INI)); European Parliament resolution of 18 April 2018 on the implementation of the EU external financing instruments: mid-term review 2017 and the future post-2020 architecture (2017/2280(INI)); European Parliament resolution of 30 May 2018 on the 2021-2027 multiannual financial framework and own resources (2018/2714(RSP)).

[1409] B. Bilquin, Implementation of the Global Europe Instrument: First steps – The European Parliament's scrutiny role, EPRS, November 2022

[1410] Communication on a Proposal for a new European Consensus on Development Our World, our Dignity, our Future, COM(2016) 0740 final, European Commission. The new consensus follows up on the 2005 European Consensus on Development, a policy statement made jointly by the Commission, the Parliament and the Council committing the EU to eradicating poverty and building a fairer and more stable world.

[1411] Resolution adopted by the United Nations General Assembly on 25 September 2015, 'Transforming our world: the 2013 Agenda for Sustainable Development'.

The same year, an evaluation of the 2014-2020 Development Cooperation Instrument indicated that, despite its relative success in delivering its objectives, there is still room for improvement for closer alignment with recipient countries' priorities and for reducing fragmentation.[1412] In June 2018, the Commission published the Proposal for a Regulation establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe,[1413] which was finally approved in 2021 and entered into force in June 2021.[1414] It merges 10 regulations, one decision and one extra-budgetary fund based on an inter-governmental agreement (the European Development Fund (EDF), including its African, Caribbean and Pacific investment facility)[1415] into a single new regulation.

The Global Europe Instrument does not include a number of other EU external relations instruments – for example, EU humanitarian assistance, the Instrument for Pre-accession Assistance III (IPA III), the European Peace Facility and the EU trust funds. The Commission considers that streamlining a number of instruments within the context of one broad instrument will provide an opportunity to rationalise management and oversight systems, and thereby reduce the administrative burden for EU institutions and Member States. However, the impact assessment does not quantify the possible reduction of this burden.[1416]

The Commission proposed a budget of €89.2 billion for 2021-2027. Despite the Parliament asking for an increase, the final budget follows the Council conclusions (adopted by the European Council in July 2020) of a smaller overall budget of €79 462 million in current prices.[1417] It is composed of three pillars – a geographic pillar, which receives at least 75 % of the total envelope (the most relevant areas in monetary terms are Sub-Saharan Africa and the Neighbourhood, with about €29 billion and €19 billion respectively), a thematic pillar[1418] and a 'rapid response' pillar (about €3 billion). In addition, the Global Europe Instrument has an emerging challenges and priorities cushion of about €9.5 billion.

The main elements of the agreement resulting from trilogue negotiations include[1419] an enhanced role for the European Parliament through, for example, a delegated act on the specific objectives and priority areas of cooperation per sub-region and the 'high level geopolitical dialogue' (although this latter is not a formal norm as such, but rather a technique or a process of dialogue between the Commission-EEAS and the Parliament).[1420] It also includes a compromise on migration, whereby

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[1412] European Commission, Evaluation Report on External Financing Instruments – Development Cooperation Instrument (DCI), 2017.

[1413] Proposal for a regulation establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI), COM(2018) 460 final, European Commission.

[1414] Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, Official Journal of the European Union, L 209, 14 June 2021.

[1415] The budgetary and scrutiny powers of the European Parliament would thus be extended to the EDF.

[1416] V. Kononenko, Establishing the Neighbourhood, Development, and International Cooperation Instrument, EPRS, 2018. In this sub-chapter, the assumptions made above explain how the impact of the new regulation is estimated.

[1417] For a detailed analysis of NDICI-Global Europe so far, see B. Bilquin, Implementation of the Global Europe Instrument: First steps – The European Parliament's scrutiny role, EPRS, November 2022

[1418] This includes human rights and democracy, support for civil society, peace, stability and conflict prevention, and global challenges.

[1419] B. Immenkamp, A new neighbourhood, development and international cooperation instrument – Global Europe, EPRS, 2021.

[1420] It is based on a declaration by the Commission on a geopolitical dialogue, published in the OJ of the same date as the Global Europe Regulation. See B. Bilquin, ibid, 2022.

migration-related activities funded by the NDICI have to be in line with the overall objectives of the regulation, and limits the envelope for migration-related purposes to 10 % of the Instrument. Still, it places particular emphasis on migration in relation to the Neighbourhood, where an additional amount can be allocated as part of the incentive-based approach. Further aspects relate to safeguards regarding the amounts set aside for capacity building of military actors, more ambitious targets for spending on official development assistance (93 %, up from 92 % in the Commission proposal), climate (30 %, up from 25 %) and gender (85 %, as opposed to no explicit target in the proposal), but this target is not binding.[1421]

Another major initiative to avoid fragmentation is joint programming,[1422] which in NDICI-Global Europe is considered the preferred approach to country programming, to ensure coherence, complementarity and consistency. After the 2012 Commission Communication[1423] and 2016 Council conclusions,[1424] joint programming is also underlined in the 2017[1425] European Consensus on Development. The more recent product of joint programming has been launched as part of the EU response to COVID-19: Team Europe consists of the European Union, the EU Member States – including their implementing agencies and public development banks – and the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD). It is expected to further improve the coherence and coordination of efforts, notably at partner country level.[1426]

Looking forward

The NDICI-Global Europe regulation entered into force in June 2021 and, as of September 2022, most of the programming documents had been adopted;[1427] the potential benefits of further coordination could be explored. On the enforcement side, policy coherence for development is an ongoing process that needs ongoing monitoring, as indicated by the recent European Parliament workshop in September 2022.[1428] Another relevant debate to be followed, which found a new space during the COVID-19 pandemic, is the one about debt relief.[1429]

1421 In accordance with existing commitments in the EU Gender Action Plan III – at least 85 % of ODA-funded programmes, geographical and thematic, should have gender equality as a principal or a significant objective, and at least 5 % should have gender equality and women's and girls' rights and empowerment as a principal objective.

1422 European Commission, Joint programming of development cooperation.

1423 Communication on EU development policy: an agenda for change, COM(2011) 637 final, European Commission.

1424 Council of the European Union, Council Conclusions on stepping up Joint Programming, 12 May 2016.

1425 Communication on a Proposal for a new European Consensus on Development Our World, our Dignity, our Future, COM(2016) 0740 final, European Commission.

1426 Working Better Together as Team Europe.

1427 B. Bilquin, ibid, 2022.

1428 Workshop on 'Enhancing Policy Coherence for Development', 29 September 2022.

1429 UNCTAD, The Covid-19 Shock to Developing Countries: Towards a 'whatever it takes' programme for the two-thirds of the world's population being left behind, 2020.

Although European integration is a key driver of growth, peace, environmental protection and social prosperity, persistent challenges remain and potential crises can be anticipated. Looking forward, a number of possible pathways are open to Europe. The European Parliament favours the path of ambitious, collective EU action, where significant potential gains can be realised, not only for today, but also for various possible future scenarios.

This study seeks to support the European Parliament in defining the political agenda and stimulating debate on a sustainable path forward. It investigates the potential benefits that could be achieved in 50 policy areas, taking into account the state of EU legislation and its untapped potential, and applies quantitative analysis tailored to each policy area. If the EU does not pursue the path of ambitious, collective action, the benefits identified might not materialise fully, leading to a 'cost of non-Europe'.

The study finds that further EU integration could generate over €2.8 trillion per year by 2032 and help to achieve the EU's objectives in the areas of social rights, fundamental rights and the environment. Gains from further EU integration would not replace or undermine those from actions taken at national, regional or local level, but rather complement and reinforce them.

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