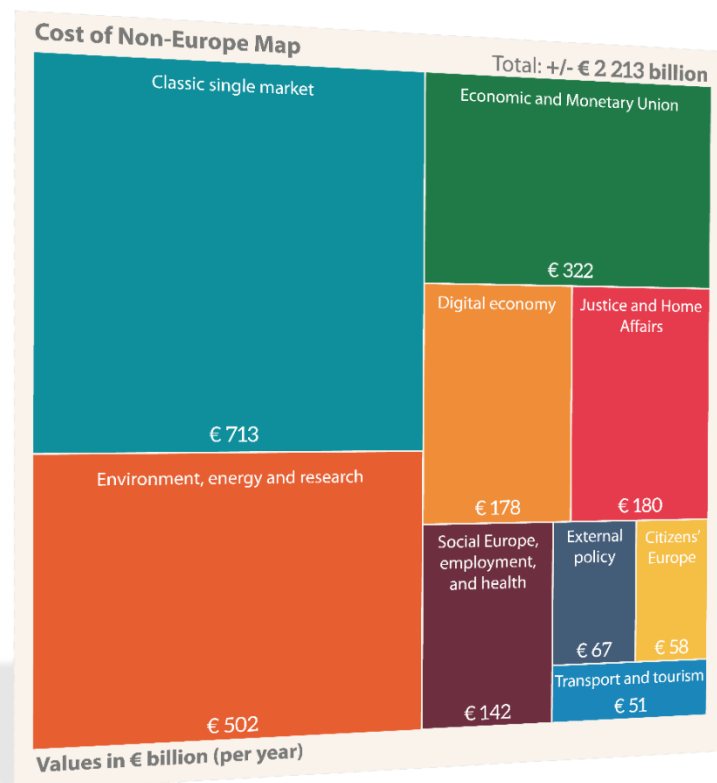


Europe's two trillion euro dividend

Mapping the Cost of Non-Europe, 2019-24



STUDY

Europe's two trillion euro dividend:

Mapping the Cost of Non-Europe, 2019-24

This study brings together work in progress on a long-term project to identify and analyse the 'cost of non-Europe' in a number of policy fields. This concept, first pioneered by the European Parliament in the 1980s, is used here to quantify the potential efficiency gains in today's European economy through pursuing a series of policy initiatives recently advocated by the Parliament – from a wider and deeper digital single market to more systematic coordination of national and European defence policies or increased cooperation to fight corporate tax avoidance. The benefits are measured principally in additional GDP generated or more rational use of public resources.

The latest analysis suggests that there are potential gains to the European economy (EU-28) of over 2,200 billion euro that could be achieved, if the policies advocated by the Parliament in a series of specific areas were to be adopted by the Union's institutions and then fully implemented over the ten-year period from 2019 to 2029. This would be, in effect, a 'two trillion euro dividend', representing a boost of some 14 per cent of total EU GDP (itself 15.3 trillion euro in 2017). The study is intended to make a contribution to the on-going discussion about the European Union's policy priorities over the coming five-year institutional cycle, from 2019 to 2024.

EDITOR:

Anthony Teasdale

E-mail contact: EPRS-EuropeanAddedValue@ep.europa.eu

DOCUMENT COMPILED BY:

Micaela Del Monte, Tatjana Evas, Alesksandra Heflich, Niombo Lomba, Klaus Mueller, Cecilia Navarra, Jerome Saulnier, Elodie Thirion and Wouter Van Ballegooij, European Added Value Unit; and Tania Latici and Laura Puccio, Members' Research Service.

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Europe's two trillion euro dividend: **Mapping the Cost of Non-Europe, 2019-24**

Introduction

Summary

Common action by the European Union can bring significant economic benefits to citizens. The existing single market, for example, built over several decades, has already boosted the European (EU-28) economy by over five per cent, by offering wider choice for consumers and greater economies of scale for producers, so increasing trade, investment and employment. In many policy areas - from transport to research, or the digital economy to justice and home affairs - existing common action could be deepened or new action undertaken in ways that would generate a positive economic spin-off.

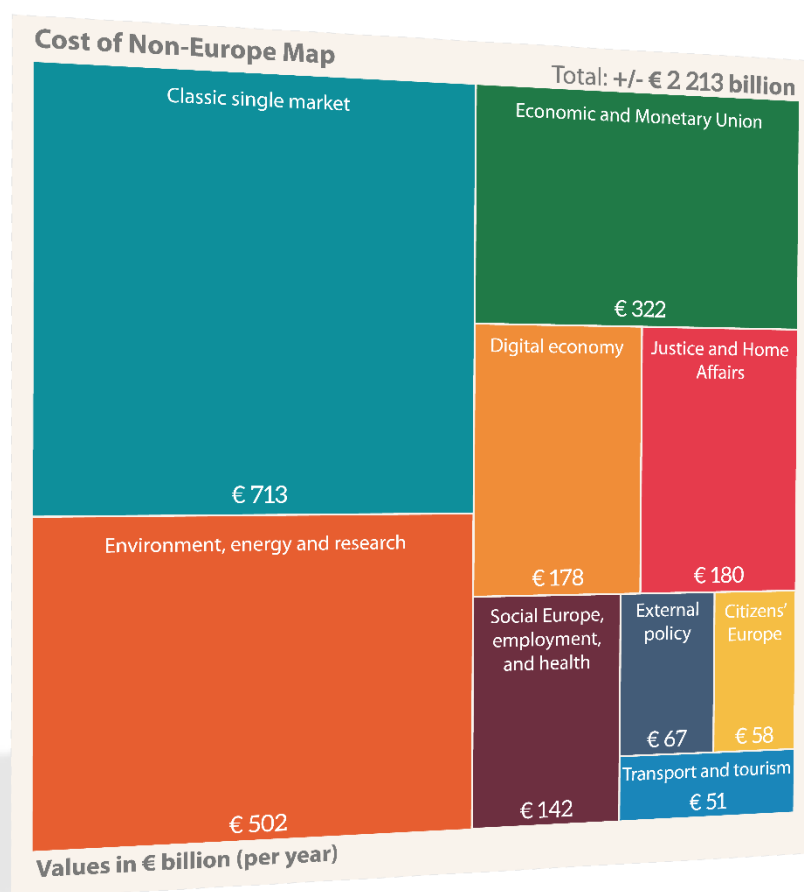
Since 2012, the European Parliament's European Added Value Unit has been attempting to estimate the potential economic gain from policy initiatives favoured by the Parliament that could boost Europe's economic performance over time. Such gains - or 'European added value' - come principally either from additional GDP generated or from a more rational allocation of existing public resources, through better coordination of public spending at national and European levels. The latest analysis suggests that there are potential gains to the European economy (EU-28) of over **2,200 billion euro** to be achieved, if the policies advocated by the Parliament in a series of specific areas were to be adopted by the Union's institutions and then fully implemented over the ten-year period from 2019 to 2029. This would be, in effect, a 'two trillion euro dividend', representing a boost of some **14 per cent of total EU GDP** (2.2 trillion out of 15.3 trillion euro in 2017).

The **ten broad policy clusters** where greater common action can boost the European economy - adding up to 2,213 billion euro - are listed below and captured in graphic form in the the 'Cost of Non-Europe Map' featured on the next page:

- Classic single market (713 billion euro)
- Digital economy (178 billion euro)
- Economic and Monetary Union (EMU) (322 billion euro)
- Environment, energy and research (502 billion euro)
- Transport and tourism (51 billion euro)
- Social Europe, employment and health (142 billion euro)
- Citizens' Europe (58 billion euro)
- Justice and Home Affairs - Migration and borders (55 billion euro)
- Justice and Home Affairs - Security and fundamental rights (125 billion euro)
- EU external policy (67 billion euro).

These ten policy clusters can in turn be broken down into **fifty specific policy areas** that form the building-blocks of this analysis. These are set out in synoptic form under the heading 'Latest analysis'

below. In the following section, readers will find a brief summary of the potential economic gains in each of those 50 areas. Then in the more than 200 pages that follow, the 50 policy areas are in turn unpacked in much greater detail, with hyperlinks to relevant research, whether undertaken by the European Parliamentary Research Service (EPRS) or outside bodies. Finally, there is a chart showing the evolution of the amounts identified as potential European added value, by policy area, in the successive editions of this document since 2014.



Background

The concept of 'non-Europe' was first pioneered and developed in the European Parliament in the early 1980s, through a report commissioned (by its Special Committee on European Economic Recovery) from two leading economists, Michel Albert and James Ball. The Albert-Ball Report, *Towards European Economic Recovery in the 1980s*, 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'.

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 greater detail in the landmark Cecchini Report, published by the European Commission in April 1988. *The Cost of Non-Europe in the Single Market* suggested the potential gain to the European economy to be in the order of 4.5 per cent (and potentially 6.5) of GDP. Subsequent analysis of the economic impact of over 3,500 individual measures adopted at EU level to complete the single market, in the period since the mid-1980s, points to a boost to collective GDP of over 5.0 per cent - or around 1,500 euro per citizen per year - with calculations of the GDP boost varying between 1.7 and 8.5 per cent.

The idea of there being a 'cost of non-Europe' can be applied much more widely than in relation to the single market, although it is perhaps easier to quantify in this specific policy area than in some other sectors. The central notion is that the absence of common action at European level may mean that, in a defined policy area, there is an efficiency loss to the overall economy and/or that a collective public good that might otherwise exist is not being realised. The concept of cost of non-Europe is closely related to that of 'European added value', in that the latter attempts to identify the collective benefit of undertaking - and the former, the collective gain which is foregone by not undertaking - policy action at European level in a particular field.

The Mapping process to date

The potential multiplier effect of either deepening existing European action or undertaking new action remains strong. Since 2012, the European Added Value Unit of the European Parliamentary Research Service (EPRS) has been estimating the potential economic gain from policy initiatives favoured by the Parliament that could boost the European economy over time. Such gains would come principally either from additional GDP generated or from a more rational allocation of public resources, through better coordination of public spending at national and European levels. This approach is not based not on an assumption of higher public spending (unless it could have a high multiplier effect), but rather on identifying actions which could either increase the long-term growth potential of the economy without additional expenditure - as in building a wider and deeper digital single market to complement the classic single market - or ensure the better spending of existing public resources - as in the more systematic of coordination of national and European defence or development policies. The philosophy is thus one of 'growth without debt', suited to the reality of the constrained public spending possibilities facing governments since the economic and financial crisis of 2008.

The on-going, and regularly updated, assessments of the economic gains to be realised by such initiatives, all advocated at various times by the European Parliament, have already been brought together in four editions of a publication entitled *Mapping the Cost of Non-Europe, 2014-19*, published by the European Added Value Unit between March 2014 and December 2017. This analysis has drawn on a mixture of in-house EP research, research commissioned from outside experts by the EP, and external analysis published by other public bodies, think tanks and academia.

The initial assessment made in spring 2014 covered 24 policy areas and indicated a potential economic gain of some **800 billion euro per year** - or some six per cent of then EU GDP - after full running-in over a period of up to ten years. This would represent a permanent upward shift in GDP, with the biggest gains being through the digital single market (at 260 billion euro) and the classic single market (235 billion euro), with several other areas ranging up to 60 billion each.

By the time of the fourth edition of *Mapping the Cost of Non-Europe, 2014-19*, published at the end of 2017, a more detailed and up-dated analysis across 34 policy areas pointed to overall potential

gains to the European economy of up to **1,750 billion euro** (1.75 trillion euro) - or some 12 per cent of then EU GDP. The biggest gains were identified in the following fields: further measures to complete the classic single market (615 billion euro), the development of the digital single market (415 billion euro), moves towards more integrated energy markets and greater energy efficiency (250 billion euro), fighting tax fraud and tax evasion (169 billion euro), and further work to complete economic and monetary union (129 billion euro).

Latest analysis of potential economic gain: 2.2 trillion euro

Since January 2018, the *Mapping the Cost of Non-Europe* exercise has been expanded to cover 50 policy areas, including multiple aspects of justice and home affairs, and new fields such as data protection and cyber-security. Where possible, an initial assessment has also been made of any gains that may already have been realised in these fields - such as in aspects of the classic and digital single markets - as a result of some of the policies advocated by the European Parliament having been proposed (in whole or in part) by the European Commission and then enacted by the Council and Parliament, during the course of the current five-year EU political cycle (2014-19).

The latest work, set out in the present study, looks forward to the opportunities of the next five-year cycle in EU policy-making, starting with the election of the new European Parliament, which will convene in July 2019. This analysis suggests that potential economic gains to the European economy (EU-28) of over **2,200 billion euro** (2.2 trillion euro) could be achieved, by the end of the ten-year period from 2019 to 2029, if policies advocated by the Parliament in the 50 fields studied here were to be adopted by the Union's institutions and fully implemented. This would offer, in effect, a 'two trillion euro dividend' from common EU action, representing some 14 per cent of total EU GDP (itself 15.3 trillion euro in 2017). The long-term potential boost to the EU economy would, if realised, be very significant: in any one year, it could potentially be as big as the whole quantitative easing programme undertaken by the European Central Bank in the decade following the economic and financial crisis of 2008.

Fifty policy areas

The **fifty areas** under specific review here, grouped in their ten broad policy clusters, are listed below, followed by the latest calculation of the annual potential gain, given in billions of euro, after a full running-in period of up to ten years, with the latter adding up to 2,213 billion euro:

1) ***Classic single market*** (713 billion euro)

- Completing the single market for goods (183 billion euro)
- Completing the single market for services (297 billion euro)
- Guaranteeing consumer rights (58 billion euro)
- Promoting the collaborative or sharing economy (50 billion euro)
- Addressing corporate tax avoidance (85 billion euro)
- Combatting value added tax fraud (40 billion euro)

2) Digital economy (178 billion euro)

- Completing the digital single market (110 billion euro)
- Promoting internet connectivity (58 billion euro)
- Cyber-security (10 billion euro)

3) Economic and Monetary Union (EMU) (322 billion euro)

- Better coordination of fiscal policy (30 billion euro)
- Completing Banking Union (75 billion euro)
- Common deposit guarantee scheme (5 billion euro)
- Common unemployment insurance scheme (17 billion euro)
- Building more integrated capital markets (137 billion euro)
- Pan-European pension product (58 billion euro)

4) Environment, energy and research (502 billion euro)

- Climate change (under assessment)
- Strengthened water legislation (25 billion euro)
- More integrated energy market with greater energy efficiency (231 billion euro)
- Promoting research and innovation (40 billion euro)
- Robotics and artificial intelligence (206 billion euro)

5) Transport and tourism (51 billion euro)

- Single European Transport Area (6 billion euro)
- Developing tourism policy (6 billion euro)
- Stronger passenger rights (0.4 billion euro)
- Odometer manipulation in motor vehicles (9 billion euro)
- Liability rules and insurance for autonomous vehicles (30 billion euro)

6) Social Europe, employment and health (142 billion euro)

- Reducing the gender pay gap (43 billion euro)
- Better information for and consultation of workers (12 billion euro)
- Social enterprises and mutual societies (15 billion euro)
- Addressing health inequalities (72 billion)

7) Citizens' Europe (58 billion euro)

- Free movement of economically-active EU citizens (53 billion euro)
- Creativity and cultural diversity (0.5 billion euro)
- Cross-border voluntary activity (0.06 billion euro)

- Protection of children, family and property relations (0.6 billion euro)
- Establishment and mobility of companies (0.26 billion euro)
- Legal cooperation and litigation in civil and commercial matters (4 billion euro)
- EU law on administrative procedure (0.02 billion euro)

8) Justice and Home Affairs - Migration and borders (55 billion euro)

- Legal migration (22 billion euro)
- Asylum policy (23 billion euro)
- Border control and visa policy (10 billion euro)
- Citizenship and residency by investment schemes (under assessment)

9) Justice and Home Affairs - Security and fundamental rights (125 billion euro)

- Combatting violence against women (23 billion euro)
- Equal treatment and non-discrimination (0.5 billion euro)
- Fighting organised crime, corruption and cyber-crime (82 billion euro)
- Coordinated action against terrorism (16 billion euro)
- Procedural rights and detention conditions (0.2 billion euro)
- Data protection (3 billion euro)

10) EU external policy (67 billion euro)

- Less duplication in security and defence policy (22 billion euro)
- Improved coordination of development policy (9 billion euro).
- Improved common consular protection for EU citizens (0.9 billion euro)
- Promoting international trade (35 billion euro).

Economic analysis

The potential economic benefits of the various EU policy initiatives analysed here may be measured in terms of additional GDP generated or by savings in public or other expenditure, through more efficient allocation of resources in the economy as a whole. An example of additional GDP generated would be the potential multiplier effect over time of widening and deepening the digital single market on a continental scale, or indeed of further completing the existing single market in goods and services. An example of greater efficiency in public expenditure would be more systematic coordination of spending in the field of defence policy, including joint defence procurement, where there are considerable duplications or dis-functionalities in present arrangements. An example of potential future costs avoided would be the benefit of effective action ensuring the resilience of the Banking Union to forestall any future banking or sovereign debt crises, or increased cooperation in fighting tax evasion and avoidance.

The analysis in this paper builds in large part on a series of more detailed pieces of work undertaken in recent years for individual European parliamentary committees by the European Added Value Unit of EPRS. This work often takes the form of *European Added Value Assessments* - to accompany formal legislative initiatives proposed by the European Parliament - and *Cost of Non-Europe Reports* in specific policy sectors. The choice of research areas is thus closely related to specific work of, or requests, or policy positions expressed, by parliamentary committees. It also draws on other research, undertaken independently by outside think tanks and academic bodies, which bears upon other requests made by the Parliament in its various legislative and own-initiative reports in this and previous parliamentary terms.

The detailed analysis set out in this *Mapping the Cost of Non-Europe, 2019-24* seeks to provide a reliable estimate of the size of potentially measurable gains to the EU economy from the various policy initiatives listed. It does not claim to make exact predictions, on the basis of one economic model, but rather it seeks to illustrate the potential order of magnitude of possible efficiency gains that could be realised from common action in the 50 policy fields. The analysis is based on work from a variety of sources, which are referenced in footnotes, often with hyperlinks, and it is constantly updated and refined as new evidence becomes available. It characteristically errs on the side of caution in estimating potential gains. When an underlying study offers a range of potential gains, the low-range value is often selected, even if there is substantial upside potential to this estimate over the medium to long term, from dynamic effects that cannot easily be quantified. Likewise where figures are specific to the year in which a study was conducted, they are not necessarily inflation-adjusted, leading in some cases to an under-estimate of potential gains.

The approach by the European Parliament in the field of cost of non-Europe dovetails with parallel economic research undertaken in the academic and think-tank community more widely, both in respect of particular EU policies and the wider benefits of EU membership itself. For example, a study produced by three economists (Campos, Coricelli and Moretti) in 2014¹, which attracted considerable public attention, sought to quantify the economic benefits of EU membership for the 19 member states which acceded to the Union in the successive enlargements from 1973 to 2004. Although the size and nature of the economic gain might vary by member state, and derive predominantly from different factors in each case - whether intra-EU trade liberalisation (for the 10 member states joining in 2004), the single market (for the United Kingdom), the single currency (for Ireland) or labour productivity (for Finland, Sweden and Austria) - the overall conclusion was that national incomes were already on average 12 per cent higher in those countries than they would otherwise be, as a result of membership and its associated economic integration. Their study also found that such gains are generally permanent and tend to increase over time.

The European Investment Bank (EIB), for its part, has been undertaking a systematic analysis of the impact of its borrowing and lending activity on EU GDP, which it calculates will by 2020 be 2.3 per cent higher than it otherwise would be if such activity had not occurred, with EFSI activity representing 0.7 of that 2.3 per cent figure. The Joint Research Centre of the European Commission has likewise estimated the impact of EU cohesion policy over the period 2007-15 as having increased

¹ N Campos, F Coricelli and L Moretti, 'Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union using the Synthetic Counterfactuals Method', IZA Discussion Paper No 8162, May 2014.

overall Union GDP by 0.7 per cent, with the impact averaging around 2.7 per cent in less developed regions of the Union.

Anthony Teasdale

Director-General,
European Parliamentary Research Service (EPRS).

April 2019.

Summary of potential economic gains in 50 EU policy areas

1) **Classic single market** (713 billion euro)

- Completing the single market for goods (183 billion euro)
- Completing the single market for services (297 billion euro)
- Guaranteeing consumer rights (58 billion euro)
- Promoting the collaborative economy (50 billion euro)
- Addressing corporate tax avoidance (85 billion euro)
- Combatting value added tax fraud (40 billion euro)

➤ **Completing the single market for goods:** The single market in goods lies at the heart of the European single market and has been key to the latter already boosting EU GDP significantly - recent estimates suggest by about 6 to 8 per cent - over the third of a century since the single-market programme was launched in 1985. Trade in goods currently generates around a quarter of EU GDP and three-quarters of intra-EU trade: the OECD calculates that it is around 60 per cent higher than if the single market and customs union did not exist. EP research suggests that further action in this specific field - whether by continued adoption of harmonised product rules, wider application of the principle of mutual recognition (wherever such rules do not exist), better transposition and implementation of existing EU law, and/or speedier remedies for non-enforcement of the latter - could boost the EU economy by between 1.2 and 1.7 per cent of EU GDP, or **between €183 and €269 billion**. Studies by other organisations have put the figure at between 0.2 and 4.7 per cent of EU GDP. The potential for further progress is confirmed by the fact that intra-EU trade in goods, at around 25 per cent of GDP, is still significantly below that found in a comparably integrated continental market-place, namely the United States, where it represents some 40 per cent of the economy.

➤ **Completing the single market for services:** Services account for three-quarters of EU GDP and nine out of ten new jobs created in the economy. However, the share of services in intra-EU trade is still only around 20 per cent, a surprisingly low figure. Progress was made through the EU Services Directive in 2006, establishing the framework for a single market in covering around two-thirds of services activity within the Union. However, national regulations still persist in many sectors, and the degree of openness in the regulated professions varies greatly, limiting consumer choice and keeping some prices higher than they would otherwise be. Analysis by the European Commission suggests that two-thirds of the long-term potential gain from completing the single market in services has still to be realised. EP research suggests the unrealised potential gain to be in the order of **€297 billion** or close to 2 per cent of EU GDP. Parallel research points to a gain of between 0.6 and 5.6 per cent of EU GDP, depending on what the definition of services includes.

- **Guaranteeing consumer rights:** European citizens enjoy certain rights to consumer protection which are not always clear or enforceable in practice. Consumers need to know that they are adequately protected before, during and after the conclusion of business-to-consumer contracts if the single market is to operate fairly and effectively. The broadening and better application of existing EU law, such as the Consumer Credit Directive, including the elimination of certain bad practices - for example, people purchasing commercial guarantees to which they are already entitled in law - would lead to greater certainty, fairer competition and lower compliance and litigation costs. EP research has estimated a potential efficiency gain of around **€58 billion** per year from a limited series of measures in this field, whilst a recent European Commission study suggests that the loss to consumers in six markets, whether in direct costs or time wasted, is between €20 and €58 billion per year.
- **Promoting the collaborative economy:** The collaborative or sharing economy is developing rapidly and challenging business models in several parts of the economy. It is based on collaborative platforms that create an open market-place for the temporary use of goods and services, often provided by private individuals. EP research identifies the long-term potential economic gains from better tax and regulatory policies at EU level in this sector as being in the order of **€50 billion** per year, based on the clearer and more consistent application of competition policy, tax law, and labour-market regulation and working conditions, for example.
- **Addressing corporate tax avoidance:** The recent Panama Papers and Lux Leaks revelations have highlighted the need for the EU and its member states to give higher priority to countering tax evasion, tax avoidance and aggressive tax planning, and to develop increased cooperation and transparency in these fields, in particular by ensuring that corporate taxes are paid where value is created. Tax revenue losses for the EU as a result of profit-shifting, aggressive corporate tax planning and cost-ineffective regulation could amount between €223 billion and €293 billion, or an average of €258 billion, per year, and distort the allocation of resources in the economy. Taking into account the measures already coming on stream, even if only one-third of the average potential losses could be recovered through further initiatives advocated by the Parliament, this would still generate **€85 billion** per year in additional revenue to national tax authorities.
- **Combating VAT fraud:** Revenues lost to the public finances on account of non-compliance or non-collection of Value Added Tax (VAT) in the EU - the so-called 'VAT gap' - amount to almost €150 billion. Cross-border trade is exempt from VAT and so provides a loophole for unscrupulous operators to collect VAT and then vanish without remitting the money to the tax authorities. It is estimated that €40-60 billion of the annual VAT revenue losses of member states are caused by organised crime groups and that two per cent of those groups are behind 80 per cent of missing trader intra-community (MTIC) fraud. European Commission proposals, supported by the EP, would help reduce cross-border fraud by up to 80 per cent, or about **€40 billion** annually, as well as resulting in smoother cross-border transactions and lower costs for businesses and the public.

2) **Digital economy** (178 billion euro)

- Completing the digital single market (110 billion euro)
 - Promoting internet connectivity (58 billion euro)
 - Cyber-security (10 billion euro)
- **Completing the digital single market:** Estimates vary of the potential long-run impact of EU GDP of the successful completion of the digital single market in Europe, but all analyses suggest it would be substantial. Using different models, the Joint Research Centre of the European Commission and the latter's DG CONNECT have at various times estimated the potential benefit at between €85 billion and €256 billion per year - or respectively 0.6 and 1.9 per cent of EU GDP - whilst the McKinsey Global Institute has put the figure at around €375 billion per year and EP research in 2014 suggested a figure of €415 billion per year. The definition and scope of the digital single market varies between these studies, as does the methodology adopted. Among areas frequently encompassed are e-commerce, e-procurement, e-payments, e-invoicing, e-government, cloud computing and online and alternative dispute resolution systems. (Internet connectivity is included in some studies and not in others: see below). In several of these areas, the European Commission has since brought forward legislative proposals, some of which have now been adopted by EU law-makers. Accordingly, the realisable figure over the next decade, for the purpose of this analysis, is currently thought to be around **€110 billion euro**, but could easily be higher.
- **Promoting internet connectivity:** Estimates locate the potential long-term boost to EU GDP from European-level policies to promote improved internet connectivity - notably through the deployment of wireless high-speed broadband and faster roll-out of fixed high-speed broadband - at about 0.8 per cent of GDP after full running-in over 30 years. Assuming a positive impact of 0.4 per cent of GDP over the next decade, the boost to the European economy would be in the order of **€58 billion** per year.
- **Cyber-security:** Providing a secure cyber environment is important in guaranteeing citizens' unobstructed and safe participation in many aspects of the digital era: opinion polls suggest that some 87 per cent of Europeans see cyber-crime as an important challenge and (in 2016) 80 per cent of European companies were hit by at least one cyber-security incident. Updating the existing legal and policy framework on cyber-security in the way advocated by the EU institutions can generate an efficiency gain to the European economy of at least **€10 billion**, on the basis of calculations undertaken by the European Commission.

3) **Economic and Monetary Union** (322 billion euro)

- Better coordination of fiscal policy (30 billion euro)
 - Completing Banking Union (75 billion euro)
 - Common deposit guarantee scheme (5 billion euro)
 - Common unemployment insurance scheme (17 billion euro)
 - More integrated capital markets (137 billion)
 - Pan-European pension product (58 billion)
- **Better coordination of fiscal policy:** Unless national fiscal policies are effectively coordinated, there can be significant negative 'spill-over' effects between the EU member states participating in Economic and Monetary Union (EMU), and across the European economy more widely, in the event of a severe crisis. Better fiscal coordination increases the sustainability and resilience of member states and confidence and solidarity between them, and should exert a counter-cyclical effect, allowing greater margin for manoeuvre for countries affected by significant output losses in any downturn. EP research suggests that the potential annual efficiency gain of improved coordination of fiscal policy within the European Union could amount to around **€30 billion** on an annualised basis.
- **Completing Banking Union:** The purpose of the EU Banking Union is to safeguard financial stability in Europe, breaking in particular the vicious circle between banks and sovereign borrowing costs. It also contributes to reduce the current fragmentation of European financial markets, by promoting a single framework for supervision, prevention and resolution. Resting on the foundations of the single rulebook, two key building-blocks of an effective Banking Union - the single supervisory mechanism and the single resolution mechanism - are now in place. Taking account of progress made, EP research suggests that some **€75 billion** of potential gains (or close to 0.5 per cent of EU GDP) can still be realised in this field. Other research suggests that completing Banking Union would deliver net macro-economic gains of between €35 and €130 billion per year.
- **Common deposit guarantee scheme:** While national deposit guarantee scheme (DGSs) are already in place and provide protection for covered deposits of up to €100,000, they are not backed by a common European scheme. A common deposit guarantee scheme, taking the form of a European Deposit Insurance Scheme (EDIS), would provide a stronger and more uniform degree of insurance cover across the euro area and reduce the vulnerability of national deposit guarantee schemes to large local shocks. EP research suggests that the average annual cost of not having an EDIS, taking into account the potential reduced flight of deposits from EU banks in the case of a severe sovereign or financial crisis, is around **€5 billion** on an annualised basis.
- **More integrated capital markets:** The EU is progressing towards the building of a more integrated Capital Markets Union, with the aim of increasing lending alternatives to companies, in particular start-ups and SMEs. However, about 75 per cent of firms still rely on banks for external funding. A more integrated capital market would allow a better access to stock markets, with investors facing fewer barriers when investing in other EU countries. EU households would also make the most of their savings and have greater opportunities to invest. As a result, the EU could improve its average potential growth performance and capital would more easily be directed towards the more productive and

innovative investments. Improved integration and development of capital markets would also valuably complement Banking Union, as they both facilitate economic adjustment and contribute to increasing economic resilience. EP research estimates that the potential benefits from more fully integrated and more effectively-regulated EU capital markets could be in the order of **€137 billion** per year.

- **Common minimum unemployment scheme:** The creation of a common unemployment insurance scheme for the euro area could act as an automatic stabiliser during any future periods of serious economic downturn. Had such a scheme been in place during the 2008 economic and financial crisis, EP research suggests that it would have stabilised household incomes by delivering a well-targeted stimulus, and attenuated the GDP loss in the worst affected euro-area member states by some €71 billion over four years, equivalent to approximately **€17 billion** in any one year.
- **Pan-European pension product:** Pension systems, and in particular public pension schemes, have ensured that most of the older people in the majority of EU countries are protected against the risk of poverty. Nowadays, at the age of 65, people can expect to live for another 20 years. For this and other reasons, Member States encourage the build-up of private pension savings as a way to soften the burden of ageing populations on social security schemes and to complement public pension benefits. A pan-European pension product (PEPP) could be an attractive complement, particularly to young people and the self-employed, and especially in member states with under-developed occupational and/or private pension systems. Estimates suggest that the introduction of a PEPP could contribute about half of the growth of the personal pension market in the EU between now and 2030, representing a figure of some €700 billion or an average **€58 billion** per year.

4) **Environment, energy and research** (502 billion euro)

- Climate change (under assessment)
 - Strengthened water legislation (25 billion euro)
 - More integrated energy market with greater energy efficiency (231 billion euro)
 - Promoting research and innovation (40 billion euro)
 - Robotics and artificial intelligence (206 billion euro)
- **Climate change:** In Europe alone, the total reported economic losses caused by extreme weather patterns and other climate-related developments since 1980 are believed to have amounted to over €436 billion. Recent, though not exhaustive, research on the cost of climate change suggests that the potential benefits to the EU economy from currently-planned mitigation policies will be in the order of around **€160 billion** per year. This corresponds to the additional loss, in terms of consumer welfare, that would be incurred if the global temperature rises by more than two degrees Celsius by the end of the century, with EU climate policy targets, supported by the EP and other EU institutions, being missed. This figure is not included in the current *Mapping the Cost of Non-Europe* exercise, because it relates to the cost of the non-achievement of an established EU policy and is measured over a much longer timescale than any other policy under consideration.

However, it is under active assessment and powerfully highlights the added value to European citizens of coherent EU-level action in this policy field.

- **Strengthened water legislation:** The effective use and management of water is an important part of an efficient and environmentally sustainable economy. However, inadequate investment in the sector and an incomplete regulatory regime are resulting in risks for citizens and continued problems in water infrastructure, water cleanliness and flood risk management. EP research suggests that targeted EU action in four specific fields - to help restore flood-plains, reduce pharmaceutical residues in urban waste-water, promote use of more efficient waste-water equipment, and increase water-metering - could bring an efficiency gain of some **€25 billion** per year to the European economy.
- **More integrated energy market with greater energy efficiency:** Despite significant progress in recent years, there is still scope for the realisation of a fully integrated EU energy market, as lack of coordination and regulatory barriers continue to restrict competition. As a result, many consumers still faces limited choices of supplier and are denied the benefits of lower energy prices. Households and businesses should also be able to fully participate in the energy transition, managing their consumption while benefiting from the introduction of smart demand management technology and transparent information. Finally, investments towards using energy more efficiently would boost EU GDP while contributing to lower Europe energy bills, increase security of supply, and help protect the environment. Based on EP and other research, it is reasonable to assume that a more integrated energy market could increase potential GDP by up to €29 billion per year while a full implementation of EU's energy efficiency measures could bring additional gains of around €202 billion per year. In total, a more integrated market with greater energy efficiency could thus generate potential benefits of up to **€231 billion** per year.
- **Promoting research and innovation:** Successful research and innovation (R&I) are key to economic prosperity and sustainable development. Although the EU accounts for one-fifth of the world's research and development (R&D) investment, the Union's competitors and main trade partners are investing proportionally more: in 2015 China's R&D activity overtook the EU28's, with an expenditure of over 2.0 per cent of GDP, whilst the figures for the United States and Japan are respectively somewhat below and above 3.0 per cent. In 2018, the European Commission put forward a proposal for a deeper developed EU research and innovation programme. Based on existing findings and using various macroeconomic simulations, the proposed programme could achieve potential efficiency gains up to **€40 billion** per year.
- **Robotics and artificial intelligence:** The growth of robotics and artificial intelligence (AI) have an enormous economic potential for the EU. Appropriately regulated, they can have positive implications for individuals and society as a whole, improving the qualities of life, health and the environment, and providing citizens with new business opportunities which can underpin economic growth. It is estimated that the worldwide economic impact of the development of robotics and AI could fall within a range of € 2 and € 12 trillion by 2030. Appropriate EU policies to promote and regulate these new technologies could help realise a potential efficiency gain within the European economy of **€206 billion** per year.

5) **Transport and tourism** (51 billion euro)

- Single European Transport Area (6 billion euro)
 - Developing tourism policy (6 billion euro)
 - Stronger passenger rights (0.4 billion euro)
 - Odometer manipulation in motor vehicles (9 billion euro)
 - Liability rules and insurance for autonomous vehicles (30 billion euro)
- **Single European Transport Area:** Despite significant progress made over the last 20 years in creating a single market for transport, the sector still suffers from multiple barriers that generate substantial additional costs affecting the environment, safety, human health, and the competitiveness of the economy. EP research suggests that removing inefficiencies in the transport sector has the potential to yield annual gains of at least **€5.7 billion** for the European economy. In doing so, it would improve mobility for citizens, enhance environmental sustainability, ensure better intra-EU connectivity and greater international competitiveness.
- **Developing tourism policy:** Although the EU is the leading tourism destination in the world - representing around 40 per cent of total international visits - its tourism industry continues to face many challenges and to be hampered by market inefficiencies of various kinds. EP research suggests that further benefits can be achieved by addressing sectors with the highest potential of efficiency gains from further EU action, such as promoting the development of SMEs in the food-related sector, backed by quality accommodation, bringing potential benefits of **between €5.7 and 6.8 billion** per year.
- **Stronger passenger rights:** EU passengers travelling by air, road (bus), rail and water (sea and inland waterway) are protected by a specific legislative framework, which is virtually unique in the world. However, significant challenges remain to be addressed both legally and practically in the respect and execution of these rights. These include differences in the level of protection from one mode of transport to another, cases of non-application of passenger rights, and low awareness of such rights. EP research suggests that the cost to citizens and businesses resulting from the absence of a consolidated framework for passenger rights within the EU is in the order of at least **€355 million** per year.
- **Odometer manipulation in motor vehicles:** Up to 50 per cent of used cars traded among EU member states have illegally manipulated odometers - (the instrument which measures the distance travelled by such a vehicle) - with a view to increasing the vehicle's market value. Imported cars have a much higher rate of manipulated odometers with the number of kilometres clocked also higher than in the cars sold on national markets. EP research shows that the total economic costs of odometer fraud in second-hand cars traded cross-border in the EU is at least €1.3 billion per year, with the most probable fraud rate scenario yielding an **€8.8 billion** economic loss.
- **Liability rules and insurance for autonomous vehicles:** The growing shift towards connected and autonomous vehicles (AVs) will have a major impact on the automotive sector and potentially bring substantial socio-economic benefits. By 2050, autonomous vehicles could potentially contribute €17 trillion to the European economy. It is widely assumed that AVs would have the potential to save human lives, minimise the financial

cost of car accidents, improve urban mobility, decrease congestion and negative environmental impacts, provide more inclusive forms of mobility for the elderly and people with special needs, and increase productivity. EP research estimates that accelerating the 'adoption curve' for AVs by five years, through clarification of liability rules at European level, would boost the economy by **€29.6 billion** per year.

6) **Social Europe, employment and health** (142 billion euro)

- Reducing the gender pay gap (43 billion euro)
- Better information for and consultation of workers (12 billion euro)
- Social enterprises and mutual societies (15 billion euro)
- Addressing health inequalities (72 billion euro)

- ***Reducing the gender pay gap***: Despite efforts in recent years to close the gender pay gap, the gross hourly pay of women in the EU economy is still 16 per cent lower than that of men. This is due both to 'segregation effects' and to pay discrimination, but overall earning inequalities include also the gap in employment and in hours worked, with lost earnings estimated at between €241 and €379 billion per year. Reducing the gender pay gap still further is not only desirable in its own right, but it would have a positive effect on the European economy, as the gap reduces economic efficiency by preventing labour from being allocated in an optimal way. It would increase productivity and job satisfaction, and reduce staff turnover and litigation disputes. EP research suggests that a one per cent decrease in the gender pay gap increases the size of the economy by 0.14 per cent. It follows that even if EU action on pay transparency and improved access to different forms of leave and flexible working arrangements were to reduce the pay gap by only 2.0 per cent, EU GDP would rise by 0.28 per cent, or **€43 billion** per year.
- ***Better information for and consultation of workers***: Not only do employees enjoy the right to appropriate levels of information under the EU Charter of Fundamental Rights, but the process can have a positive effect on the economy, especially at times of redundancy, when advance notification has been shown to encourage successful redeployment, especially accompanied by job-search assistance and training. EP research on the costs and benefits of possible improvements in the current EU legislative framework estimates that it could generate efficiency gains of around **€12 billion** per year, notably by reducing the number of redundancies (by around 22 per cent), as well as reducing the incidence and severity of industrial conflicts, employee 'quit rates' and health costs, and by increasing the likelihood of workers finding new jobs.
- ***Addressing health inequalities***: Being healthy and/or able to live a good life when sick is one of the most important issues for every human being. Although the EU only has a supporting competence in health policy, access to cross-border healthcare and better coordination and promotion of best practice between member states can bring considerable benefits. Analysis by the European Commission specifically of the costs of major health inequalities, both between and within EU member states, leading to poorer health among several social groups or in certain localities, suggests there would be a potential gain for the European economy of up to **€72 billion** per year from more effective action in this field. A health dimension could be introduced to other EU policies

- such as greater use of existing structural funds to support projects that and that improve health infrastructure, increase health research and training, contribute to healthier living and promote 'active ageing'.

- **Social enterprises and mutual societies:** There are two million social enterprises within the EU, employing over 14 million people. They take a wide variety of legal forms - whether as foundations, cooperatives, mutual societies, associations or companies – and there is currently no European legal framework to help them to benefit fully from the single market. A more coordinated EU approach would generate economic and social added value, including greater economies of scale through access to a larger market, reduced transaction and enforcement costs, greater access to finance and public contracts, and potentially higher visibility and consumer confidence. The notions of European mutual foundations or European foundations would make their operations easier, as would an EU certification system. In the latter case, a 'European social economy label' could offer them the opportunity to distinguish themselves from other businesses, without having to register separately in each member state, whilst allowing them to choose the legal form under which they prefer to conduct their operations. EP research suggests that even if such action were to boost the sector by only 2.0 per cent, it would represent a gain of some **€15 billion** per year.

7) **Citizens' Europe** (58 billion euro)

- Free movement of economically-active EU citizens (53 billion euro)
 - Creativity and cultural diversity (0.5 billion euro)
 - Cross-border voluntary activity (0.06 billion euro)
 - Protection of children, family and property relations (0.6 billion euro)
 - Establishment and mobility of companies (0.26 billion euro)
 - Legal cooperation and litigation in civil and commercial matters (4 billion euro)
 - EU law on administrative procedure (0.02 billion euro)
- **Free movement of economically-active EU citizens:** Citizens have the right to look for a job in another EU country, live in that country and access its labour market. They have to pay taxes and contribute to social security, but enjoy the same rights as nationals. It is estimated that in 2017, a GDP gain of €106 billion was achieved thanks to free movement to main destination countries. If trends continue at their current rate - where the number of employed, working-age EU citizens residing in another member state rose from 2.5 to 3.8 per cent in the decade 2007-17 - the continued use of free movement would result in 5.4 per cent of such persons, or around 12 million people, falling into this category by 2027. EP research suggests that such an increase would be worth around **€53 billion** to the EU economy per year, in constant prices. The amount would be significantly higher, if one took cross-border workers, posted workers, remittances and the impact on public revenues into account.

- **Creativity and cultural diversity:** Culture is one of Europe's greatest assets, with 80 per cent of citizens considering that the diversity of the continent's culture sets Europe apart and gives it special value. The cultural and creative sectors are also drivers of innovation, generating over €500 billion in GDP per year and employing 7.5 per cent of Europe's workforce. Among challenges they face are digitisation, fragmentation of markets, limited circulation of works and barriers to accessing lending and equity, especially given the difficulty of valuing intangible assets and the prevalence of micro-enterprises in the sector. Research suggests that if, by introducing new financing facilities and further developing existing ones - with easier access to equity and co-financing, including use of 'business angels' and crowd-funding - the funding gap in the sector could be reduced by a quarter, the potential GDP gain could be up to **€494 million** per year.
- **Cross-border voluntary activity:** Volunteering - conducted of a person's own free will, primarily within a non-governmental organisation, for a non-profit cause - offers many benefits, both for the volunteers and for the sectors and local communities which they help. However, a range of regulatory and financial burdens have traditionally limited access to volunteering, especially for younger people. These include lack of legal recognition across borders, barring access to social security benefits, for example, and the fact that skills acquired during volunteering are not consistently recognised. EP research has estimated the cost of such barriers at around **€65 million** per year, the European Commission believes that, with a multiplier effect of around four times, the 50,000 participants per year in its new European Solidarity Corps could boost the economy by €810 million per year.
- **Protection of children, family and property relations:** The number of international couples and families within the EU continues to increase, as more individuals exercise their right to free movement. EP research suggests that current gaps and inconsistencies in the EU legal framework addressing the protection of children, family and property relations in cross-border situations generate annual costs of around **€ 619 million**. These costs are driven mainly by the divergences in member-state rules, in interpretation and application of EU rules, and in lack of mutual recognition of a specific legal status or administrative decision. Action is needed in relation to cross-border adoption of children, representation in case of incapacity, recognition of civil status and property rights, and reimbursement of damages from traffic accidents.
- **Establishment and mobility of companies:** European company law is an important cornerstone of the single market. It facilitates freedom of establishment, reduces operational burdens on companies, enhances their competitiveness and promotes transparency. According to Eurostat data, 17 million limited-liability companies in the EU generate an annual added value of around €4.9 trillion. However, companies wishing to move to another member state still face significant obstacles, costs and legal uncertainties, limiting the degree of market integration. EP research suggests that the improvement of the EU legal framework in respect of mergers, divisions, conversions and agency of companies has the potential to generate an efficiency gain of **€264 million** per year.

- **Legal cooperation and litigation in civil and commercial matters:** The number of people and companies involved in cross-border transactions is ever increasing. However, enforcing rights in another member state is still challenging. Differences in civil procedural rules among member states create difficulties and costs for the parties involved and can be a source of mistrust among judiciaries when it comes to recognising or enforcing foreign judgements. EP research suggests that legislative action introducing EU common minimum standards for civil procedure could reduce annual costs for citizens and businesses by between €258 to 773 million annually. Moreover, EU action to expedite settlement of commercial disputes could generate further European added value in the range of at least **€3.7 billion**, and potentially €5.7 billion, annually.
- **EU law on administrative procedure:** Every citizen has a legally-enforceable right to good administration in his or her relations with the EU institutions, bodies and agencies. As it stands now, the EU administrative law is highly fragmented, generating uncertainty, costs and delay. EP research suggests that a clearer and more consistent approach, codified in the form of an EU law on administrative procedure, would reduce transaction costs and waiting time for individuals in their dealings with the EU administration, to the value of at least at least **€20 million**.

8) **Justice and Home Affairs - Migration and borders** (55 billion euro)

- Legal migration (22 billion euro)
 - Asylum policy (22 billion euro)
 - Border control and visa policy (10 billion euro)
 - Citizenship and residency by investment schemes (under assessment)
- **Legal migration:** The EU aims at building a comprehensive immigration policy in which legally resident third-country nationals (TCNs) should be treated fairly and in a non-discriminatory manner. However, a number of gaps and barriers remain due to the lack of incorporation and implementation of international and EU human rights and labour standards, and the sectoral approach taken in the EU legal framework, failing to cover all TCNs. This contributes in turn to TCNs experiencing differences the employment rate, over-qualification, lower job quality, lower earnings and poorer long-term integration outcomes. EP research estimates that further EU action in the area of legal migration could result in up to **€22 billion** in benefit to the economy per annum. Additional gains could be made by addressing the fragmented national policies in this area, which are currently undermining ability of the EU as a whole to attract the workers and researchers it needs.
 - **Asylum policy:** There are currently significant structural weaknesses and shortcomings in the design and implementation of the Common European Asylum System (CEAS) and related measures. They point to the need to address issues such as better compliance with international and EU norms and values, lower levels of irregular migration to the EU and costs of border security and surveillance, increased asylum process effectiveness and efficiency, faster socio-economic integration of asylum-seekers, increased employment and tax revenues, and reinforced protection of human rights in countries of return. EP research suggests that the economic benefit of adopting policy options in these fields would be at least **€22.5 billion** per year.

- **Border control and visa policy:** The unexpectedly high number of migrants arriving at the EU's external borders in 2015 and 2016 exposed structural deficiencies in EU external border management policies, notably in terms of checking migrants and asylum seekers. These deficiencies, together with concerns relating to internal security, led several Schengen states to temporarily reintroduce internal borders. In addition to an economic loss from closing internal borders - a 'cost of non-Schengen' thought to be at least €10 billion per year - this situation has had a negative impact on the migrants, receiving societies, their residents, and trust in the EU as such. EP research estimated that the cost of existing arrangements in the latter respect to the European economy amounts to approximately €27.5 billion per year. The net benefits of adopting a number of policy options for the EU to tackle the identified gaps and barriers would be at least **€10 billion** per year (€4 billion for border control and €6 billion for visa policy).
- **Citizenship and residency by investment schemes:** Several member states have citizenship by investment (CBI) or residency by investment (RBI) schemes in place - also known as 'golden passports' and 'golden visas' - which allow access to residency or citizenship in exchange for specified investments in the countries concerned. In some cases, concerns have been raised about the scope for corruption, money laundering, and/or tax evasion and avoidance, as well the potential to distort the single market and undermine the integrity of European citizenship. A range of EU initiatives designed to increase the transparency, accountability and due diligence surrounding such schemes are under active consideration, and the potential economic benefit to the EU economy of such actions is also under assessment.

9) Justice and Home Affairs - Security and fundamental rights (125 billion euro)

- Combatting violence against women (23 billion euro)
 - Equal treatment and non-discrimination (0.5 billion euro)
 - Fighting organised crime, corruption and cyber-crime (82 billion euro)
 - Coordinated action against terrorism (16 billion euro)
 - Procedural rights and detention conditions (0.2 billion euro)
 - Data protection (3 billion euro)
- **Combatting violence against women:** Between a quarter and one third of all women in Europe have experienced physical and/or sexual violence since the age of 15. There are no legally-binding instruments specifically addressing women victims of violence at EU level. As a result, prevention, protection and assistance vary across the Union. The EU has signed the Council of Europe's Istanbul Convention on preventing and combatting violence against women and domestic violence, which, once ratified, will be binding on both the Union and its member states. EP research estimates the overall social and individual cost of violence against women to be around €230 billion per year, including a direct GDP loss of some €30 billion and the cost of increased use of the criminal and civil justice systems of €34 billion. Should violence be reduced by 10 per cent by policy measures advocated by the Parliament, the gain to the economy would be around **€23 billion** per year.

- **Equal treatment and non-discrimination:** The notions of equal treatment and non-discrimination are fundamental to the values on which the European Union is founded. However, one in five people within the EU experience discrimination in some form each year. Beyond the discrimination and violence against women (analysed above), racial discrimination is widespread, people with disabilities struggle to fully exercise their right to independent living, whilst LGBT people encounter new waves of discrimination and hate crimes. 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 Union. EP research suggests that further EU-level action to certain issues - notably by ensuring better implementation of existing legislation, adopting new protections in respect of discrimination based on religion and belief, sexual orientation, disability and age, and extending hate-crime safeguards to LGBT - could generate an economic gain to up to **€527 million** a year.
- **Fighting organised crime, corruption and cyber-crime:** Organised crime and corruption operate in a mutually-reinforcing relationship. Organised crime groups (OGCs) attempt to bend the rules in their favour by corrupting officials. Corruption undermines the rule of law, which in turn provides more opportunities for organised criminals. With the development of modern technologies, OCGs have expanded their activities to cyber-crime, such as online payment fraud and extortion using malicious software. Lack of implementation of international and EU norms poses one of the main barriers to the effectiveness of this struggle by the EU and its member states. EP research suggests that a more coordinated approach could save the European economy at least **€82 billion** euro annually.
- **Coordinated action against terrorism:** Terrorism remains one of the most important issues the EU is facing at the moment. The EU fights terrorism through supporting various national measures and exchanges, including those preventing radicalisation and recruitment, measures addressing terrorist financing and regulating the possession and acquisition of weapons and explosives, as well as instruments aimed at strengthening security at the Union's external borders. This includes active cooperation with third countries and international organisations. Nevertheless, the costs of terrorist activity within the EU remains approximately of **€15.9 billion** per year. Addressing a number of gaps and barriers in EU counterterrorism policy may result in a better prevention and prosecution of terrorist activity.
- **Procedural rights and detention conditions:** Notwithstanding significant action and cooperation at EU level, the rights and detention conditions of those suspected of committing a crime and serving a sentence in the Member States continue to fail to live up to international and EU standards. EU legislation on suspects' rights is limited to setting common minimum standards. Moreover, certain areas have not been comprehensively addressed, such as pre-trial detention, contributing to prison over-crowding in a number of EU member states. This situation impacts on the individuals concerned and their families, as well as on society more generally. EP research has estimated the cost to the European economy of excessive application of pre-trial detention measures at €162 million annually, and that disproportionate use of the European Arrest Warrant adds another €43 million, or a total of **€205 million** per year.

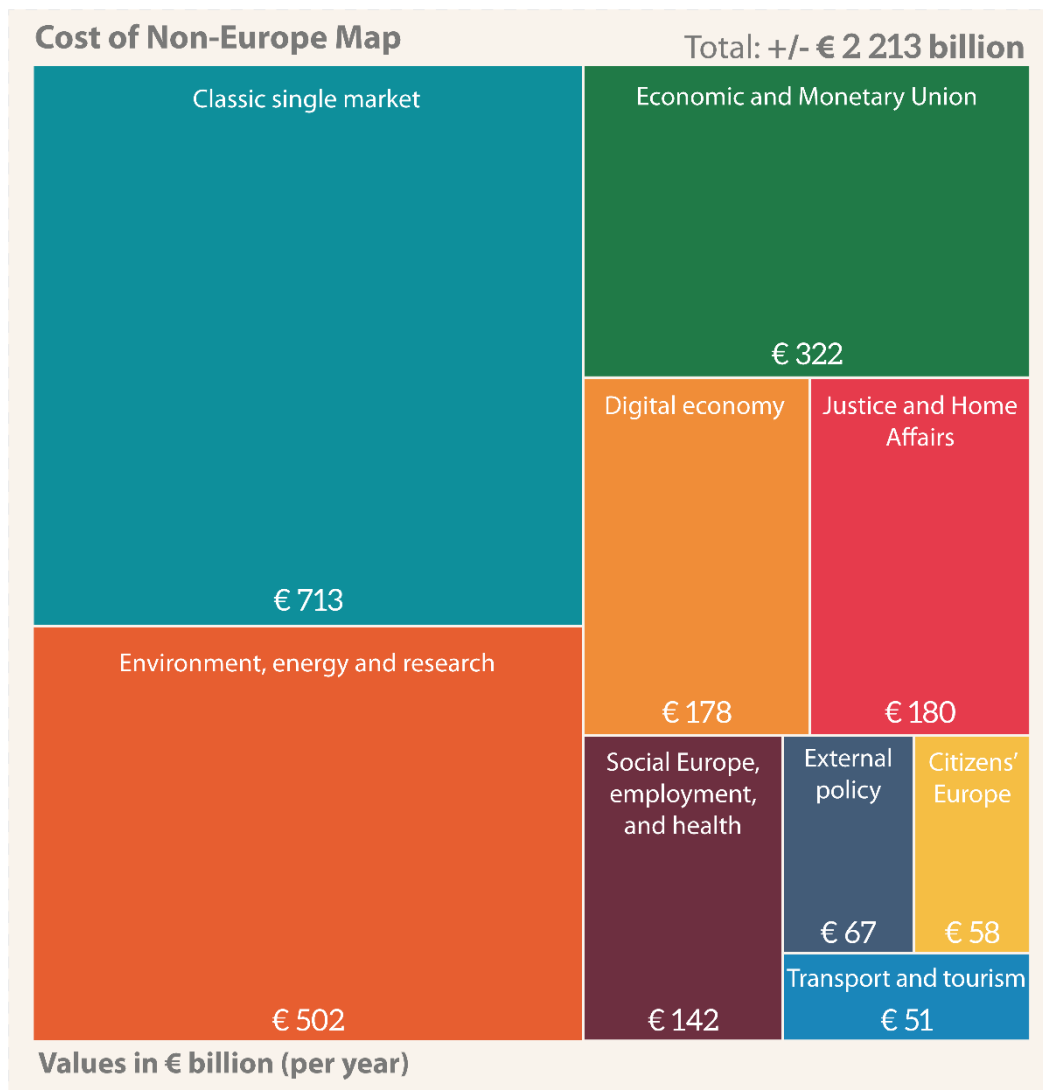
- **Data protection:** Data protection is a fundamental right under the EU Charter of Fundamental Rights and the recent General Data Protection Regulation (GDPR), covering the public and private sector, and Data Protection Law Enforcement Directive, covering police and judicial cooperation, have updated data protection standards for citizens in a coherent and positive way. However, there is still the potential to clarify and simplify arrangements in respect of e-privacy in electronic communications, by updating legislation in this field. In addition to safeguarding citizens' rights, potential savings to the European economy of some **€3.25 billion** per year could be envisaged.

10) EU external policy (67 billion euro)

- Less duplication in security and defence policy (22 billion euro)
 - Improved donor coordination in development policy (9 billion euro).
 - Improved common consular protection for EU citizens (0.9 billion euro)
 - Promoting international trade (35 billion euro)
- **Less duplication in security and defence policy:** Although EU member states are collectively the second largest defence spenders in the world, now budgeting over €220 billion per year (on a rising curve), the traditional fragmentation of armed forces and of military purchasing, reflected sometimes in the non-interoperability of equipment, results in unnecessary overlaps and duplication - whereas increased cooperation can offer greater efficiency, especially backed by greater standardisation of equipment and specialisation of tasks. EP research suggests that, despite important recent progress in this field, led by both the EU and NATO, there are still at least **€22 billion euro** per year of efficiency gains to be realised, a view which dovetails with research by other bodies, such as the Bertelsmann Foundation, McKinsey and the Italian Institute for International Affairs.
 - **Improved donor coordination in development policy:** The EU and its member states are collectively the biggest player in global development aid, spending €76 billion on official development assistance. Although the EU has been closely involved in the definition of global aid effectiveness criteria and tools, the existence of three different types of EU assistance - provided directly by the European Commission, indirectly through the intergovernmental European Development Fund (EDF), even if administered by the Commission, and bilaterally by the member states - can hamper effectiveness and lead to some duplication and overlap. EP research suggests that efficiency gains of some **€9 billion** per year, including both direct savings and better results in recipient countries, could be achieved through better coordination in this field, notably by fuller coordination of country allocations.
 - **Improved common consular protection for EU citizens:** A growing number of EU citizens move, travel and work outside the EU borders. The Treaties give them the right to enjoy diplomatic and consular protection in a country where their own member state is not represented. Enhanced diplomatic assistance for those citizens could be beneficial not only for them but to reduce unnecessary costs through duplication of support. It has been estimated that savings of around **€860 million** per annum could be realised by providing at EU level a number of diplomatic services that today are operated by member-state diplomatic missions.

- **Promoting international trade:** Taking account of both goods and services, the EU is the world's largest trading power. International trade should bring welfare gains through specialisation and productivity increases and to allow access to resources that are domestically scarce, and to technology and innovation produced abroad. At the same time, the EU strives to ensure that its trade policy respects human rights, labour, environmental, and health and safety standards and principles. Whilst multilateral (WTO) and bilateral trade frameworks are both highly important to the Union, recent progress has tended to be in the latter area. The European Commission has assessed the potential economic benefit to the EU economy of recently concluded free-trade agreements with New Zealand, Australia and Japan to be in the range of €2.1 billion to €35 billion per year, and it had expected a Transatlantic Trade and Investment Partnership (TTIP) to come in at around €68 billion per year. On a similar basis, the long-run potential gain from one further EU free-trade trade agreement with a major third-country or group of countries could reasonably be posited at around **€35 billion** per year.

Cost of Non-Europe Map, 2019-24



Detailed analysis of potential economic gains in 50 EU policy areas

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CLASSIC SINGLE MARKET

1. Completing the single market for goods Potential efficiency gain: €183 billion per year

Key proposition

The European single market for goods is one of the greatest achievements of the European integration process to date, benefitting millions of businesses and consumers on a daily basis in what is now the largest combined market-place in the world. Estimates suggest that the single market has added between about 6 and 8 per cent to EU GDP over the third of a century since the programme for its completion was launched in 1985². Nevertheless, there are still delays in the adoption of harmonised rules in Member States' national legal frameworks and infringements sometimes hamper further integration. Moreover, there is a need both to continue improving the application of the principle of mutual recognition for areas where there are no harmonised product rules³ and to further prevent unfair competition generated by non-compliant products. If remaining barriers were eliminated and existing European laws were applied effectively, the single market for goods could still yield substantial additional benefits for the EU economy.

Research carried out by the European Added Value Unit of DG EPRS for the European Parliament's Committee on the Internal Market and Consumer Protection (IMCO)⁴ concluded that, completing the single market for goods could generate €183 billion per annum in additional gains for the EU economy, representing 1.2 per cent of EU GDP.

More detailed analysis of potential benefits

Within the single market, free movement of goods is the most developed of all four fundamental freedoms. While the ranges of estimates vary, studies agree that the relationship between increased free movement of goods and economic benefits for Member States is strong and positive. Trade in goods currently generates around 25 per cent of EU GDP and 75 per cent of intra-EU trade⁵. The OECD has estimated that it is around 60 per cent higher than it would be, were it based on World

² Jan in 't Veld, Quantifying the economic effects of the single market in a structural macromodel, Discussion Paper 94, European Economy, European Commission, February 2019.

³ Enterprises operating within non-harmonised sectors contribute around 20 per cent of the total value of market sales in manufacturing.

⁴ Z Pataki, ['Cecchini Revisited' An overview of the potential economic gains from further completion of the European Single Market](#), EPRS, September 2014.

⁵ Staff Working Document accompanying the Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Upgrading the Single Market: more opportunities for people and business, [SWD \(2015\) 202](#), October 2015.

Trade Organisation (WTO) rules.⁶ A Commission study⁷ has concluded that, from 1990, the progressive deepening of the European single market has increased EU GDP and employment by 1.7 and 1.3 per cent, representing figures of €260 billion and 3.6 million jobs respectively.

A recent study, using advanced sectoral gravity models, shed further light on the potential benefit of the single market⁸. It concluded that trade of goods between EU Members States increases 109% on average compared to a counterfactual scenario where the EU would be replaced by a standard regional trade agreement. In the same vein, a study⁹ 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 per cent in the agricultural sector and up to 5 per cent in the manufacturing sector had the single market been reversed between 2000 and 2014. Finally, a study by the European Commission looked at the potential effects that would occur under a scenario of WTO-rules based intra-EU trade. The total macroeconomic impact amounts to a loss of 8.7 per cent of GDP on average, with reduced trade representing a loss of 6.6 per cent and with reduced market size and less competition accounting for the remaining 2.1 per cent.

Indeed, thanks to the implementation of the single market for goods, 80 per cent of regulatory barriers have been addressed¹⁰ through the adoption of common rules which focus on harmonisation of the Member States' legislation. In areas where no EU legislation exists, the principle of mutual recognition permits goods lawfully marketed in one Member State to be sold in other Member States without adaptation.¹¹

However, despite the already high level of integration, borders still seem to have a negative effect on trade as, for instance, intra-EU trade in goods (at 25 per cent of GDP) remains below that of intra-US (at 40 per cent of GDP).¹² Indeed, despite the decrease in EU average transposition deficit over the year, there are wide differences in the implementation of single market legislation between Member States¹³ and infringement cases can be very lengthy. Additional administrative burdens are also caused by the tendency of some Member States to combine the transposition of the EU legislation with the revision of related domestic legislation.¹⁴ Moreover, in practice, many businesses are not fully aware of the principle of mutual recognition and thus do not take advantage of all the

⁶ J Fournier et al., *Implicit Regulatory Barriers in the EU Single Market: New Empirical Evidence from Gravity Models*, OECD Economics Department Working Papers 2015.

⁷ London Economics, *The EU Single Market: Impact on Member States*. Study for the American Chamber of Commerce, 2017.

⁸ T Mayer, V Vicard, S Zignago, *The Cost on Non-Europe, Revisited*, Mimeo, September 2018.

⁹ G Felbermayr, J Groschl, L Heiland, *Undoing Europe in a New Quantitative Trade Model*, IFO Working papers 250-2018, January 2018.

¹⁰ European Commission, *Communication on Upgrading the Single Market: more opportunities for people and business*, [COM\(2015\) 550](#), October 2015.

¹¹ Unless national rules are deemed necessary and proportionate to protect the public interest.

¹² S Vetter, [The Single Market 20 years on: Achievements, unfulfilled expectations and further potential](#), EU Monitor – European Integration, DB Research, 2013.

¹³ European Commission, [The European Single market Scoreboard](#), July 2018.

¹⁴ The so called "gold plating". For more details see: [The Cost of Non-Europe in the Single Market – I Single Market for Goods](#), EPRS, September 2014.

possibilities at their disposal. Legal uncertainty, technical barriers and lack of administrative cooperation further prevent the principle of mutual recognition from reaching its full potential. As a result, in 2015, more than half of companies still considered that there were serious problems impeding a correct application of the principle.¹⁵ Finally, for areas where product rules are harmonised, a growing number of products are not in compliance with the applicable EU legislation on industrial products.

As pointed out by the high-level panel of experts set up by the European Parliament's Committee on the Internal Market and Consumer Protection (IMCO) in 2015¹⁶, there is significant untapped potential to further expand trade in goods. One study on the benefits of the single market¹⁷ estimated that, after 10 years more of implementation of a programme based on removal of all barriers, and taking into account some of the dynamic gains of economic integration, EU value added in the manufacturing and agri-food sectors could be 8.4 per cent higher. Based on this approach, another study¹⁸ concluded that a more modest objective of reducing the remaining trade barriers within the EU by half would still raise the overall long-term level of EU GDP by 4.7 per cent. A study by Copenhagen Economics¹⁹, back in 2012, suggested that a long-run potential rise in EU GDP of up to 1.8 per cent could be expected from a perfectly functioning market for goods in the non-harmonised area where mutual recognition applies. In 2017, a study commissioned by the American Chamber of Commerce²⁰, estimated that, even without considering further market integration in services, a renewed single market agenda could further boost EU GDP by between 0.2 and 0.5 per cent.

¹⁵ Commission Staff Working Document, Impact assessment accompanying the document Proposal for a Regulation of the European Parliament and of the Council on the mutual recognition on goods lawfully marketed in another Member State, [SWD\(2017\) 471](#), December 2017.

¹⁶ [A strategy for completing the Single Market: the trillion euro bonus](#), Report of the High-Level Panel of Experts to the IMCO Committee, EPRS, January 2016.

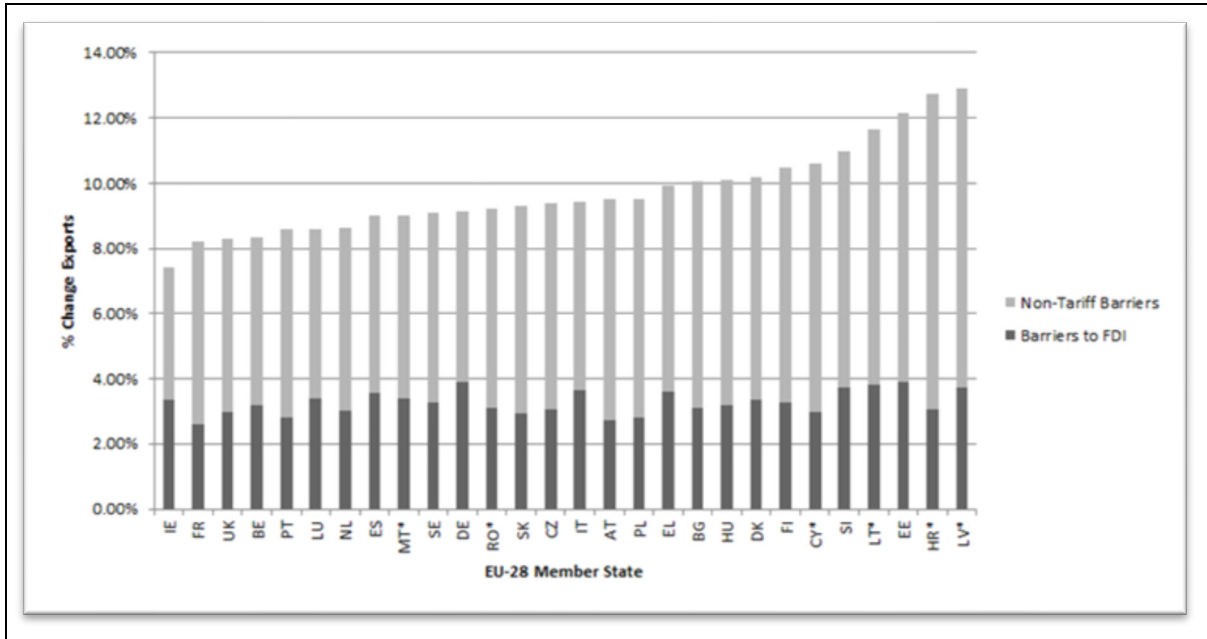
¹⁷ V Aussilloux, C Emlinger and L Fontagné, [What benefits from completing the Single Market?](#), La Lettre du CEPII, No 316, 15 December 2011.

¹⁸ Y Decreux, 'Completing Single Market II', in the HM Government and Centre for Economic Policy Research (CEPR) study, [Twenty Years On: The UK and the Future of the Single Market](#), 2012.

¹⁹ Copenhagen Economics, Delivering a Stronger Single Market, Nordic Innovation report, June 2012.

²⁰ London Economics, The EU Single Market: Impact on Member States. Study for the American Chamber of Commerce - LE Europe, 2017.

Figure 1: The untapped potential of the single market (potential percentage change in exports)



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

Research carried out by the European Added Value Unit of the European Parliamentary Research Service (EPRS) has found that, for the free movement of goods, up to €269 billion, or 1.8 per cent of GDP, could be generated in the long term, if all barriers to foreign direct investment and non-tariff barriers within the single market were removed²¹. A more cautious scenario estimates that the untapped potential still represents €183 billion per year, or 1.2 per cent of EU GDP. This figure takes account only of the statistical effects of intra-EU trade in goods and does not include or quantify the dynamic effects – in other words, the multiplier effect of increased trade through, for example, greater economies of scale, lower consumer prices or improved innovation.

European Parliament position

The European Parliament has been one of the longest and most consistent advocates of the completion of the single market, dating right back to the 1980's when it played an important role in developing the rationale for, and sustaining political momentum behind, the Cockfield White paper of 1985. It has been centrally involved in the enactment of several thousand pieces of single-market legislation in ensuing decades.

More recently, the Parliament welcomed the 2015 single market strategy and the 2017 Goods Package, especially the effort to further address difficulties caused by artificial administrative barriers in several areas of the single market, the application of different rules in non-harmonised sectors and poor implementation of the mutual recognition principle. It also stressed that, despite the abolition of tariff barriers, unnecessary non-tariff barriers and inefficient administrative cooperation might still exist²². It has emphasised that improved instruments for resolving disputes

²¹ [The Cost of Non-Europe in the Single Market – I Single Market for Goods](#), EPRS, September 2014.

²² European Parliament resolution of 26 May 2016 on non-tariff barriers in the single market ([2015/2346\(INI\)](#)).

and ensuring compliance should continue to be improved taking better into account the ongoing digitalisation of the economy. The Parliament is also anxious that the environmental and social dimensions be properly integrated into the single market strategy and that the dual quality of products be addressed²³.

European Commission and Council responses so far

Published by the European Commission in October 2015, the single market strategy²⁴ provides a list of measures necessary to deliver a deeper and fairer single market and the core action necessary to improve its functioning.

In February 2016²⁵, the Competitiveness Council welcomed the single market strategy and the key areas where concrete actions are foreseen. In June 2017, the European Council reiterated the importance of a well-functioning single market and it stressed that there were nevertheless still gaps which required further attention²⁶.

In December 2017, the Commission launched a new Goods Package²⁷, to strengthen compliance and enforcement of EU product rules and to improve and facilitate the use of mutual recognition in the single market.

In March 2018, the Competitiveness Council²⁸ discussed the way forward to deepen the single market and stressed the importance of implementing the initiatives contained in the various EU strategies, such as the Goods Package. In May 2018, the Council agreed on a general approach on a draft regulation aimed at improving the mutual recognition of goods marketed in another Member State. In November 2018, the Commission published a Communication²⁹ assessing the situation in the single market and calling on Member States to renew their overall political commitment to it.

²³ European Parliament resolution of 13 September 2018 on dual quality of products in the single market ([2018/2008\(INI\)](#)).

²⁴ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Upgrading the Single Market: More opportunities for people and business, [COM\(2015\)550](#), October 2015.

²⁵ Competitiveness Council Conclusions on the Single Market Strategy for services and goods, (6622/16), 29 February 2016.

²⁶ European Council meeting, Conclusions, ([EUCO 8/17](#)), 22-23 June 2017.

²⁷ The package includes two regulations and a report.

²⁸ Competitiveness Council, Outcome of the meeting, (7063/18), 12 March 2018.

²⁹ Communication from the Commission to the European Parliament, the Council and the Committee of the Regions. The Single Market in a changing world: A unique asset in need of renewed political commitment, [COM\(2018\)0772](#), November 2018.

2. Completing the single market for services

Potential efficiency gain: €297 billion per year

Key proposition

Completing the single market for services is crucial to raising potential EU growth and employment. Since the adoption of the EU Services Directive in 2006, thousands of excessive requirements and rules have been abolished. However, despite the real 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. In practice, Member States have retained a great deal of scope in the effective implementation of the directive and there is little involvement of independent competition authorities in the assessment of existing regulation. Regarding professional services, specific qualifications and cumbersome recognition procedures are sometimes required. Providers in several services sectors thus 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. This in turn limits business opportunities and consumer choice, and contributes to the prices of some services being higher than they could otherwise be.

Research carried out by the European Added Value Unit of EPRS for the European Parliament's Committee on the Internal Market and Consumer Protection (IMCO) estimated that full and effective implementation of the single market for services, including more harmonisation in regulation, could generate €277 billion per annum in additional gains for the EU economy³⁰. Moreover, benefits in public procurement would be of around €20 billion. A cautious estimate of the total impact on long-run level of GDP of the unrealised potential of the single market for services would thus be in the order of €297 billion or close to 1.9 per cent of EU GDP.

More detailed analysis of potential benefits

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. The Services Directive³¹, adopted in 2006, reduced barriers to the provision of services in the single market by establishing a horizontal framework covering 65 per cent of services activity within the Union³². All the services outside the scope of the directive, except health and government services, benefit from EU specific regulation.

³⁰ Combining these findings with research on other aspects of the single market, such as the digital single market and the single market for goods, a subsequent 2016 [EPRS study](#) found that the potential economic gain of full completion of the single market could amount to as much as €1 trillion per annum.

³¹ Directive 2006/123/EC on services in the internal market, 12 December 2006.

³² Representing around 45 per cent of EU GDP.

In addition, the Professional Qualifications Directive³³ and specific directives for some professions create rules to facilitate the recognition of qualifications between Member States.

However, the integration of the services sector has been slow. The share of services in intra-EU trade still only represents about 20 per cent, a surprisingly low figure and less than one third of the comparable figure in an integrated continental economy of similar size, namely the US³⁴. Productivity growth in EU services has been relatively poor, as competition and unjustified barriers continue to hinder the provision of services across borders, as evidenced in an IMF study of 2014³⁵. In 2015, the European Commission³⁶ estimated that the average economic added value of the Services Directive between 2012 and 2014 was 0.1 per cent of GDP, realised over five to ten years, whereas a gain of between 0.8 per cent and 1.8 per cent could have been expected. Indeed, as pointed out by the high-level panel of experts set up by the Parliament's IMCO Committee, the single market for services is still under-performing. The fact that Member States have retained a wide margin of scope in the effective implementation of the Services Directive and in the regulation of professions seems to seriously constrain the realisation of its potential positive economic impact.

It is worth recalling that the Services Directive in itself does not harmonise national regulation. 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. There is, however, little involvement of independent competition authorities in the assessment of existing legislation. The implementation of the Services Directive also requires the adoption of sector-specific amendments at Member-State level to ensure full compliance with national law. As a result, fragmented legislation and diverging levels of requirement can still be observed³⁷. This naturally leads to a great deal of heterogeneity in rules and practices, the complexity of which in turn increases costs and procedural time, in effect hindering the cross-border provision of services³⁸.

Regarding the regulated professions, the extent of openness also varies between Member States. The 2005 Directive (revised in 2013) on mutual recognition of professional qualifications allowed for a system of automatic recognition³⁹. EU professional cards became available in 2016, to help

³³ 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').

³⁴ OECD, Economic Surveys: [European Union 2018](#), June 2018.

³⁵ E Fernández Corugedo and E Pérez Ruiz, The EU Services Directive; Gains from Further Liberalization, IMF working paper 14/113, July 2014.

³⁶ European Commission, Commission staff working document, A Digital Single Market Strategy for Europe – Analysis and Evidence, [SWD\(2015\)100](#).

³⁷ 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 among countries, complexity of procedures and formalities, lack of electronic procedures, unclear deadlines and multiple fees. European Commission, European Commission, Proposal for a Directive of the European Parliament and of the Council on the legal and operational framework of the European services e-card introduced by Regulation, [COM\(2016\)0823](#), January 2017.

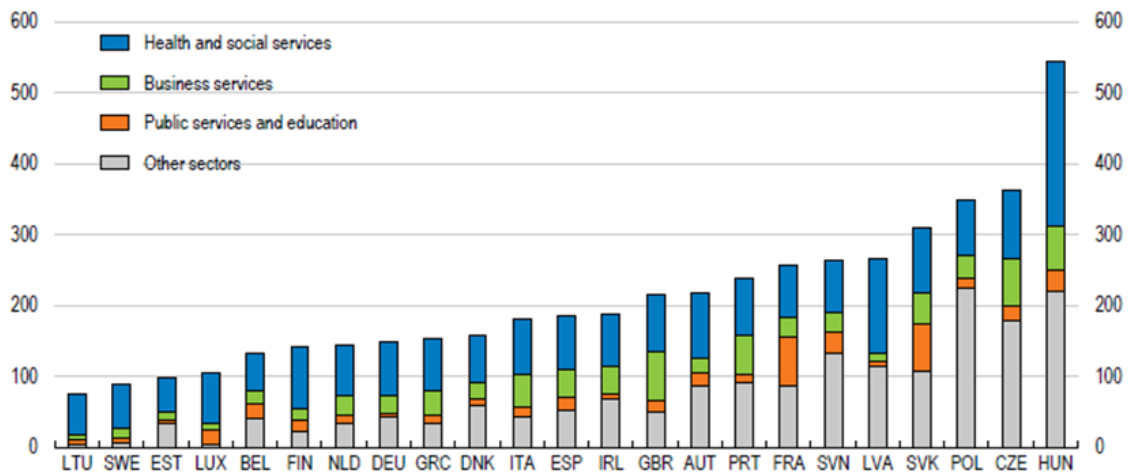
³⁸ European Court of Auditors, [Special report No 5/2016](#): Has the Commission ensured effective implementation of the Services Directive? March 2016.

³⁹ With harmonised minimum training (seven professions including architects, doctors and nurses), recognition based on professional experience (e.g. in the craft, commerce or industry sectors) and a general system for all other professions.

professionals get their qualifications validated more quickly and easily. However, 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. 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 mobility⁴⁰.

The incompleteness of the single market for services implies significant efficiency losses and costs for the EU economy and society as a whole. Removing unjustified barriers to cross-border provision of services would increase efficiency through creating opportunities for new companies 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.

Figure 2: Number of regulated professions by main sector, 2016



Source: OECD⁴¹, based upon European Commission regulated profession database.

One study on the benefits of the single market⁴² has estimated that, after ten years of implementation of a programme based on removal of all barriers, and taking into account some of the dynamic gains of economic integration, the potential added value available in the service sector could be 5.6 per cent. An EPRS study aggregating the efficiency gains in various sectors related to the single market for services (service directive, financial markets, e-communications, gas and electricity) quantified potential gains of €337billion to €637 billion⁴³.

⁴⁰ OECD, Economic Surveys: [European Union 2018](#), June 2018.

⁴¹ OECD, Economic Surveys: European Union 2018, OECD Publishing, Paris.

⁴² V Aussilloux, C Emlinger and L Fontagné. [What benefits from completing the Single Market?](#), La Lettre du CEPII, No 316, 15 December 2011.

⁴³ The Cost of Non-Europe in the Single Market - II - Single Market for Services. EPRS, September 2014.

In 2015, the European Commission concluded that a more ambitious implementation of the Services Directive could add 1.7 per cent to the EU GDP⁴⁴. In 2016, the World Bank⁴⁵ concluded that there is strong scope for improving regulation in the services sector, in particular regarding the barriers for professional services. Limiting service-sector restrictions to the level of the three least regulated Member States would increase productivity by up to 5.3 per cent. In 2017, a study commissioned by the American Chamber of Commerce⁴⁶, concluded that further integration and an increase of 50 per cent in intra-EU trade in services would boost EU GDP by 0.6 per cent. More recently, an IFO study⁴⁷ carried out a series of simulations to assess the economic benefits arising from the various steps of existing European integration. The results showed potential output losses of 2.9 per cent in the services sector had the single market been reversed between 2000 and 2014. A new study for the IMCO Committee⁴⁸ concludes that a mid-range estimate for potential remaining benefits from the single market in services could be as much as €389 billion per year.

Research carried out by the European Parliamentary Research Service has suggested that the potential gains from completing the single market in services⁴⁹ lied within the range of €277 billion to €550 billion.⁵⁰ In addition, benefits in public procurement would be in the range of €20 billion to €36 billion.⁵¹ A cautious estimate of the impact on long-run level of GDP of the unrealised potential of the single market in services would thus be in the order of €297 billion or 1.9 per cent of EU GDP.

European Parliament position

The European Parliament welcomed the 2015 Single Market Strategy and the 2017 Services and Compliance Packages. It considers that on-going Commission's initiatives, such as a services e-card, a harmonised notification form and the Commission's intention to take action in connection with some specific requirements, will contribute to improving the cross-border provision of services. It also supports the simplification efforts to enhance compliance and improve the exchange of best practice. However, it highlights that some significant barriers related to the free provision of services

⁴⁴ Staff Working Document accompanying the Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Upgrading the Single Market: more opportunities for people and business, [SWD \(2015\) 202](#), October 2015.

⁴⁵ World Bank, EU Regular Economic Report, [Growth, jobs and integration: services to the rescue](#), Fall 2016.

⁴⁶ London Economics, The EU Single Market: Impact on Member States. Study for the American Chamber of Commerce -LE Europe, 2017.

⁴⁷ G Felbermayr, J Groschl and L Heiland, Undoing Europe in a New Quantitative Trade Model, IFO Working papers 250-2018, January 2018.

⁴⁸ [Contribution to growth: The single market for services. Delivering economic benefits for citizens and businesses](#), DG IPOL, February 2019.

⁴⁹ This assessment looks at the potential impact of a fuller and more effective application of the Services Directive, including opening regulated professions.

⁵⁰ [Better governance of the Single Market](#), An assessment accompanying the European Parliament's Legislative own-Initiative Report, European Added Value Assessment, DG EPRS, September 2013. At the difference of some previous estimates, the current value does not take into account the amount linked to e-communication or to e-commerce which are covered in others parts of this reports.

⁵¹ DG IPOL, March 2019 op.cit, and Z Pataki, ['Cecchini Revisited' An overview of the potential economic gains from further completion of the European Single Market](#), EPRS, September 2014.

remain, hampering the cross-border activity of small and medium-sized enterprises in particular⁵². The free movement of services offers untapped potential for citizens and business, in terms of efficiency, growth and job creation.

While maintaining the high quality of services within the EU, the Parliament recommends the elimination of anti-competitive legislation that may disadvantage new entrants, the continued harmonisation of rules and regulations, better transposition of the relevant EU acquis, better equivalence, and a lower recognition burden for professionals⁵³.

The Parliament also stresses that educational, entrepreneurial and social dimensions should be more properly integrated into single market strategy. Finally, the Parliament has called⁵⁴ for improved governance of the single market by continuing to develop analytical tools to more properly measure its economic and regulatory performance, not least in order to take account of digitalisation.

Commission and Council responses so far

Published by the European Commission in October 2015, the Single Market Strategy⁵⁵ provides a list of measures necessary to deliver a deeper and fairer single market and the core actions necessary to improve its functioning.

In February 2016⁵⁶, the Competitiveness Council welcomed the Single Market Strategy and the key areas wherein concrete actions are foreseen and highlight that releasing the untapped potential in services should be prioritised. Subsequently in November 2016⁵⁷, it stressed the importance of services for the EU economy, required a renewed focus across Europe and called for the different single market strategies proposed by the Commission to be completed and implemented by 2018.

In order to further reduce barriers, the Commission launched a new Services Package⁵⁸ in January 2017 that aims at facilitating the mobility of professionals and streamline cross-border

⁵² European Parliament resolution of 15 February 2017 on the Annual Report on the Single Market Governance within the European Semester 2017 ([2016/2248\(INI\)](#)).

⁵³ European Parliament resolution of 12 December 2018 on the Annual Report on the Single Market Package ([2018/2903\(RSP\)](#)).

⁵⁴ European Parliament resolution of 18 January 2018 on the implementation of Directive 2005/36/EC as regards regulation and the need for reform in professional services ([2017/2073\(INI\)](#)).

⁵⁵ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Upgrading the Single Market: more opportunities for people and business, [COM\(2015\)550](#), October 2015.

⁵⁶ Competitiveness Council Conclusions on the Single Market Strategy for services and goods, (6622/16), 29 February 2016.

⁵⁷ Competitiveness Council, Outcome of the meeting, (14926/16), 29 November 2018.

⁵⁸ The package includes three legislative proposals and a communication. For more information, see [European Parliament Legislative Train Schedule](#), accessed in November 2018.

administrative procedures. Following up on this proposal, in May 2017, the Commission presented an upgraded Compliance Package⁵⁹.

In June 2017, the European Council called on the Commission to pursue its reflections on innovative ways to address new opportunities, challenges and remaining barriers in the services sector. Most recently, in March 2018, the Competitiveness Council⁶⁰ discussed restrictions in services markets. Ministers stressed that further efforts were needed from the EU and its Member States to achieve the ambitions for the single market for services.

In June 2018, as part of the forthcoming MFF, the Commission proposed a new Single Market programme, funded to the tune of €4 billion over the seven-year period⁶¹, to strengthen the governance of the single market and to support competitiveness. In November 2018, the Commission published a Communication⁶² assessing the situation in the single market and calling on Member States to renew their overall political commitment to it.

⁵⁹ The package include three proposals for a Single Digital Gateway, a new information tool Single Market Information Tool (SMIT) and an action plan on the reinforcement of Solvit. For more information see [European Parliament Legislative Train Schedule](#), accessed in November 2018.

⁶⁰ Competitiveness Council, Outcome of the meeting, (7063/18), 12 March 2018.

⁶¹ Proposal for a regulation of the European Parliament and of the Council establishing the programme for single market, competitiveness of enterprises, including small and medium-sized enterprises, and European statistics and repealing Regulations (EU) No 99/2013, (EU) No 1287/2013, (EU) No 254/2014, (EU) No 258/2014, (EU) No 652/2014 and (EU) 2017/826, [COM\(2018\)441](#), June 2018.

⁶² Communication from the Commission to the European Parliament, the Council and the Committee of the regions. The Single Market in a changing world: A unique asset in need of renewed political commitment, [COM\(2018\)0772](#), November 2018.

3. Guaranteeing consumer rights

Potential efficiency gain: €58 billion per year

Key proposition

Despite the existence of established EU law and court rulings in the field of consumer law - otherwise known as the consumer *acquis*⁶³ - EU consumers are still unable to maximise their own welfare and exploit the full potential of the single market. The final consumption expenditure of households currently accounts for 57 per cent of EU GDP. A single market that serves consumers well is therefore an important element to sustaining Europe's economic health and growth.⁶⁴

A Cost of Non-Europe Report on EU consumer law⁶⁵ in 2014, drawn up by the European Added Value Unit of EPRS for the European Parliament's Committee on Internal Market and Consumer Protection (IMCO), calculated that the consumer welfare loss or 'detriment' resulting from an incomplete single market in this field was of the order of €58 billion per year, or 0.38 per cent of EU GDP at the time. The report argued that it was important to strengthen consumer confidence in this field, because if consumers know that they are adequately protected before, during, and after the conclusion of a business-to-consumer contract, they will be more willing to engage actively within the EU single market and take advantage of its full potential.

More detailed analysis of potential benefit

The Cost of Non-Europe Report identified a number of gaps within the consumer *acquis* and estimated to what extent consumers and the overall economy are affected by them. It looked at direct and indirect economic impacts, social impacts and administrative costs.⁶⁶ The analysis included quantification in the specific areas of the consumer detriment incurred by citizens from purchasing commercial guarantees to which they are already entitled under EU law, the benefits of a more ambitious Consumer Credit Directive⁶⁷ resulting in convergence of consumer credit costs towards the EU average, and consumer and social savings from the creation of a single market in gambling and online gaming. The results of the three estimates are summarised in the table below.

In addition, the Cost of Non-Europe Report calculated that the extension of the scope of the Consumer Rights Directive⁶⁸ to all consumer-to-business transactions would result in an efficiency

⁶³ The legislation and court decisions that constitute the body of EU law in this area is commonly referred as the consumer 'acquis'.

⁶⁴ J Valant, [Consumer protection in the EU](#), EPRS, September 2015.

⁶⁵ GHK, The Cost of Non-Europe in the Single Market, [V - Consumer acquis](#), EPRS, July 2014.

⁶⁶ Ibid, p. 18.

⁶⁷ [Directive 2008/48/EC](#) of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.

⁶⁸ [Directive 2011/83/EU](#) of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament.

gain of €58 billion per year. Based on the US experience of price convergence of a basket of consumer goods, this latter estimate assumes that the same rate of convergence is replicable in the EU by removing all the gaps in the consumer acquis.

Table 1: Estimated cost of non-Europe in EU consumer law

Gap	€ million per year
Commercial guarantees	36
Limited scope of the Consumer Credit Directive (CCD)	285
Lack of a single market for gambling	5,560
<i>Sub-total</i>	<i>5,881</i>
Complete Single Market - Consumer Rights Directive (CRD) applied to all consumer transactions	58,000

Source: GHK, The Cost of Non-Europe in the Single Market, [V - Consumer acquis](#), EPRS, July 2014.

Further gains from the improved enforcement of existing law⁶⁹ would lead to a more comprehensive and equal application of the consumer *acquis* across Europe, greater legal certainty for market operators, greater competition on retail markets, higher consumer trust, fewer compliance costs for businesses, lower litigation costs and less consumer detriment overall.

A recent Commission study⁷⁰ on consumer detriment in markets across the EU looked at six markets (goods and services) in a sample of four EU Member States.⁷¹ It concluded that across these six markets, EU consumers suffered detriment of between €20.3 billion and €58.4 billion in one year.⁷² Such estimates refer to the sum of total post-redress financial detriment and monetised time loss.

European Parliament position

The European Parliament has pushed strongly for the strengthening of consumer rights as an integral component of a successful and complete single market. It advocated and supported the Consumer Rights Directive (CRD), adopted in 2011, which ‘marked an important step forward in terms of increasing legal certainty for consumers and businesses’.⁷³ The CRD strengthens consumer rights and today constitutes a major consumer protection instrument, for example by establishing a longer cooling-off period for distance and off-premises contracts, introducing greater price

⁶⁹ European Consumer Summit, [Towards a more efficient enforcement of EU Consumer Rights](#), 2013.

⁷⁰ European Commission, [Study on measuring consumer detriment in the European Union](#), prepared by Civic Consulting, February 2017.

⁷¹ Markets for mobile telephone services; clothing, footwear and bags; train services; large household appliances; electricity services; and loans, credit and credit cards, in France, Italy, Poland and the UK.

⁷² Europe Economics, [An analysis of the issue of consumer detriment and the most appropriate methodologies to estimate it](#), 2007. The study defines a structural detriment as the loss of consumer welfare in the aggregate due to market failure or regulatory failure, as compared to well-functioning markets. Personal detriment is defined as the difference between the value that consumers reasonably expected to get from a good/service and the actual value that they get from it, due to post-purchase experienced problems.

⁷³ European Parliament [resolution](#) of 11 March 2015 on single market governance within the European Semester 2015, paragraph 60.

transparency, prohibiting pre-ticked boxes, and clarifying information on digital content. The Parliament is currently working on new European contract rules on the online sale of goods and on the supply of digital content.⁷⁴ These two proposals are to be voted in EP plenary by April 2019.

The Parliament plays an important role not only working on European legislation but also in setting the broader policy agenda in the area of consumer protection, by adopting own-initiative reports. It has been particularly active in calling for a more harmonised implementation of the EU consumer *acquis* by the Member States, to avoid differences in the protection of consumers and in the severity and timing of any enforcement measures taken.⁷⁵ It has also called for putting in place an online dispute resolution (ODR) system for consumer disputes,⁷⁶ the establishment of minimum resistance criteria of products,⁷⁷ and to put an end to the dual quality of products.⁷⁸

European Commission and Council responses so far

On several occasions, both the European Council⁷⁹ and the Competitiveness Council⁸⁰ have addressed the issue of how to boost a fair single market that can deliver benefits for consumers. Negotiations on contract law for the online sale of goods and on the supply of digital content are still on-going, but should be complete by the end of the current parliamentary term.

As part of its 'new deal for consumers', the European Commission recently put forward a communication and two proposals for directives, in order to enforce and modernise EU consumer protection.⁸¹ In particular, one proposal⁸² is intended to amend four existing directives: the Unfair Commercial Practices Directive,⁸³ the Consumer Rights Directive,⁸⁴ the Unfair Contract Terms

⁷⁴ Contracts for the supply of digital content [procedure](#), Contracts for the online and other distance sales of goods procedure.

⁷⁵ European Parliament [resolution](#) of 11 March 2015 on Single Market governance within the European Semester 2015, paragraph 57.

⁷⁶ European Parliament [resolution](#) of 11 March 2015 on Single Market governance within the European Semester 2015, paragraph 61.

⁷⁷ European Parliament [resolution](#) of 4 July 2017 on a longer lifetime for products: benefits for consumers and companies, paragraph 1.

⁷⁸ European Parliament [resolution](#) of 13 September 2018 on dual quality of products in the single market, paragraph 1.

⁷⁹ European Council [Conclusions](#) of 19 October 2017, addressed in particular the challenges to ensure a well-functioning Digital Single Market and also mentioned the objective to create a more integrated Single Market that deliver practical benefits for European citizens and businesses.

⁸⁰ The results of the fitness check of consumer law were [discussed](#) at the Competitiveness Council of 29-30 May 2017.

⁸¹ J Tymowski, [Revision of consumer law directives \(including injunctions\): the 'New Deal for Consumers'](#), EPRS, April 2018.

⁸² Proposal for a Directive amending Directive 93/13/EEC, Directive 98/6/EC, Directive 2005/29/EC and Directive 2011/83/EU, [COM\(2018\)185](#), April 2018.

⁸³ [Directive 2005/29/EC](#) of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council.

⁸⁴ [Directive 2011/83/EU](#) of the European Parliament and of the Council of 25 October 2011 on consumer rights.

Directive⁸⁵, and the Price Indication Directive.⁸⁶ The proposals followed the European Commission's 'fitness check' of EU consumer and marketing laws⁸⁷ and the evaluation of the Consumer Rights Directive, which showed that whilst the current EU consumer legislation was broadly fit for purpose, it was in need of some targeted revisions.⁸⁸

⁸⁵ Council [Directive 93/13/EEC](#) of 5 April 1993 on unfair terms in consumer contracts.

⁸⁶ [Directive 98/6/EC](#) of the European Parliament and of the Council of 16 February 1998 on consumer protection in the indication of the prices of products offered to consumers.

⁸⁷ Commission Staff Working Document, [Report on the Fitness check of consumer and marketing laws](#), SWD (2017) 208, October 2017.

⁸⁸ N Šajin, [Modernisation of EU consumer protection rules A new deal for consumers](#), EPRS, June 2018, p.4.

4. Promoting the collaborative or sharing economy

Potential efficiency gain: €50 billion per year

Key proposition

The European Commission defines the 'collaborative economy' as the set of business models where 'activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services, often provided by private individuals'.⁸⁹ The estimation of the potential benefits of EU action in the field is based on the findings of a Cost of Non-Europe Report on the sharing economy,⁹⁰ prepared by the European Added Value Unit of EPRS for the Parliament's Committee on Internal Market and Consumer Protection (IMCO) in 2016. Analysis based on this study suggest that the potential gains from better tax and regulatory intervention at the EU level may range from about €22 billion per year in the short run to up to €90 billion per year over the longer run, based on a qualitative estimate of existing barriers⁹¹, with €50 billion per year representing a cautious mid-point (0.3 per cent of GDP). A 2017 resolution of the European Parliament⁹² defines the main areas for intervention either at EU or Member State level as consumers' and 'peers' status, competition and tax compliance, and labour-market regulation and working conditions.

More detailed analysis of potential benefit

The definition of collaborative economy involves three categories of actors: i) service providers who share assets, resources, time, skills who can be individuals offering services on an occasional basis (peers) or providers acting in their professional capacity; ii) users; and iii) intermediaries that connect via an online platform provider with users. Figure 3 identifies two main distinctions: for profit versus non-profit platforms, and 'peer-to-peer' versus 'business-to-consumers' platforms⁹³.

The estimate presented here embraces both for-profit and non-profit sectors, even if most analysis and policy attention has been directed to the for-profit sector. This can be broadly divided between platforms where mostly labour is exchanged and, platforms where mostly assets are exchanged. The Cost of Non-Europe Report considers labour and two assets (accommodation and cars) and estimates the extent of under-utilisation of these resources that could be tapped by the

⁸⁹ European Commission, A European agenda for the collaborative economy, [COM\(2016\) 356](#), June 2016.

⁹⁰ P Goudin, [The Cost of Non-Europe in the Sharing Economy: Economic, Social and Legal Challenges and Opportunities](#), EPRS, January 2016.

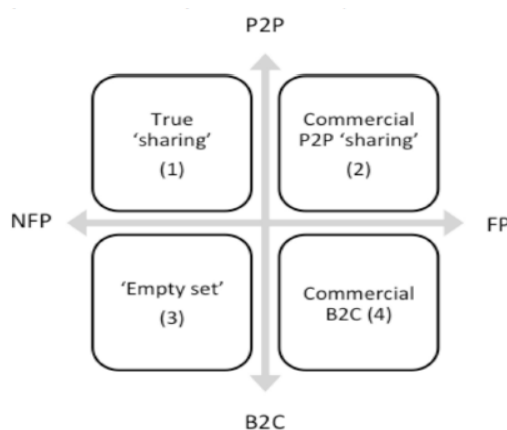
⁹¹ EUR 50 billion is an approximate mid-point estimate of this range. This estimate has to be taken with caution and it is subject to several assumptions. For more details on these barriers and the resulting calculation, see Europe Economics, [The Cost of Non-Europe in the Sharing Economy](#), Annex I, EPRS, January 2016.

⁹² European Parliament resolution of 15 June 2017 on a European Agenda for the collaborative economy ([2017/2003\(INI\)](#)).

⁹³ P2P platforms are platforms where providers and users belong to the same category (consumers, business, governments), while B2C platforms are those which are not only intermediate, but also exert a strong control on the provision of the service itself.

collaborative economy, under the assumption that a number of technical and institutional conditions are met. The different impact of these conditions in the short and long run gives rise to the estimate-range⁹⁴. The resulting figures have to be considered as an upper bound of the potential gains, since they do not incorporate the diversion effect that may occur where new actors appear on the market, towards whom the demand that was previously addressed to 'old' actors is possibly shifted. The measure of the net benefits accounting for both the gains of the former and the losses of the latter is one of the open questions, where researchers are currently facing a major data gap, especially due to the private ownership of platform data.

Figure 3: Profit versus non-profit platforms and 'peer-to-peer' versus 'business-to-consumer' platforms



Source: Codagnone and Martens, [Scoping the Sharing Economy: Origins, Definitions, Impact and Regulatory Issues](#), Joint Research Centre, 2016.

To measure the size of the sector, the European Commission commissioned two studies, in 2016⁹⁵ and in 2018⁹⁶, focussing on selected sectors⁹⁷. The first identified 275 collaborative economy organisations and assessed the value of all transactions to be €28.1 billion per year and platform revenues to be €3.6 billion per year (both figures having tripled since 2013). In 2018, the identified firms numbered 651, with estimated revenues of €22.7 billion for providers and €3.8 billion for platforms⁹⁸.

⁹⁴ If compared with the Mapping the Cost of Non Europe 2014-2019, the estimate is lower because more recent studies have scaled down the potential of the sector in terms of unemployment reduction. Only the potential towards under-employment is considered in this particular case. However, the estimate framework remains the same.

⁹⁵ European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, [Assessing the size and presence of the collaborative economy in Europe](#), October 2017.

⁹⁶ European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, [Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States](#), June 2018.

⁹⁷ Accommodation, transport, finance and on demand households services/skills.

⁹⁸ This seems to suggest a reduced pace of growth within the sector, but it has to be noted that the two studies have a different focus and cannot be directly compared.

The impact on employment is not easy to assess since work is unbundled in tasks, performed and paid as such. 'Platform work'⁹⁹ 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. According to a recent COLEEM Survey (2018)¹⁰⁰, although 9.7% of the adult population has provided services through platforms, only 2% does so as their main activity. They are mostly young males, educated (often over-qualified) with family and dependent children. Several studies investigate problems related to working conditions¹⁰¹ and some indicate that works and incomes generated are not comparable to traditional jobs¹⁰². One of the major challenges is the definition of the status of platform workers¹⁰³: in most cases they are independent contractors not covered by labour rights and welfare. Very low access to social protection is indicated as a major issue in several studies¹⁰⁴, especially for workers dependent on platform revenues.

Another area where benefits are still unclear is taxation. The major challenge is risk of unfair competition when platforms do not apply the same regulation as the referring market, especially P2P and 'digital companies'¹⁰⁵. At the same time, the collaborative economy gives a greater possibility of traceability of transactions. In the case of workers/providers, the lack of clarity relates to the undefined status between employee and self-employed, and the different thresholds for exemptions applied by different Member States. In the case of platforms, the main issues relate to the possibility that they are not physically present in a country, and, in case of big platforms, to the possibility to use tax arbitrage techniques¹⁰⁶.

European Parliament position

The European Parliament followed the Commission Communication (see below) with a resolution, which notes that the collaborative economy has experienced rapid growth in recent years, in terms of users, transactions and revenues, reshaping how products and services are provided and challenging well-established business models in many areas. It states that the Communication represents a good starting-point for promoting and regulating this sector. The Parliament sets out recommendations¹⁰⁷, raising a number of issues, notably peer status definition and consumer protection - for example, distinguishing between peers and professionals - transparency in the

⁹⁹ Eurofound, [Digital age. Employment and working conditions of selected types of platform work](#), September 2018.

¹⁰⁰ JRC Science for Policy Report, [Platform Workers in Europe Evidence from the COLLEEM Survey](#), 2018.

¹⁰¹ Eurofound, *ibid.*

¹⁰² CEPS, [Impact of digitalisation and the on-demand economy on labour markets and the consequences for employment and industrial relations](#), July 2017.

¹⁰³ From the COLEEM survey it appears that many platform workers themselves are unsure of their status.

¹⁰⁴ C Forde et al., [The Social Protection of Workers in the Platform Economy](#), EP Policy Department A, November 2017.

¹⁰⁵ C Remeur, [The collaborative economy and taxation](#), EPRS, February 2018.

¹⁰⁶ On the risk of base erosion, see B Erwin and F Karaman, [The sharing economy part 1: New business models - Traditional tax rules don't mix](#).

¹⁰⁷ European Parliament resolution of 15 June 2017 on a European agenda for the collaborative economy ([2017/2003\(INI\)](#)).

rating system¹⁰⁸; 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.

European Commission response so far

The European Commission presented a Communication on 'A European agenda for the collaborative economy'¹⁰⁹ in June 2016. The agenda is intended to provide legal guidance and policy orientation for Member States that is complementary to the Commission's broader approach to online platforms presented in May 2016 as part of its digital single market strategy. In April 2018, the Commission set up a group of experts for the Observatory on the Online Platform Economy, to monitor the development and main challenges of the sector.¹¹⁰

The Commission has run several specific actions to explore the potential of the collaborative economy. Examples are a high-level conference in October 2018 to take stock of policy, regulatory and market developments, workshops, local events, analytical papers and Eurobarometer surveys.¹¹¹ The benefits of such actions and the effects of the Communication more widely have yet to be fully assessed.

Looking forward

Concerning workers' protection and taxation, a number of proposals are under discussion, even though not yet adopted. As part of the European Pillar of Social Rights, the proposal for a directive¹¹² on transparent and predictable working conditions in the EU is expected to address issues related to availability of necessary information for workers including the right to know a reasonable period in advance when work will take place. This latter is especially relevant for on-demand workers. The proposal¹¹³ for a recommendation on access to social protection for workers and the self-employed aims at addressing the lack of social protection coverage for 'non-standard' workers and has implications on platform workers. On taxation, at the time of writing two proposals¹¹⁴ are being discussed to define the appropriate regulatory framework of the digital economy. While the Commission envisages long-term measures, it also proposes an interim solution of a 3% tax on the

¹⁰⁸ On the risk of social exclusion related to the possible pervasiveness of the rating system, see also Europe Economics, [The Cost of Non-Europe in the Sharing Economy, Annex I](#), EPRS, January 2016.

¹⁰⁹ Commission Communication on A European agenda for the collaborative economy, [COM\(2016\)356](#), June 2016.

¹¹⁰ Commission Decision on [setting up the group of experts for the Observatory on the Online Platform Economy](#), April 2018.

¹¹¹ European Commission, [Collaborative economy web site](#).

¹¹² Proposal for a directive on transparent and predictable working conditions in the European Union, [COM\(2017\)797](#), December 2017.

¹¹³ Proposal for a Council Recommendation on access to social protection for workers and the self-employed, [COM\(2018\)132](#), March 2018.

¹¹⁴ European Commission, [Fair Taxation of the Digital Economy](#) web site.

digital economy (for companies above certain thresholds). This is expected to raise €3.9 billion per year¹¹⁵ from digital marketplaces and intermediaries (namely the platform economy).

¹¹⁵ Commission Staff Working Document, Impact Assessment accompanying COM(2018)147 and COM(2018)148, [SWD\(2018\)81](#), March 2018.

5. Addressing corporate tax avoidance

Potential efficiency gain: €85 billion per year

Key proposition

The 'Panama Papers' and 'Lux Leaks' revelations have shown the urgent need for the EU and its Member States to give higher priority to countering tax evasion, tax avoidance and aggressive tax planning, and to develop increased cooperation and transparency, in particular by ensuring that corporate taxes are paid where value is created, not only among Member States, but globally. The amounts concerned could be significant, as offshore wealth is worldwide estimated to be approximately US\$10 trillion.

A study¹¹⁶ commissioned by the European Added Value Unit of EPRS for the European Parliament's Committee on Economic and Monetary Affairs (ECON) in 2015 estimated that tax revenue losses for the EU on account of profit-shifting, aggressive corporate tax planning and cost ineffective regulation could amount between €223 billion and €293 billion, or an average of €258 billion per year. The study argues that decreasing the size of the EU 'shadow economy', estimated at around 20 per cent of official GDP, would increase the efficiency of resource allocation in the European economy as a whole. Given the significant institutional and political constraints in this area - relating less to the competence of the Union than to the need for unanimity in the Council of Ministers - plus the ingenuity of tax lawyers in developing innovative schemes to test national tax authorities, it is sensible to assume that action on corporate tax avoidance will take time and be only partially effective. Taking account of measures already coming on stream, even if only one-third of overall potential losses (€258 billion) were recovered in the future, that would still represent €85.3 billion per year (or 0.6 per cent of EU GDP) in additional revenue to national tax authorities, although this would depend critically on more effective EU-wide tax cooperation.

More detailed analysis of potential benefit

The EPRS study found that revenue losses to the governments of EU Member States on account of avoidance of corporate taxation could amount to around €50-70 billion per year, with this cautious estimate representing the sum lost as a result of profit-shifting between jurisdictions. The amount lost due to aggressive tax planning (often linked to special tax arrangements in specific jurisdictions) was estimated at between €160 billion and €190 billion, whilst the amount of corporation tax that could be recovered through more effective regulation was put at between €13.4 billion and €33.5 billion per year. When other tax regime issues, notably special tax arrangements or inefficiencies in collection, are included, revenue losses owing to aggressive corporate tax planning would amount to €160 billion to €190 billion per year. For the purpose of the overall calculation here, the lower range has been taken.

¹¹⁶ 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.

Table 2: Potential benefits resulting from addressing corporate tax avoidance

Sum/per year	to what the sum refers
€50 - 70 billion	Amount lost to profit-shifting
€160 - 190 billion	Amount lost to aggressive tax planning
€13.4 - 33.5 billion	Amount of corporation tax that could be recovered from more cost-effective regulation

Source: 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.

It should be stressed that it could be extremely expensive or technically difficult to collect the above-mentioned amounts effectively and in full. Consequently, a certain percentage of these sums would inevitably remain uncollected. Conversely, the calculations do not include estimates for activities within the shadow economy (notably tax evasion) that, if factored in, would add substantially to these figures. The European Commission believes that, every year, around €1 trillion is lost in EU Member States because of tax evasion and tax avoidance.¹¹⁷ This figure corresponds to the broad findings of a report prepared by Murphy in 2012¹¹⁸, which suggests that, of an estimated loss of €1 trillion, €150 billion could be attributed to tax avoidance (the minimisation of tax liability *within* the legal code), which could be tackled through cost-effective regulatory and enforcement measures, and €850 billion to tax evasion (the *illegal* non-payment or under-payment of taxation due).

Although there is substantial evidence that tax avoidance and evasion impose significant revenue losses, most economists agree that estimating the size of those losses with any degree of precision is a major challenge.¹¹⁹ Existing estimates based on a macro approach (many of which are published by NGOs) attract considerable public attention, but are difficult to interpret because of the difficulties associated with some of the measurement concepts. Thus, the estimates on what lost revenue can reasonably be recovered rely on settled methodologies of calculating loss, and on the understanding that only a proportion of lost revenues, not attributed to allowances, can affordably be collected.¹²⁰

¹¹⁷ European Commission, Taxation and Customs Union [website](#).

¹¹⁸ R Murphy, '[Closing the European Tax Gap](#)', a report for the Progressive Alliance of Socialists and Democrats in the European Parliament, 2012.

¹¹⁹ See, for example, C Fuest and N Riedel, 'Tax evasion, tax avoidance and tax expenditures in developing countries: a review of literature', a report prepared for the UK Department for International Development, Oxford: Oxford University Centre for Business Taxation, 2009; J Hines, 'How serious is the problem of base erosion and profit shifting?', *Canadian Tax Journal*, No 2, 2014, pp. 443-53; International Monetary Fund, 'Spillovers in international corporate taxation', IMF policy paper, May 2014; M. T Evers, I Meier, and C Spengel, '[Transparency in Financial Reporting: Is Country-by-Country Reporting suitable to combat international profit shifting?](#)', ZEW Discussion Paper, 2014.

¹²⁰ An example of this – essentially based on the same sets of data – is the UK government's figure for the corporation tax gap in 2012-13 of £3.9 billion, to be compared with Murphy's estimate of £12 billion.

European Parliament position

In November 2015, the European Parliament adopted a resolution on tax rulings and other measures similar in nature or effect,¹²¹ including 87 requests for action regarding corporate taxation. The resolution was the result of the work of the Parliament's Special Committee on Tax Rulings (TAXE 1 Committee) which had a mandate 'to examine practice in the application of EU state aid and taxation law in relation to tax rulings and other measures similar in nature or effect issued by Member States'¹²².

In December 2015, the Parliament adopted a legislative own-initiative resolution and report prepared by the Committee on Economic and Monetary Affairs (ECON), on 'bringing transparency, coordination and convergence to corporate tax policies in the Union',¹²³ which builds on the work of the Parliament's Special Committee on Tax Rulings (TAXE 1). The need for coordination and convergence derives from the fact that Member States have power to legislate on corporate taxation, which often has cross-border and global impacts. The resolution addresses 24 legislative recommendations to the Commission in order to tackle issues relating to transparency, coordination and convergence.

In July 2016, continuing and deepening the work started by its TAXE1 Committee on Tax Rulings, the Parliament adopted a second resolution, based on the report prepared by its successor special committee on Tax Rulings (TAXE 2).¹²⁴

In December 2017, the European Parliament adopted a recommendation calling inter alia for updated, standardised and publicly-accessible ownership registers of companies, foundations, trusts and similar legal arrangements, together with new rules to regulate intermediaries, such as lawyers and accountants, plus incentives to refrain from engaging in tax evasion and tax avoidance; and a common international definition of what constitutes an offshore financial centre, tax haven, secrecy haven, non-cooperative tax jurisdiction and high-risk country.^{125 126}

European Commission and Council responses so far

In January 2016, the Commission presented a proposal for an Anti-Tax Avoidance Directive as part of its Anti-Tax Avoidance Package, although the draft measure lacked an impact assessment¹²⁷. In June 2016, the Council adopted the Directive (EU) 2016/1164 laying down rules against tax

¹²¹ European Parliament, [Resolution of 25 November 2015 on tax rulings and other measures similar in nature or effect](#), 2015/2066 (INI).

¹²² In other words, the [Committee was mandated to scrutinise tax practices aimed at attracting non-resident firms or transactions](#) at the expense of other tax jurisdictions in which those transactions should normally be taxed, and/or measures aimed at privileging only some companies, thus distorting competition, including tax rulings.

¹²³ European Parliament, [Resolution of 16 December 2015 with recommendations to the Commission on bringing transparency, coordination and convergence to corporate tax policies in the Union](#), 2015/2010(INL).

¹²⁴ European Parliament, [Resolution of 6 July 2016 on tax rulings and other measures similar in nature](#), 2016/2038(INI).

¹²⁵ European Parliament Recommendation of 13 December 2017 to the Council and the Commission [following the inquiry into money laundering, tax avoidance and tax evasion](#), (2016/3044(RSP)).

¹²⁶ European Parliament [Pana Report](#), 8 February 2018.

¹²⁷ European Commission, [Anti-Tax Avoidance Package](#), January 2016.

avoidance practices that affect the functioning of the internal market.¹²⁸ This directive, linked with the OECD/G20 BEPS (base erosion and profit-shifting) action plan, covers five binding anti-abuse measures, namely the interest limitation rule, exit taxation, the general anti-abuse rule, computation of controlled foreign company income, and hybrid mismatches. Member States are obliged to apply these measures from 1 January 2019¹²⁹.

In addition, in October 2016, the Commission presented a proposal to complement existing rules on hybrid mismatches with third countries. In May 2017, the Council adopted a directive to prevent corporate groups from exploiting the disparities between two or more tax jurisdictions to reduce their overall tax liability. Member States have until January 2020 to transpose the directive into national legislation (January 2022 for one specific provision).¹³⁰

If a complete solution to the problem of tax base erosion and profit-shifting (BEPS) were available and applicable throughout the EU, it would have an estimated positive impact of 0.2 per cent of the total fiscal revenues of the Member States.¹³¹ In 2018, the European Commission¹³² calculated that the total current revenues collected over the EU as a whole were around €7 trillion. This implies that a comprehensive solution on BEPS would generate additional €14 billion in revenue.

¹²⁸ Council [Directive \(EU\) 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market](#), July 2016.

¹²⁹ The Commission is to evaluate the directive's implementation within four years of entry into force.

¹³⁰ Council Directive [\(EU\) 2017/952 of 29 May 2017 amending Directive \(EU\) 2016/1164](#) as regards hybrid mismatches with third countries.

¹³¹ 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, European Parliament, September 2015.

¹³² European Commission, General Government Data, general Government Revenue, Expenditure, Balances, Gross Debt, [Part I: Tables by country](#), Spring 2018.

6. Combatting value added tax fraud

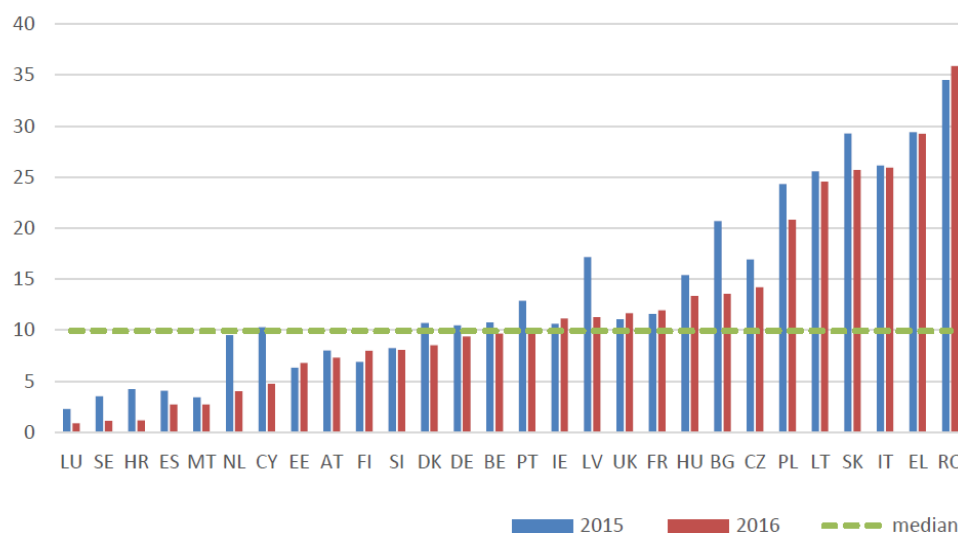
Potential efficiency gain: €40 billion per year

Key proposition

In 2016, revenue lost to the public finances of the EU-28 Member States on account of non-compliance or non-collection of value added tax (VAT) in the EU - what is often referred to as the 'VAT gap' - amounted to almost €150 billion. The VAT gap is defined as the difference between the VAT total tax liability (VTTL), sometimes also known as VAT total theoretical liability, and the amount of VAT actually collected. (Expressed as a share of VTTL, the VAT gap had dropped to 12.3 % from 13.2 % in 2015).¹³³

Cross-border trade is exempt from VAT and so provides an easy loophole for unscrupulous companies to collect VAT and then vanish without remitting the money to the relevant government authorities. Europol¹³⁴ estimates that €40-60 billion of the annual VAT revenue losses of Member States are caused by organised crime groups and that 2 % of those groups are behind 80 % of the missing trader intra-community (MTIC) fraud.

Figure 4: 'VAT gap' as a percentage of total VAT tax liability in EU-28 Member States



Source: Study for the European Commission (TAXUD) 2018.

More detailed analysis of potential benefit

The VAT gap is the difference between expected VAT revenue and the money actually collected by national authorities. While non-compliance is certainly an important contributor to this revenue

¹³³ European Commission, [VAT Report 2018](#), September 2018.

¹³⁴ Europol, [MTIC fraud investigation and LEA's cooperation improving](#), 2016.

shortfall, the VAT gap is not only due to fraud. Unpaid VAT also results *inter alia* from bankruptcies and insolvencies, statistical errors, delayed payments and legal avoidance. There are significant differences between Member States.

In its 2015 special report on intra-Community VAT fraud, the European Court of Auditors¹³⁵ addressed the question of whether intra-Community VAT fraud is being tackled effectively. The Court found that the EU system is not sufficiently effective and is adversely affected by the lack of comparable data and indicators at EU level, and fraud is often linked to organised crime, with huge losses for public budgets. Given the extensive shortfall in VAT receipts, due in part to fraud, a benefit of €40 billion per year¹³⁶, representing 0.3 per cent of EU GDP, is anticipated by the Commission from stronger action at EU level, in particular through the introduction of a standardised European invoice and/or an EU-coordinated or simplified cross-border taxation system.

European Parliament position in this field

In its resolution of May 2016,¹³⁷ the European Parliament welcomed the European Commission's determination to address 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.¹³⁸ In July 2018, under the consultation procedure, the Parliament adopted a resolution¹³⁹ on amending Regulation (EU) 904/2010 as regards measures to strengthen administrative cooperation in the field of VAT.

In October 2018, the Parliament approved two Commission proposals to implement a temporary generalised reverse charge mechanism (GRCM)¹⁴⁰ and to harmonise and simplify certain rules in the VAT system. The Parliament welcomed the Commission's intention to propose a definitive VAT system that would be simple, fair, robust, efficient and less susceptible to fraud.¹⁴¹

European Commission and Council responses so far

In October 2017, the European Commission put forward a number of proposals profoundly reforming the VAT system. In order to establish a new single EU VAT area, four basic principles were addressed, namely: charging VAT on cross-border trade between businesses; dealing with the VAT obligations (cross-border) thanks to a 'one stop shop'; VAT always to be paid to the Member State

¹³⁵ European Court of Auditors, Special Report, [Tackling intra Community VAT fraud: More action needed](#), 2015.

¹³⁶ European Commission, [The new system should reduce cross-border fraud by 80%](#) (about €40 billion) September 2017.

¹³⁷ European Parliament, Resolution of 26 May 2016 [on the Single Market Strategy](#), 2015/2354(INI).

¹³⁸ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on an action plan on VAT. [Towards a single EU VAT area - Time to decide](#), COM(2016)148, April 2016.

¹³⁹ European Parliament [legislative resolution of 3 July 2018](#) on the amended proposal for a Council regulation amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in the field of value-added tax, [2017/0248\(CNS\)](#).

¹⁴⁰ European Parliament [legislative resolution of 3 October 2018](#) on the proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the period of application of the optional reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud and of the Quick Reaction Mechanism against VAT fraud, [2018/0150\(CNS\)](#).

¹⁴¹ European Parliament, [VAT Fraud, Economic impact, challenges and policy issues](#), Study requested by the TAX3 Committee, October 2018.

of the final consumer; and simplification of invoicing rules.¹⁴² The Commission developed in parallel other initiatives, in particular to tackle VAT fraud¹⁴³, including one urgent measure to allow Member States, upon request, to implement a temporary generalised reverse charge mechanism (GRCM). This mechanism shifts the responsibility for reporting VAT transactions from the seller to the buyer of a good or service. That would support Member States particularly affected by VAT fraud such as the 'carousel' or 'missing trader' schemes.¹⁴⁴

In June 2018, the Council agreed on measures to strengthen administrative cooperation to improve the prevention of VAT fraud. It aims to improve the exchange and analysis of information shared by the Member State' tax administrations and with law enforcement bodies and to strengthen 'Eurofisc' for the exchange of information on VAT fraud. It also introduces new instruments for cooperation such as administrative enquiries carried out jointly.¹⁴⁵

In October 2018, the Economic and Financial Affairs Council (Ecofin) adopted new rules to exchange more information and boost cooperation on criminal VAT fraud between national tax authorities and law enforcement authorities.¹⁴⁶ Improved investigative coordination between Member States themselves and with EU bodies will ensure that fast-moving criminal activity should be tracked and tackled more quickly and more effectively.¹⁴⁷

Cross-border fraud alone accounts for around €50 billion of the VAT gap each year in the EU. The Commission proposals should help to shut down this fraud and reduce cross-border fraud by 80% (about €40 billion annually). The new system could both facilitate the fight against VAT fraud, which affects the Union's financial interests, and also result in smoother cross-border transactions and reduce costs for businesses and the public.¹⁴⁸

¹⁴² European Commission, [proposes far-reaching reform of the EU VAT system](#), Brussels, 4 October 2017.

¹⁴³ European Commission, VAT: [EU Member States still losing almost €150 billion](#), 21 September 2018 and before Ernst & Young, Implementing the 'destination principle' to intra-EU B2B supplies of goods: 2015 Final Report.

¹⁴⁴ Proposal for a Council Directive amending Directive 2006/112/EC on the common system of value added tax as regards the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold [COM\(2016\)811](#), December 2016.

¹⁴⁵ Council, [VAT fraud: Agreement on measures to boost administrative cooperation](#), 22 June 2018.

¹⁴⁶ Council agrees [to allow generalised, temporary reversal of liability to fight VAT fraud](#), 2 October 2018.

¹⁴⁷ European Commission [welcomes progress achieved on the road to a reformed EU VAT system](#), 2 October 2018.

¹⁴⁸ European Parliament [legislative resolution](#) of 3 October 2018 on the proposal for a Council directive amending Directive 2006/112/EC as regards harmonising and simplifying certain rules in the value added tax system and introducing the definitive system for the taxation of trade between Member States, [2017/0251/\(CNS\)](#).

DIGITAL ECONOMY

7. Completing the digital single market **Potential efficiency gain: €110 billion per year**

Key proposition

The digitalisation of the economy and society is progressing rapidly, generating tremendous changes in many aspects of people's lives. Whether in communications, shopping or manufacturing, the digital revolution is a driver of transformation, offering significant potential for the European economy. Based on different macroeconomic simulations undertaken by the European Commission, the potential gain from a completed digital single market (DSM) could range, in the long run, after full implementation, between €85 billion per year (0.6 per cent of EU GDP)¹⁴⁹ and €256 billion per year (1.7 per cent of EU GDP)¹⁵⁰, depending on the study considered. For the purposes of this analysis, a figure of €110 billion (or 0.72 per cent of EU GDP) is used, being the lower bound of the more ambitious study.

Since 2015, serious effort has been made to put in place a framework to realise a digital single market within the EU, but there is still considerable potential for further action to draw on the potential of the digitalisation. In 2015, the Juncker Commission introduced a comprehensive Digital Single Market Strategy for Europe¹⁵¹, reinforced by a European Parliament resolution the following year¹⁵². However, changes in this field are far from static, and major on-going innovations point to the continuing need for both in-depth analysis of the challenge and innovative policy responses to it.

More detailed analysis of potential benefit

A recent study by the European Commission's Joint Research Centre (JRC) in 2018, using the RHOMOLO model¹⁵³, estimates a potential increase of EU GDP over the baseline between €60 billion and €110 billion per year, after full implementation of the relevant policies.

The main policy dimensions of the DSM considered are e-commerce, e-procurement, e-invoicing and cloud computing. Taken one by one, these areas have direct impacts in terms of cost-saving

¹⁴⁹ Christensen, M., Conte, A., Di Pietro, F., Lecca, P., Mandras, G., and Salotti, S (2018). [The third pillar of the Investment Plan for Europe: An impact assessment using the RHOMOLO model](#). JRC Working Papers on Territorial Modelling and Analysis No. 02/2018, European Commission, Seville, 2018, JRC113746.

¹⁵⁰ European Commission, [The Economic Impact of Digital Structural Reforms](#), September 2014.

¹⁵¹ European Commission, 'A Digital Single Market Strategy for Europe', [COM\(2015\) 192](#), May 2015.

¹⁵² European Parliament Resolution of 19 January 2016 'Towards a Digital Single Market Act', [2015/2147\(INI\)](#).

¹⁵³ Christensen, M., Conte, A., Di Pietro, F., Lecca, P., Mandras, G., and Salotti, S (2018). *ibid*, [The third pillar of the Investment Plan for Europe: an impact assessment using the RHOMOLO model](#), JRC Working Papers on Territorial Modelling and Analysis No. 02/2018, European Commission 2018, JRC113746.

and economic welfare for specific categories of people, assuming no changes in other areas. E-commerce may reduce retail prices and increase consumer choice, having a positive impact on consumer welfare that has been estimated at between €154 and €204 billion per year¹⁵⁴. A shift of the public sector to electronic tools for procurement procedures is estimated by the Commission as having the potential to bring about €100 billion savings¹⁵⁵. Equally, according to the Commission, e-invoicing is expected to allow savings in all sectors of about €40 billion per year¹⁵⁶. The development of cloud computing could have the potential for reducing IT expenditure in both private and public sectors in the EU by between €31 and €63 billion¹⁵⁷.

Targetted interventions in these policy areas have been translated into macroeconomic effect on EU GDP by the JRC study¹⁵⁸, considering their potential efficiency and competition effects. The overall gain for the EU economy in the long run ranges between 0.44 per cent and 0.82 per cent of GDP¹⁵⁹. This means that, after full implementation of the appropriate policies, the EU economy could be expected to enjoy up to €110 billion of additional GDP per year thanks to actions in completing the Digital Single Market.

Another study attempting a similar estimation was done by the European Commission's Directorate General for Economic and Financial Affairs in 2014, using the QUEST III model¹⁶⁰. This analysis estimates an effect in the long run of policies aiming at reinforcing the integration of the DSM and e-commerce of about 1.9 per cent of GDP (a gain of about €256 billion per year in the long run). We can consider this estimate as an upper bound of the previous one¹⁶¹. Both studies assume that DSM reforms will affect the economy by increasing competition and productivity.

¹⁵⁴ The upper bound represents the potential benefit for consumers of bringing the share of online retail to 15% of total retail (from the 3.5% that was at the time of the study) and to have a fully integrated European market for e-commerce; the lower bound is the effect specifically due to a single EU market for e-commerce. The difference is the benefit of online retail within national markets, which can be boosted also, but not exclusively, by EU policies. See European Commission, Communication on a coherent framework for building trust in the Digital Single Market for e-commerce and online services', [COM\(2011\) 942](#), based on a study from Civic Consulting, 'Consumer market study on the functioning of e-commerce', 2011.

¹⁵⁵ European Commission, [Public Procurement Reform Factsheet No. 4 2014: e-procurement](#).

¹⁵⁶ European Commission, [Communication on Reaping the benefits of electronic invoicing for Europe, Brussels, 2.12.2010, COM\(2010\) 712 final](#).

¹⁵⁷ The upper bound assumes that the direct savings in IT expenditures due to adoption of cloud-based solutions is 30%; the lower bound assumes 15% in savings. See [The Cost of Non-Europe in the Single Market III – Digital Single Market](#), EPRS, September 2014.

¹⁵⁸ Christensen, M., Conte, A., Di Pietro, F., Lecca, P., Mandras, G., and Salotti, S (2018). [The third pillar of the Investment Plan for Europe: an impact assessment using the RHOMOLO model](#). JRC Working Papers on Territorial Modelling and Analysis No. 02/2018, European Commission, Seville, 2018, JRC 113746.

¹⁵⁹ In comparison with the projected EU economy without the policy considered (the baseline).

¹⁶⁰ European Commission, [The Economic Impact of Digital Structural Reforms](#), September 2014. It estimates the potential effect of a broader set of reforms: spectrum reforms, enhancing digital skills, reinforcing the integration of the DSM and of EU wide-commerce, and increased take-up of high-speed fixed broadband. We consider here the third area.

¹⁶¹ The two studies are comparable in the way DSM reform are simulated in the economy (efficiency effect and competition effect via a reduction in trade costs), but they use two distinct economic models with different underlying assumptions.

Other estimates can be found if a different set of measures or methodologies are used. For example, a 2014 Cost of Non-Europe Report by the European Added Value Unit of EPRS estimated that the joint impact of establishing the single euro payments area, fostering cloud computing and improving parcel delivery services, would bring a gain of about €60 billion per year by 2020¹⁶². Another study adopts a different approach and argues that the overall effect of increased cross-border flows on GDP would generate a potential benefit of €375 billion per year¹⁶³. Focussing on e-commerce, a 2015 JRC working paper¹⁶⁴ measures the macro-economic impact of an increase in on-line trade: bringing together the impact on consumers and producers (including domestic retailers) of a decrease in trade costs due to enhanced on-line retail, it estimates an effect on the GDP of about 0.14 per cent, and underlines considerable welfare redistribution across sectors.

European Parliament position

Completing the digital single market is a key priority for the European Parliament. In its 2016 resolution 'Towards a Digital Single Market Act'¹⁶⁵, the Parliament expressed concern over the diverging national approaches that Member States have taken when regulating the internet and the sharing economy. It also underlined that online and offline sales should be treated equally in terms of consumer protection, and that the Commission's proposals for cross-border contract rules should avoid setting different legal standards for these two kinds of purchase.

The Parliament therefore advocated swift implementation of the proposals included in the Commission's DSM strategy, in order to promote a more dynamic (digitised) economy conducive to innovation. More specifically, it recommended the elimination of barriers experienced by businesses (especially innovative enterprises, SMEs, start-ups and scale-ups) and the creation of a level playing-field through the development of e-government, a future-proof regulatory and non-regulatory framework for the DSM, a long-term digital investment strategy, and better access to finance.

European Commission response so far

Deeper integration of digital markets was one of the Juncker Commission's main priorities, pursued mainly through the initiatives contained in its Digital Single Market Strategy¹⁶⁶ of May 2015. Actions have been mainly organised under three pillars: i) better access to digital goods and services; ii) a better business environment for digital networks and innovative services; and iii) maximising the growth potential of the digital economy.

EPRS research suggests that, as of January 2019, as many as 95 per cent (38 out of 40) of all announced initiatives of the whole Digital Single Market Strategy in this field had been submitted by the Commission to the co-legislators.¹⁶⁷ The Commission has proposed 38 legislative proposals

¹⁶² [The Cost of Non-Europe in the Single Market III – Digital Single Market](#), EPRS, September 2014.

¹⁶³ McKinsey Global Institute, [Digital Europe: Pushing the Frontier, Capturing the Benefits](#), June 2016.

¹⁶⁴ Cardona, M., Duch-Brown, N., Francois, J., Martens, B., & Yang, F. (2015). [The macroeconomic impact of e-commerce in the EU digital single market](#), Institute for Prospective Technological Studies Digital Economy Working Paper, 9.

¹⁶⁵ European Parliament Resolution of 19 January 2016 'Towards a Digital Single Market Act', [2015/2147\(INI\)](#).

¹⁶⁶ European Commission, 'A Digital Single Market Strategy for Europe', [COM\(2015\) 192](#), May 2015.

¹⁶⁷ EPRS, [Legislative Train Schedule](#).

since the launch of the DSM: 21 of these have been agreed between the European Parliament and the Council, with 17 still being considered.¹⁶⁸

Estimated benefit of any Commission action so far

The main measures taken and their potential impacts fall mainly under pillar 1) of the Commission's DSM Strategy, namely better access to digital goods and services.

Table 3: Measures so far taken in the Digital Single Market and their potential impact (non-exhaustive list)

Dimensions	Actions and their potential impacts
E-commerce	<p>Removal of geo-blocking: The expected benefits of the removal of geo-blocking are an increase in consumer welfare of 1.2 per cent and an increase in firm profits of 1.3 per cent corresponding approximately to an overall gain of EUR 18 billion¹⁶⁹.</p> <p>Modernisation of VAT system: The potential increase in public revenues thanks to improved VAT collection could be about €7 billion.¹⁷⁰</p> <p>Cross-border parcel delivery services: Potential benefits accruing to households and businesses thanks to more efficient cross-border parcel delivery would be between €2.2 billion and €5.6 billion.¹⁷¹</p> <p>Reforms concerning consumer protection and contract laws on supply of digital content¹⁷²: An estimate of the potential impact on GDP of removing barriers to e-commerce in this area would be of about €6 billion per year (0.04 per cent of GDP).¹⁷³</p>
E-procurement and e-invoicing in the public sector	<p>The benefits of "digital by default"¹⁷⁴ would be between €6.5 and €10 billion per year in savings for the public sector, and the benefits of "once only registration of data" about €5 billion/year. E-invoicing in public procurement is expected to allow for €2.3 billion/year in public savings¹⁷⁵.</p>

¹⁶⁸ European Commission, [Creating a Digital Single Market - European Commission actions since 2015](#).

¹⁶⁹ Duch-Brown, N., & Martens, B. [The economic impact of removing geo-blocking restrictions in the EU Digital Single Market](#), JRC Technical Reports, 2016.

¹⁷⁰ Commission Staff Working Document, Executive Summary of the Impact Assessment Accompanying the document Proposals for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-commerce [SWD\(2016\) 382 final](#).

¹⁷¹ [The Cost of Non-Europe in the Single Market III – Digital Single Market](#), EPRS, September 2014.

¹⁷² To be noted that the main proposals in this area are not yet adopted.

¹⁷³ Cardona, M., Duch-Brown, N., Francois, J., Martens, B., & Yang, F. [ibid](#) (2015).

¹⁷⁴ R Davies, [E-government, Using technology to improve public services and democratic participation](#), EPRS, September 2015.

¹⁷⁵ European Commission, [E-invoicing in public procurement: another step towards end-to-end e-procurement and e-government in Europe](#), Press Release, as at October 2018.

Dimensions	Actions and their potential impacts
E-government	A single digital entry point for EU citizens and businesses to information and procedures (Single Digital Gateway, adopted in October 2018 ¹⁷⁶) is expected to bring savings for businesses between EUR 11 and EUR 55 billion ¹⁷⁷ . A recent study assumes that the potential benefits of e-government developments are around EUR 20 billion/year ¹⁷⁸ .
Cloud computing	Initiatives on a European cloud, free flow of data and digitising European industry, Communication were set on track ¹⁷⁹ . In 2018, a roadmap for the creation of a European Open Science Cloud was endorsed ¹⁸⁰ . By 2022, it is envisaged that a large scale European high-performance computing, data storage and network infrastructure ¹⁸¹ would be developed and deployed.

Source: Author's own assessment.

Looking forward

Since 2015, the EU has made substantial progress, but there is still room for action to realise the full potential of digitalisation. In its 2016 resolution, the Parliament¹⁸² listed a wide range of areas where benefits will arise and/or action is still needed. Based on this analysis and on-going technological and societal change the need for further action seems to be highly relevant.

As a part of its Multiannual Financial Framework (MFF) proposal for 2021-27, the European Commission includes digital transformation across all areas, with more investment in artificial intelligence, super-computing, cyber-security, skills and e-government¹⁸³, backed by a new funding programme entitled Digital Europe¹⁸⁴, with €9.2 billion in funds. Work remains to be done to assess

¹⁷⁶ [Regulation \(EU\) 2018/1724](#) of the European Parliament and of the Council of 2 October 2018 establishing a single digital gateway to provide access to information, to procedures and to assistance and problem-solving services and amending Regulation (EU) No 1024/2012 Text with EEA relevance.

¹⁷⁷ Commission Staff Working Document Impact Assessment accompanying the document Proposal for a regulation of the European parliament and of the Council on establishing a single digital gateway to provide information, procedures, assistance and problem solving services and amending Regulation (EU) No 1024/2012, [COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a regulation of the European parliament and of the Council on establishing a single digital gateway to provide information, procedures, assistance and problem solving services and amending Regulation \(EU\) No 1024/2012 SWD/2017/0213 final - 2017/086 \(COD\)](#).

¹⁷⁸ Policy Department for Economic, Scientific and Quality of Life Policies, [Contribution to Growth: The European Digital Single Market Delivering economic benefits for citizens and businesses](#), January 2019

¹⁷⁹ Communication from the Commission on Digitising European Industry Reaping the full benefits of a Digital Single Market, [COM\(2016\)180](#), April 2016.

¹⁸⁰ European Commission, [EU ministers endorse Commission's plans for research cloud](#), May 2018.

¹⁸¹ European Commission, [High Performance Computing](#), as at October 2018.

¹⁸² European Parliament Resolution of 19 January 2016 'Towards a Digital Single Market Act', [2015/2147\(INI\)](#).

¹⁸³ European Commission, [ISA](#), as at October 2018.

¹⁸⁴ Proposal for a Regulation of the European Parliament and of the Council establishing the Digital Europe programme for the period 2021-2027, [COM/2018/434 final - 2018/0227 \(COD\)](#).

what are the remaining gaps and barriers, as in high performance computing, building a data economy and society, e-government and digital skills and expertise¹⁸⁵.

Cyber-security is a key priority and is addressed separately (below) in this *Mapping the Cost of Non-Europe* exercise. The same is the case for Robotics and Artificial Intelligence (AI).

¹⁸⁵ European Parliament Draft Report for a regulation on establishing the Digital Europe programme for the period 2021-2027, [PE 625.457v01-00](#).

8. Promoting internet connectivity

Potential efficiency gain: €58 billion per year

Key proposition

One of the priorities of the European Commission in its Europe 2020 Strategy is the Digital Agenda for Europe, which proposes to better exploit the potential of Information and Communication Technologies (ICTs), in order to foster innovation and economic growth. This is both part and prerequisite for a full deployment of a Digital Single Market (see above). The Commission has proposed a set of measures to encourage the availability of the best possible internet connectivity, to allow citizens, public administrations and businesses to take full advantage of the digital economy.

The full deployment of wireless high-speed broadband, via the Radio Spectrum Policy Programme, and policies developing further fixed high-speed broadband through enhanced investments and easier roll-out, would have an estimated impact on EU GDP of some €106 billion per year after their full implementation, over 30 years, and some €58.5 per year over ten years, in the latter case representing 0.38 per cent of GDP.¹⁸⁶

More detailed analysis of potential benefit

The European Commission's Directorate for Economic and Financial Affairs¹⁸⁷ has estimated the potential effect of a broad set of reforms in the area of digitalisation¹⁸⁸. Among these, two groups of reforms directly deal with connectivity: the Radio Spectrum Policy Programme (and especially the appropriate assignment of right of use of radio spectrum frequencies), and reforms aimed at increasing the take-up of high-speed fixed broadband¹⁸⁹. These two areas of reforms are expected to have direct impacts on the economy (on competition, productivity and innovation); these impacts in turn are considered affecting the whole economy, and this is analysed using a general equilibrium model¹⁹⁰. The availability of frequencies to mobile operators is expected to affect prices via both a competition effect and an innovation effect. The expected impact on EU GDP is between 0.3% and 0.4% in the long run (over 30 years), after full implementation, with a stronger effect of the innovation channel. The second set of policies, aimed at guaranteeing universal broadband coverage and increasing speed, is expected to have a positive effect on productivity and private

¹⁸⁶ This estimate is drawn from European Commission, [The Economic Impact of Digital Structural Reforms](#), September 2014 (using 2013 prices).

¹⁸⁷ European Commission, *ibid* 2014.

¹⁸⁸ The four areas are spectrum reforms, enhancing digital skills, reinforcing the integration of the DSM and of EU wide-commerce, and increased take-up of high-speed fixed broadband.

¹⁸⁹ The limitation of this study is that it simulates the impact of policies that substantially changed over time. Our strong assumption is that the impact of policies in connectivity area on economic variables is approximately the same even if technology is evolving (e.g. from 4G to 5G) and if policies are following this evolution.

¹⁹⁰ The results presented here are obtained using the QUEST III model.

investment. The estimated impact on the EU GDP is 0.4% over the long run. Added together, they come in just below 0.8 per cent of GDP over the long run, with an expected impact of just over half that, or 0.43 per cent of GDP, some €58.5 billion, in the first ten years.

These estimations depend on the set of policies considered and on the method used. Focusing on 5G, the study commissioned by DG CONNECT¹⁹¹ identifies potential direct benefits of about €62.5 billion (on the automotive, healthcare, transports and utilities sectors) and additional societal benefits of €50.6 billion, for a total of about €113 billion per year. These figures were updated by the European Commission in the European Electronic Communication Code impact assessment to about €146 billion.¹⁹² This assessment translates a broader set of policies into macroeconomic impacts, including, among others, policies on very high capacity broadband infrastructure, coordinated spectrum assignments to achieve full coverage of enhanced mobile broadband aspects of 5G. The overall gain could rise to 1.45% of EU GDP in 2025 (today this would amount to about €223 billion), with a specific impact of spectrum policies of 0.16% of GDP per year.

A previous estimate of the gain from opening of national markets in communication, the deriving economies of scale, and the gains of increased network investments was done by the European Commission's in 2013¹⁹³, relying on two external studies¹⁹⁴: integration national markets for communications is expected to lift up GDP of about 0.89% (about €110 billion per year at the time of the study); increased network investment, even in a modest scenario, were expected to have an impact of additional €89 billion per year.

European Parliament position

The European Parliament has a strong record of advocating digitisation and connectivity, supporting the 2012 Decision to approve the first [Radio Spectrum Policy Programme](#) (RSPP)¹⁹⁵, thus creating a comprehensive roadmap contributing to the internal market for wireless technologies and services in line with the Digital Agenda for Europe.

¹⁹¹ DG CONNECT, 2014, [Identification and quantification of key socio-economic data to support strategic planning for the introduction of 5G in Europe](#), 2014/0008, study done by Tech4i2, Real Wireless, CONNECT, Trinity College Dublin, InterDigital.

¹⁹² Impact Assessment accompanying the document Proposals for a Directive of the European Parliament and of the Council establishing the European Electronic Communications Code (Recast) and a Regulation of the European Parliament and of the Council establishing the Body of European Regulators for Electronic Communications [SWD\(2016\) 304](#), September 2016.

¹⁹³ Impact Assessment Accompanying the document Proposal for a Regulation of the European Parliament and of the Council laying down measures concerning the European single market for electronic communications and to achieve a Connected Continent, and amending Directives 2002/20/EC, 2002/21/EC and 2002/22/EC and Regulations (EC) No 1211/2009 and (EU) No 531/2012, COM(2013) 627 final, [SWD\(2013\) 332 final](#).

¹⁹⁴ Ecorys, TU Delft et al., Steps Towards a Truly Internal Market for e-Communication, 2013 and Analysis Mason and Tech4i2, [The Socio-Economic Impact of Bandwidth](#), 2012.

¹⁹⁵ Decision No [243/2012/EU](#) of the European Parliament and of the Council of 14 March 2012 establishing a multiannual radio spectrum policy programme.

In 2014, the European Parliament called for a true single market in electronic communications across all of Europe¹⁹⁶, and highlighted the need to tackle and combat the digital divide to guarantee the inclusion of all citizens in the digital economy and to fully benefit from the Digital Single Market¹⁹⁷. In its 2016 resolution, 'Towards a Digital Single Market Act'¹⁹⁸, the Parliament stressed the desirability of better coordinated internet regulation in the digital economy.

In a resolution in March 2018 on the post-2020 MFF¹⁹⁹, the Parliament underlined the importance of securing financing for completing the digital single market and the need to continue the support digital services infrastructure and high-speed broadband networks. It considered providing support for digitalisation to be one of the main objectives of future cohesion policy funds²⁰⁰.

The Parliament's ITRE Committee voted its report on the European Electronic Communications Code in March 2017, focussing, among other things, on criteria on investment plans, rules for telecom operators, spectrum licence duration and review processes. Coordinated spectrum assignment policies have been a major point the Parliament has advocated, and this is reflected in the European Electronic Communications Code text which the Parliament endorsed in November 2018²⁰¹.

European Commission response so far

A number of initiatives have been taken by the European Commission in line with the 2012 Radio Spectrum Decision, targeted at harmonising the relevant technical conditions²⁰² including during the current policy cycle. The Juncker Commission's 'Digital Single Market Strategy for Europe'²⁰³ adopted in May 2015, contains a set of initiatives and legislative proposals, themselves proposed in 2016²⁰⁴ which include:

1) *The European Electronic Communications Code*²⁰⁵ that sets common rules on how the telecom industry should be regulated; this has been adopted by the Parliament in June 2018 and by the Council in November 2018 and addresses four directives on the Framework, Access, Authorization and Universal Service. It especially focuses on the deployment and take-up of high capacity

¹⁹⁶ European Parliament legislative resolution of 3 April 2014 on the proposal for a regulation of the European Parliament and of the Council laying down measures concerning the European single market for electronic communications and to achieve a Connected Continent, P7_TC1-COD(2013)0309.

¹⁹⁷ European Parliament resolution on supporting consumer rights in the digital single market, [2014/2973\(RSP\)](#).

¹⁹⁸ European Parliament Resolution of 19 January 2016 'Towards a Digital Single Market Act', ([2015/2147\(INI\)](#)).

¹⁹⁹ European Parliament resolution of 14 March 2018 'Preparing the Parliament's position on the MFF post-2020' ([2017/2052\(INI\)](#)).

²⁰⁰ EPRS, [Digital Europe programme](#), October 2018.

²⁰¹ EPRS, [The new European electronic communications code](#), Briefing, EU Legislation in Process, January 2019.

²⁰² European Commission, Digital Single Market, [Radio Spectrum Decisions](#).

²⁰³ European Commission, 'A Digital Single Market Strategy for Europe', [COM\(2015\) 192](#), May 2015.

²⁰⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Connectivity for a Competitive Digital Single Market - Towards a European Gigabit Society - [COM\(2016\)587](#), September 2016.

²⁰⁵ Proposal for a Directive establishing the European Electronic Communications Code (Recast), [COM/2016/0590 final 2016/0288 \(COD\)](#). There is a provisional agreement between Parliament and Council on final act.

networks, on spectrum rules for 5G, on the update of the Universal Service Directive, on services and end-user protection rules, on numbering and emergency communication provisions, and on governance structures²⁰⁶. Related to this is the regulation establishing the Body of European Regulators for Electronic Communications (BEREC) and the Agency for Support for BEREC (BEREC Office);²⁰⁷

2) *Decision on use of 470-790 MHz frequency band* (2017):²⁰⁸ The strategy proposes to repurpose the 694-790 MHz band, to use it for wireless broadband rather than television broadcasting. The latter is to have priority in the 470-694 MHz band;²⁰⁹

3) *Common EU broadband targets for 2025* relating to broadband coverage and speed. For example, by 2025, all schools, transport hubs and main providers of public services should have access to internet connections with download/upload speeds of one Gigabit of data per second;

4) *A plan to foster European industrial development* in 5th generation (5G) wireless technology to stimulate investment in the sector;²¹⁰ and

5) *A voucher scheme* for public authorities that want to offer free Wi-Fi access to their citizens.²¹¹

Estimated benefit of any Commission action so far

Several actions have already been taken in relation to the Spectrum Policy Programme. A 2014 report²¹² concluded that the programme (in its first two years) had already contributed to a more efficient use of spectrum, by promoting spectrum-sharing and by initiating the process of the spectrum inventory, and had helped foster innovation and competition. In 2016, the Commission indicated that the benefits of closing the gap of Next Generation Access (NGA) broadband could be up to €31.9 billion in terms of consumer welfare²¹³.

²⁰⁶ EPRS, [The new European electronic communications code](#), Briefing, EU Legislation in Process, January 2019.

²⁰⁷ [Regulation \(EU\) 2018/1971](#) of the European Parliament and of the Council of 11 December 2018 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Agency for Support for BEREC (BEREC Office), amending Regulation (EU) 2015/2120 and repealing Regulation (EC) No 1211/2009.

²⁰⁸ [Decision \(EU\) 2017/899](#) of the European Parliament and of the Council of 17 May 2017 on the use of the 470-790 MHz frequency band in the Union.

²⁰⁹ EPRS, [New radio frequencies for mobile internet services](#), Briefing, July 2017.

²¹⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: '5G for Europe: An Action Plan' - [COM\(2016\)588, September 2016](#).

²¹¹ Promotion of internet connectivity in local communities, [2016/0287\(COD\)](#), published in the Official Journal on 1 November 2017.

²¹² [Report From The Commission To The European Parliament And The Council on the implementation of the Radio Spectrum Policy Programme, COM\(2014\)228, April 2014](#).

²¹³ Commission Staff Working Document accompanying Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, [Connectivity For A Competitive Digital Single Market - Towards A European Gigabit Society, SWD\(2016\)300, September 2016](#).

Table 4: Measures so far adopted in internet connectivity and their potential impacts (non-exhaustive list)

Actions	Estimated potential impacts
Regulation Open Internet/TS ²¹⁴	Special focus on network neutrality and Roam Like at Home mobile roaming. According to a 2019 study ²¹⁵ , it can have benefits of about EUR 5 billion/year.
Decision on use of 470-790 MHz frequency band ²¹⁶	The focus is on wireless broadband. The Commission impact assessment identifies EUR 11 billion potential revenues from spectrum auctions by 2020. ²¹⁷
Regulation on wholesale roaming ²¹⁸	Benefits are part of those of the Open Internet/TSM Regulation. ²¹⁹
Regulation to promote Internet connectivity in local communities (Wi-Fi4EU)	Whilst the societal benefits are potentially significant, the public investment involved is too low to have a strong macro-economic impact. ²²⁰
Directive on the European Electronic Communications Code ²²¹	The Commission impact assessment identifies a potential impact on GDP of about 1.45%, due to access to accelerated fibre, services, and spectrum policies. This would amount today to about EUR 223 billion. Under a more restrictive assumption, the gain could be 81 billion per year. ²²²

Source: Author's own calculation.

²¹⁴ [Regulation \(EU\) 2015/2120](#) of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union

²¹⁵ EP Policy Department A, [Contribution to Growth: The European Digital Single Market Delivering economic benefits for citizens and businesses](#), January 2019.

²¹⁶ [Decision \(EU\) 2017/899](#) of the European Parliament and of the Council of 17 May 2017 on the use of the 470-790 MHz frequency band in the Union.

²¹⁷ EPRS, [New radio frequencies for mobile internet services](#), Briefing, July 2017.

²¹⁸ [Regulation \(EU\) 2017/920](#) of the European Parliament and of the Council of 17 May 2017 amending Regulation (EU) No 531/2012 as regards rules for wholesale roaming markets.

²¹⁹ EP Policy Department A, *ibidem*.

²²⁰ EP Policy Department A, *ibidem*.

²²¹ Proposal for a Directive establishing the European Electronic Communications Code (Recast), [Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the European Electronic Communications Code \(Recast\) COM/2016/0590 final 2016/0288 \(COD\)](#). There is a provisional agreement between Parliament and Council on final act.

²²² Policy Department for Economic, Scientific and Quality of Life Policies, *ibidem*.

Looking forward

Under the proposed Multiannual Financial Framework (MFF) for 2021–27, in order to provide adequate support for the EU's digital transformation beyond 2020, the European Commission has proposed a new funding programme called Digital Europe,²²³ with a €9.2 billion financial envelope²²⁴. Moreover, it envisages to renew the Connecting Europe Facility (CEF), a funding programme that supports the development of transport, energy and digital infrastructure, including a digital envelope of €3 billion to improve digital connectivity.²²⁵ The Horizon 2020 programme has a focus on digital-themed research. Several other funds have a focus on digitalisation of enterprises, among which the InvestEU programme²²⁶, which has a component specifically focussed on research, innovation and digitisation. Recently the European Parliament called for the InvestEU programme to contribute to decreasing the digital divide and increasing connectivity across the Union.²²⁷

²²³ European Commission, Digital Europe programme 2021–2027, [2018/0227\(COD\)](#).

²²⁴ EPRS, [Digital Europe programme](#), October 2018.

²²⁵ Connecting Europe facility 2021–2027, [2018/0228\(COD\)](#).

²²⁶ European Commission, [The InvestEU Program: Questions and Answers](#).

²²⁷ European Parliament, Report on the proposal for a regulation of the European Parliament and of the Council establishing the InvestEU Programme [P8_TA\(2019\)0026](#).

9. Cyber-security

Potential efficiency gain: €10 billion per year

Key proposition

Providing a secure cyber environment for European citizens and residents is essential not only to guarantee the unobstructed and safe participation of individuals in the digital era, but to defend EU's core democratic values and economic interests. Some 87% of Europeans see cyber-crime²²⁸ as a significant challenge²²⁹, and in 2016, 80% of European companies were hit by at least one cyber-security incident.²³⁰ The success of the digital single market, along with EU's competitiveness and attractiveness at international level, are highly dependent on the Union's capacity to secure its cyber-space. Based on existing estimates done by the European Commission, a potential efficiency gain from effective policy in this area could amount up to €10.1 billion per year. This could be achieved by updating the existing EU legal and policy framework on cyber-security. The estimate focusses on the monetised impact of Commission's proposals, supported by the European Parliament, that could enhance EU's cyberspace security and safety directly.

More detailed analysis of potential benefit

The second decade of the 21st century has been marked by the rapid expansion of cyber-space and is set to continue. It is estimated that between 2017 and 2020, more than 50 billion new devices will be connected to the Internet²³¹. Guaranteeing safety and respect of rights in this highly interconnected community of billions of users is of vital importance for the resilience of European democracies. To date, cyber-crime incidents have been increasing rapidly. According to the European Commission²³², more than 4,000 ransomware attacks now occur daily worldwide. In 2017, a single ransomware attack affected thousands of computers in more than 100 countries, including the National Health Service in the UK²³³. Cyber-security stands as EU's core mechanism of defence against the alarmingly increasing damage of cyber-crime.

²²⁸ Whereas the lines between cyber-security and cyber-crime are becoming increasingly blurred, here we adopt the terminology suggested in the [ENISA's overview](#). According to this report, cyber-security comprises all activities necessary to protect cyber-space, its users, and impacted persons from cyber-threats, while cyber-crime refers to any criminal activity facilitated by or using cyber-space.

²²⁹ Special Eurobarometer: [Europeans' attitudes towards cyber security 2017](#), European Commission, 2017.

²³⁰ [Global State of Information Security Survey](#), PWC, 2016.

²³¹ Impact Assessment accompanying the proposal for a Directive on combating fraud and counterfeiting of non-cash means of payment, [SWD\(2017\) 298](#), European Commission, September 2017, page 35.

²³² [State of the Union 2017 - Cybersecurity: Commission scales up EU's response to cyber-attacks](#).

²³³ Resolution on the fight against cybercrime ([2017/2068\(INI\)](#)), European Parliament, October 2017.

While it is impossible to make an exact calculation, the estimated economic damage from cyber-security incidents in the EU for 2013 amounted to €100 billion²³⁴. Nevertheless, due to the lack of robust and comparable data and the difficulty of capturing the impact of cyber-attacks on the economy, the latter estimate is susceptible to undermine its real effect. For instance, according to recent studies, the annual cost in the UK alone²³⁵ is €30 billion, while €57 billion is lost each year by German companies²³⁶ just from cyber-attacks.

For the purpose of this Mapping exercise, and considering the lack of comprehensive data on the subject, the scope of the analysis is determined by Commission's proposals in two key domains: (i) the fraud and counterfeiting of non-cash means of payment; and (ii) reform of the EU Cyber-security Act. Based on these two building-blocks, it is argued that a €10.1 billion potential efficiency gain could be achieved if the EU were to adopt a more harmonised and better coordinated policy framework (see table below). While this estimate may seem low, it should be noted that the indirect consequences of those measures are expected to trigger benefits of much larger magnitude on the long term.

Table 5: Estimated potential benefit related to further EU action on cyber-security (€ billion/year)

Dimension	€ billion
Non-cash payments ²³⁷	0.14
Cyber-security Act ²³⁸	10
Total:	10.14

Source: Author's own assessment.

European Parliament position

In its 2013 resolution on the cyber-security strategy of the European Union, the European Parliament noted growing cyber-security challenges and called for the development of increased cyber-

²³⁴ This estimation is based on the [McAfee & Center for Strategic and International Studies, 'Net Losses: Estimating the Global Cost of Cybercrime'](#), 2014, and the latest [Eurostat data on the GDP values](#) of Member States. Benefiting from the representative variety of Member States for which the McAfee study provides estimations, we have calculated the average cyber-crime losses as a percentage of GDP for the Member States that are not mentioned in the study (0.6%). To find the final value, we multiplied the different percentages by the GDP value of countries for 2017.

²³⁵ A Detica report in partnership with the UK Cabinet Office, [The Cost of Cyber Crime](#), page 2.

²³⁶ A McAfee report in partnership with the Centre for Strategic and International Studies, [Economic Impact of Cybercrime - No Slowing Down](#), page 21.

²³⁷ The estimation is based on the preferred option in the Impact Assessment accompanying the proposal for a directive on combating fraud and counterfeiting of non-cash means of payment, [SWD\(2017\) 298, European Commission](#) September 2017.

²³⁸ The estimation is based on the impact assessment accompanying the proposal for a regulation on ENISA and on Information and Communication Technology cyber-security certification, [SWD\(2017\) 500, European Commission](#), September 2017. We modestly assume that the potential gain from a 'reformed ENISA' could decrease the economic losses of cyber-crime in the EU by 10%, from its first year of implementation.

resilience for critical infrastructures.²³⁹ In its 2016 resolution, Towards a Digital Single Market, the Parliament called on the Commission to put in place a strong cyber-security agency to fight cyber-attacks, backed by improved resilience against cyber-attacks and an increased role for the EU Agency for Network and Information Security (ENISA).²⁴⁰

In 2017, the Parliament asked the Commission, among others, in the light of the increasing number of connected appliances, to focus on the safety of all devices and action to promote a security-by-design approach. It reminded Member States to accelerate the setting-up of computer emergency response teams to which businesses and consumers can report malicious emails and websites, as envisaged by the Directive on Security of Network and Information Systems (NIS Directive). Finally, the Parliament underlined the need to fight offences linked to sexual abuse and child exploitation more effectively.²⁴¹

European Commission response so far

The NIS Directive which was adopted in 2016 and entered into force in 2018, is the first piece of EU-wide legislation aiming to provide legal measures to increase cyber-security. In May 2017, under the Digital Single Market Strategy mid-term review, the Commission identified cyber-security threats as one of its three key priority areas for further EU action in the years to come. In September 2017, the Commission submitted the 'cyber-security package'²⁴² to the Parliament. The relevant communication builds on previous initiatives and, among other things, aims to reform ENISA²⁴³ and create a voluntary EU-wide cyber-security certification framework to increase security of products and services, as well as a blueprint for coordinated response to large scale cyber-security incidents and crises.²⁴⁴

Estimated benefit of any Commission action so far

A number of policy initiatives and regulatory instruments are already in play to address cyber-security. The Commission supports the Member States in the implementation of the NIS Directive and works with them on the strengthening of the EU Agency for cyber-security, EU certification framework and on coordinated responses to cyber-attacks. Estimates on the actions so far have not

²³⁹ Resolution on a cybersecurity strategy of the European Union: an open, safe and secure cyberspace ([2013/2606\(RSP\)](#), European Parliament, September 2013).

²⁴⁰ Resolution on Towards a Digital Single Market Act ([2015/2147\(INI\)](#)), European Parliament, January 2016.

²⁴¹ Resolution on the fight against cybercrime ([2017/2068\(INI\)](#)), European Parliament, October 2017.

²⁴² Joint Communication on [Resilience, Deterrence and Defence: Building strong cybersecurity for the EU](#)", [European Commission](#), 2018.

²⁴³ Proposal for a Regulation on ENISA, the "EU Cybersecurity Agency", and repealing Regulation (EU) 526/2013, and on Information and Communication Technology cybersecurity certification ("Cybersecurity Act"), [COM\(2017\) 477](#), European Commission, September 2017.

²⁴⁴ Proposal for a Regulation establishing the European Cybersecurity Industrial, Technology and Research Competence Centre and the Network of National Coordination Centres, [COM\(2018\) 630](#), European Commission, September 2018.

been possible yet, as the actions reformed and/or proposed by the Commission are only partly, recently or not yet implemented.²⁴⁵

Looking forward

The 'cyber-security package' proposed by the European Commission is an important step towards more security against the stability of democracies and economies. In December 2018, a provisional agreement for the regulation on ENISA, the EU Cyber-security Agency, and on information and communication technology cyber-security certification (the 'Cyber-security Act') was reached between the Council presidency and the Parliament.²⁴⁶ This agreement was approved by the committee for Industry, Research and Energy (ITRE) in January 2019 and by the Parliament in March 2019. At the time of writing, the Council's first reading position is awaited.²⁴⁷

²⁴⁵ [Building strong cybersecurity in Europe](#), Factsheet, European Commission, September 2018.

²⁴⁶ [EU to become more cyber-proof as Council backs deal on common certification and beefed-up agency](#), press release, European Council, 19 December 2018.

²⁴⁷ [JD - EU Cybersecurity Agency and the cybersecurity Act](#), legislative train, European Parliament, March 2019, and EP Legislative Observatory, Procedure file [EU Cybersecurity Agency \(ENISA\) and information and communication technology cybersecurity certification \(Cybersecurity Act\)](#), 2017/0225(COD), March 2019.

ECONOMIC AND MONETARY UNION

10. Better coordination of fiscal policy

Potential efficiency gain: €30 billion per year

Key proposition

Unless fiscal policies are effectively coordinated, there can be significant negative 'spill-over' effects between the Member States participating in Economic and Monetary Union (EMU), and across the European Union more widely. For countries sharing the same currency, there is a strong need to pursue credible and sustainable control and coordination of public finances. If budget responsibility is not ensured, some countries might engage in excessive public expenditure paths taking advantage of a crowding-out effect within the monetary union. Better ex-ante fiscal coordination should thus increase sustainability and resilience in Member States and confidence between them. It would also make solidarity easier and more efficient, should it be needed in case of a new economic and financial crisis.

While the framework for the coordination of fiscal policy has been substantially reinforced and improved after the 2008 crisis, the complexity of the current rules-based system, notably the addition of rules and exemption clauses in the Stability and Growth Pact (SGP), seems to be a challenge for its effective functioning. Moreover, the reliability and the opacity of the underlying indicators used in the framework have also been criticised. Issues linked to enforcement, in particular the institutional and the political difficulties of ensuring that coordination is effective, have not disappeared. Looking at previous analysis by the European Added Value Unit of EPRS and taking into consideration some recent estimates available from the ECB, IMF and European Commission, we conclude that the potential annual efficiency gain of improved coordination of fiscal policy within the European Union could amount to around €30 billion on an annualised basis.

More detailed analysis of potential benefits

In a monetary union with well-designed incentives and governance, countries move away from individual free-riding policies to a set of common policies that allow everyone to fully benefit from cross-border externalities. Moreover, during the recent crisis it appeared that an optimal policy coordination in the euro area would have required a differentiation of consolidation efforts depending on the fiscal space to minimise negative spill-overs. For countries sharing the same currency, there is thus a need to pursue credible and sustainable control of public finances. The challenge is to determine which level and type of instrument should be put in place to achieve such an optimal outcome.

At EU level, the European Semester provides a framework for the coordination of economic policies across the European Union. It allows EU countries to discuss their national economic and budgetary plans and monitor progress. The Macroeconomic Imbalance Procedure aims to identify, prevent and address the emergence of potentially harmful macroeconomic imbalances that could adversely affect economic stability. Finally, the SGP - reformed in 2005, in 2011 (six pack) and in 2012 (fiscal

compact) - requests Member States to coordinate their budgetary policy and to avoid excessive deficits. It aims at achieving macro-economic stability in the EU and at ensuring sound budgetary policy on a permanent basis, by specifying a series of fiscal rules. In essence, the purpose is to ensure long-term sustainability of public finances while supporting counter-cyclical fiscal policy.

Many researchers have stressed the complexity of the current arrangements²⁴⁸, with the frequent addition of rules and exemption clauses resulting in an extremely elaborate framework. In practice, this means that the effective application of the rules can be affected by optimisation behaviour by some Member States. Moreover, beyond the complexity of the current framework, its reliability has also been questioned. For instance, the computation of potential output, output gap and structural balances appear as too opaque, while also being subject to large ex-post revisions²⁴⁹. A final issue concerns the enforcement of the rules, and the related political and institutional difficulties. First, the evolving interpretation of the Pact has not been mirrored by developments in national rules, giving rise to potential inconsistencies. This has substantially complicated enforcement²⁵⁰. Second, the flexibility and need to take account of economic circumstances and specificities has often been detrimental to enforceability, with political considerations sometimes undermining better coordination of fiscal policies²⁵¹.

As a result, EU fiscal policy has not exerted any significant counter-cyclical effect. It has rather remained pro-cyclical or a-cyclical. In turn, the lack of effective resilience and confidence has not allowed for the full materialisation of the expected stabilisation in case of a severe crisis. One solution to improve the coordination of fiscal policy would be to have a common stabilisation tool. Many proposals have been made,²⁵² such as a common unemployment insurance scheme (see below). Here, however, we look at the potential benefits that could be obtained by improving the current framework used for the coordination of fiscal policy.

Regarding a sustainable fiscal policy, there is still disagreement amongst economists on a threshold from which the level of debt starts to be a drag on growth. However, evidence underpins the importance of reducing public debt to restore fiscal sustainability and support stronger fundamentals. In particular, recent research confirms that Member States displaying high debt levels are more heavily affected by output losses in a crisis, are adversely affected in terms of potential growth rates, have less scope for counter-cyclical fiscal policy, and are more affected by spill-over effects²⁵³. Building upon this analytical framework, an IMF study has estimated the size of the potential spill-over effects from a better coordination of fiscal policies to be around 0.25 per cent of

²⁴⁸ T Wieser, Fiscal rules and the role of the Commission, VoxEU.org, 21 May 2018; A Bénassy-Quéré et al. Reconciling risk sharing with market discipline: a constructive approach to euro area reform, CEPR Policy Insight 91, 2018.

²⁴⁹ Z Darvas, P Martin and X Ragot, European fiscal rules require a major overhaul, Notes du conseil d'analyse économique 47, 2018.

²⁵⁰ S Deroose et al, EU fiscal rules: Root causes of its complexity, VoxEU.org, September 2018.

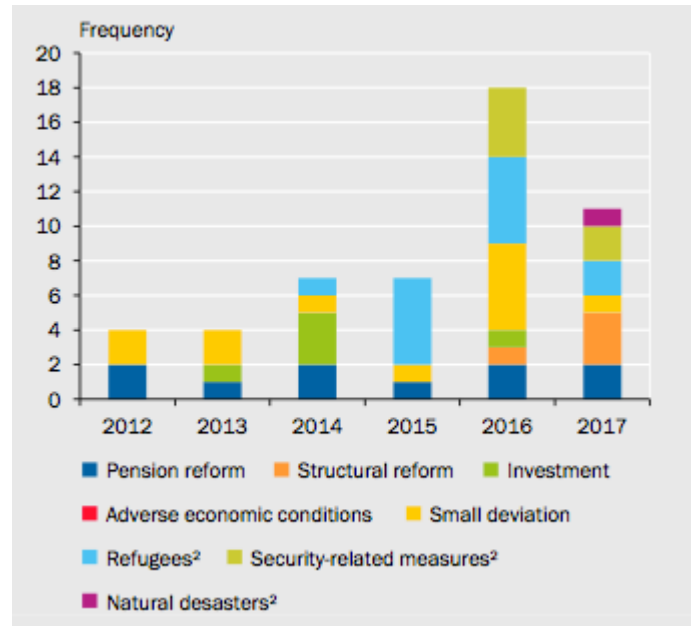
²⁵¹ C Wyploz, The Eurozone crisis: A near-perfect case of mismanagement. *Economia Marche Journal of Applied Economics*, XXXIII (1), 2014.

²⁵² See for instance ESM-ECFIN-GCEE. Enhancing fiscal integration in the EMU? Discussion paper 082, July 2018, and N Carnot et al. Fiscal stabilisation in the Euro-Area: a simulation exercise, CEB working paper 17/025, October 2017.

²⁵³ C Checherita-Westphal, P Jacquinot, Economic consequences of high public debt and lessons learned from past episodes, ECFIN workshop, Brussels, January 2018.

GDP²⁵⁴. For the EU as a whole, this would imply a potential total benefit of some €37.5 billion per year. Research undertaken by the European Added Value Unit of EPRS in 2014-15 looked at the potential impact of better ex-ante coordination of fiscal policies under various crisis scenarios and time-frames, and estimated the potential benefit to be between €7 and €71 billion per year²⁵⁵.

Figure 5: Application of the exemption clause in the SGP since 2012



Source: L Feld et al., Refocusing the European fiscal framework, September 2018.

More recent estimates by the European Central Bank and European Commission²⁵⁶, using advanced modelling tools, have found potential positive spill-over effects of around 0.2% to 0.3% of GDP, representing between €30 and €45 billion per year. Based upon these results, and taking a cautious approach, we conclude that the potential annual efficiency gain of improved coordination of fiscal policy within the European Union could amount to around €30 billion on an annualised basis.

European Parliament position

The European Parliament has stressed that in a genuine EMU, better and effective ex-ante fiscal coordination should be the rule. It believes that an integrated fiscal framework is an essential part of a genuine EMU - based on a functioning 'six-pack' and 'two-pack', a fiscal compact under the Community method, and a European budget funded by own resources, accompanied by better practices in taxation. The Parliament has called for the existing framework for economic governance of the euro area to be further strengthened by ensuring greater ex-ante coordination of reform

²⁵⁴ A Ivanova, S Weber. [Do fiscal spillovers matter?](#), International Monetary Fund (IMF) Working Paper, 2011.

²⁵⁵ Mapping the Cost-of-Non-Europe, 2014-2019, EPRS, April 2015; The economic potential of the ten-point Juncker Plan for growth without debt, EPRS, November 2014.

²⁵⁶ K Bankowski, M Ferdinandsusse, Euro area fiscal stance, European Central Bank occasional paper serie 182, January 2017; J in 't Veld, Fiscal consolidations and spillovers in the Euro area periphery and core, European Commission Economic Papers 506, October 2013; C Checherita-Westphal, P Jacquinot, 2018, op. cit.

projects and by introducing Convergence and Competitiveness Instruments (CCI). Ex-ante co-ordination needs to be combined with incentives for the implementation of national reform measures. The EP has also pointed out that responsibility requires more democratic control and accountability and that EMU must be developed under close parliamentary oversight, which also implies the integration into the Community framework of intergovernmental arrangements adopted by the European Council and Member States to respond to the sovereign debt crisis.²⁵⁷

Commission and Council responses so far

A 2015 Commission Communication²⁵⁸ included a proposal for a Commission decision establishing an independent advisory European Fiscal Board to provide advice and evaluation on the overall direction of fiscal policy in the euro area. The Communication also contained proposals to revamp the European Semester process, for improving transparency, and to reduce the complexity of the EU fiscal rules. In December 2017, the Commission presented a package of initiatives and a roadmap to complete Europe's Economic and Monetary Union.²⁵⁹ The initiative put forward a concrete proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework, taking into account the appropriate flexibility built into the Stability and Growth Pact. It proposed a European Investment Stabilisation Function to help stabilise public investment levels and facilitate rapid economic recovery in cases of large asymmetric shocks. The package also included a proposal to double the financial envelope of the Structural Reform Support Programme, a Communication spelling out ideas for a new dedicated euro area budget line within the EU budget, and a Communication on establishing a European Minister of Economy and Finance.

The 2017 Euro Summit discussed the future of the EMU, in particular further developing the European Stability Mechanism, possibly to become a European Monetary Fund. In March 2018, the leaders of the euro area countries further discussed potential long-term reforms of the EMU, including the creation of a fiscal capacity for the euro area.

In December 2018²⁶⁰, EU leaders gave a mandate to the Eurogroup for further work on a budgetary instrument for convergence and competitiveness for the euro area, in the context of the new Multiannual Financial Framework (MFF) for 2021-27.

²⁵⁷ European Parliament resolution of 17 December 2015 on completing Europe's Economic and Monetary Union ([2015/2936\(RSP\)](#)).

²⁵⁸ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Steps towards completing Economic and Monetary Union, [COM\(2015\)600](#), October 2015.

²⁵⁹ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Further steps towards completing the Economic and Monetary Union - COM(2017)821, December 2017.

²⁶⁰ Euro Summit meeting – Statement, (EURO 503/18), 14 December 2018.

11. Completing Banking Union

Potential efficiency gain: €75 billion per year

Key proposition

The purpose of the EU Banking Union is to safeguard overall financial stability in Europe and to improve the functioning of financial markets. In particular, it aims to build a more resilient banking system and to break the vicious circle between banks and sovereign lenders which characterised the most recent economic and financial crisis. This would help to ensure that taxpayers are not first in line to bail out ailing banks. A more stable and sustainable banking sector will offer greater financing opportunities for companies and better growth prospects overall. Substantial progress has already been made in ensuring that an effective European Banking Union is in place, notably regarding common regulatory rules, single supervision and resolution, but important work remains to be done to tackle some underlying issues.

First, the harmonisation of national supervisory law sometimes remains partial and some unjustified differences persist between Member States. This fragmentation is not conducive to a level playing-field in the banking sector and it hampers the move towards a more efficient functioning of the sector generally. Second, despite progress made, high levels of non-performing loans (NPLs) are still present in some parts of the banking system. Third, the risks linked to the interconnection between banks and their national sovereign governments have not disappeared. Ensuring that banks further diversify their investments 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.

Research carried out by the European Added Value Unit of EPRS has estimated that the potential annualised cost of not having a fully effective Banking Union has been in the order of €100 billion per year.²⁶¹ Taking into consideration other estimates available and given that significant measures have now been taken to put Banking Union in place - notably single supervisory and resolution mechanisms - and that major gaps in the system remain, it appears reasonable to assume that some €75 billion of potential gains are still to be realised in this field.

More detailed analysis of potential benefits

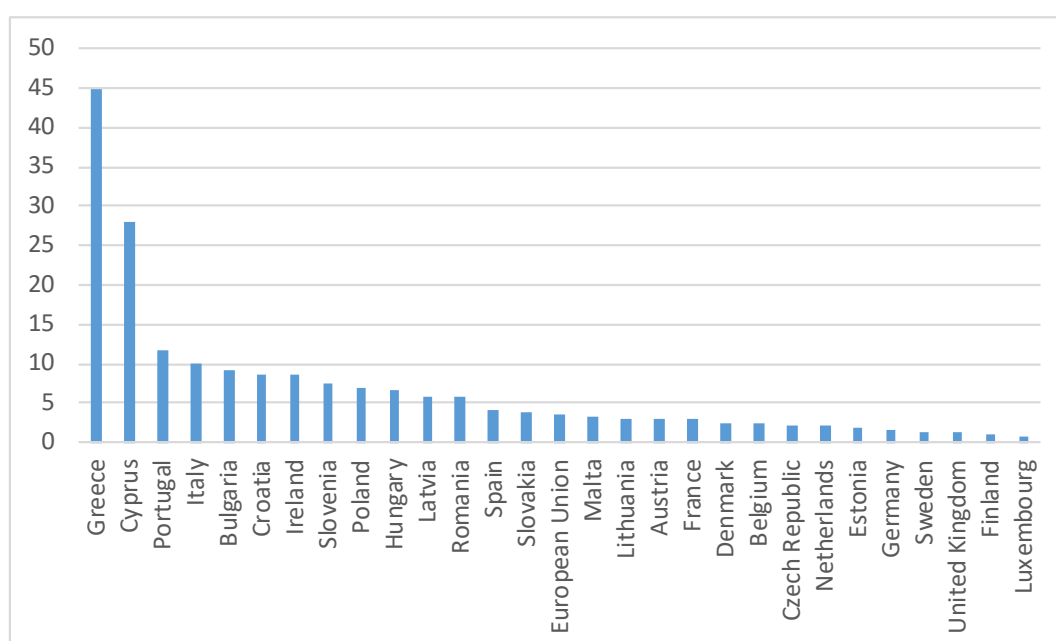
The financial and sovereign debt crises revealed the existence of excessive links between national banking sectors and their sovereign governments. The aftermath of the crisis also showed that the fragmented European economic and financial framework was not sufficiently strong to prevent the pursuit of unsustainable policies or to allow for effective correction at Member-State level. The Banking Union, drawing on policies advocated by the European Parliament, aims to safeguard financial stability in Europe, breaking in particular the vicious circle between banks and sovereign

²⁶¹ European Commission Staff Working Document, Economic Review of the Financial Regulation Agenda, SWD (2014) 158, May 2014. The results are based on simplified models that seek to capture the macro-economic impacts of selected banking reforms, namely higher capital requirements (as per CRD IV package) and bail-in and resolution financing arrangements (as per BRRD). The results also take into account the macroeconomic costs of the same banking reforms estimated in a separate model.

borrowing costs. It also contributes to reducing the current fragmentation of European financial markets, by promoting a single framework for supervision, prevention and resolution. Resting on the foundations of the single rulebook, two key building-blocks of an effective Banking Union - the single supervisory mechanism (SSM) and the single resolution mechanism (SRM) – are now in place.

A common backstop to the EU's Single Resolution Fund (SRF) is currently being discussed. A common system for deposit protection has also been proposed (see section below). Despite the impressive progress made in a relatively short period, there is further room for improvement. On the regulatory side, slow harmonisation still contributes to the fragmentation of the banking market. This is even more challenging as banks are increasingly highly interconnected with non-banks at a global level. Legacy issues related to the risks accumulated before the development of Banking Union are still present in banks' balance sheets. In particular, there is a need to decisively continue to reduce the high level of NPLs in parts of the banking sector²⁶².

**Figure 6: Gross non-performing loans and advances
(percentage of total gross loans and advances - 2018 Q2)**



Source: European Central Bank, Consolidated Banking Data. Calculations by Commission (DG FISMA).

In addition, debt restructuring, insolvency and debt recovery processes remain too slow and unpredictable in some cases²⁶³. Finally, very little progress has been made in severing the link between banks and sovereigns. Recent experience confirms that when sovereign spreads increase in a given country, all banks in that jurisdiction are affected, regardless of their individual characteristics. These remaining issues have contributed to slowing down cross-border banking

²⁶² NPLs and advances still represented a total of €657 billion on banks' balance sheets in Q2 2018. European Central Bank, Supervisory Banking Statistics, [Second quarter 2018](#), October 2018.

²⁶³ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Third Progress Report on the reduction of non-performing loans and further risk reduction in the Banking Union, [COM\(2018\)766](#), November 2018.

consolidation and they are encouraging 'ring-fencing' behaviour. In practice, this also means that European banks have not been able to fully develop euro-area wide platforms to compete effectively with global players.

The loss in potential output from the recent crisis was very substantial - estimated by the OECD at about 5.5 per cent of GDP for the countries which experienced a banking crisis over the period 2007-2011. The loss also varies widely, being more than 10 per cent for several euro-area countries²⁶⁴. Furthermore, more than 12 per cent of EU GDP was used to prevent the collapse of the financial system²⁶⁵. Effective measures put in place at all levels to avert or attenuate the recurrence of any such crisis can thus bring very considerable welfare gains in the future. A 2015 study by the European Commission²⁶⁶ assessed the potential economic impact associated with the recent financial crisis in the euro-area, had Banking Union been in place at the time. The paper found that, with such policies, GDP losses could have been reduced by 30 to 40 per cent in the periphery of the euro-area, and by 10 to 40 per cent in the euro-area as whole, depending on which resolution mechanisms had been in place.

An initial study by the European Added Value Unit of EPRS in 2012, assuming various intervention scenarios and time-frames, estimated the potential cost to be in a range between €35 billion and €130 billion per year²⁶⁷. Two more detailed studies by the same unit in 2015²⁶⁸ assessed the potential costs of different shocks under various scenarios regarding the implementation of the Banking Union's resolution pillar. This showed that the potential annualised cost of not having an effective Banking Union would be around €100 billion. Simulations by the European Commission²⁶⁹ concluded that initial reforms in the banking sector could deliver net macro-economic gains of between €37 billion to €100 billion per year, not counting other reforms that enhance the stability of the financial sector. More recently, a study by the European Central Bank in 2018²⁷⁰ stressed the strengthening of banks' loss-absorbing capacity and the effects of some of the risk-reducing measures that have already been implemented. Taking these results into consideration, it appears reasonable to assume that some €75 billion of potential gains are still to be realised in this field.

²⁶⁴ Median values. See P. Ollivaud and D. Turner, [The effect of the global financial crisis on OECD potential output](#). OECD Journal: Economic Studies, 2015.

²⁶⁵ European Commission, [State Aid Scoreboard, 2017](#).

²⁶⁶ F. Breuss, W. Roeger, J in 't Veld, [The stabilising properties of a European Banking Union in case of financial shocks in the euro-area](#). Economic and Financial Affairs DG Economic Papers 550, June 2015.

²⁶⁷ G. Stull [Towards a Genuine Economic and Monetary Union: European Added Value Dimensions](#), EPRS, October 2012.

²⁶⁸ G. Giraud, 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.

²⁶⁹ European Commission Staff Working Document, Economic Review of the Financial Regulation Agenda, [SWD\(2014\) 158](#), May 2014. The results are based on simplified models that seek to capture the macro-economic impacts of selected banking reforms, namely higher capital requirements (as per CRD IV package) and bail-in and resolution financing arrangements (as per BRRD). The results also take into account the macroeconomic costs of the same banking reforms estimated in a separate model.

²⁷⁰ European Central Bank, [Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation?](#) Occasional Paper Series 208, April 2018.

European Parliament position

In its annual reports on the Banking Union in 2016²⁷¹ and in 2017²⁷², the European Parliament has welcomed the progress made in improving banking supervision and resolution. It acknowledges that the new Banking Union now plays a key role for the financial stability of the euro-area and is an indispensable component of a genuine Economic and Monetary Union, but that it also needs to be reinforced and completed. It recalls that the objective of the EU resolution regime is to make sure that taxpayers are protected, that the cost of bank management failures is borne by its shareholders and creditors, and that the stability of the financial system as a whole is preserved. The Parliament expressed its concerns regarding the high level of NPLs, called for improved cooperation between supervisory and resolution authorities, and recommended that the Commission assist Member States in the establishment of dedicated asset management companies and of enhanced supervision, and has called on Member States to improve their relevant domestic legislation.

European Commission and Council responses so far

In June 2016, the Council Roadmap to complete Banking Union²⁷³ highlighted further steps that should be taken in terms of reducing and sharing risks in the financial sector. In November 2016, the Commission presented a number of legislative proposals aimed at reducing the risks in the banking sector ('Banking package' or 'Risk Reduction Measures package').²⁷⁴ In a communication in October 2017²⁷⁵, the Commission reaffirmed that Banking Union should be completed by achieving risk-reduction and risk-sharing in parallel, based on the Council's 2016 Roadmap. The Communication identified a number of relevant risk-reduction measures to reach that goal. In December 2017, the Commission published a roadmap on further steps towards completing Economic and Monetary Union, including a proposal for a Council Regulation on the establishment of a European Monetary Fund²⁷⁶ that should act as a backstop for the SRF in case the latter's immediately available resources for capital or liquidity purposes would deplete. In March 2018, the Commission proposed a package of measures to address NPLs.²⁷⁷ In May 2018, the Commission made a proposal on sovereign bond-backed securities (SBBS),²⁷⁸ which provides an enabling regulatory framework for the development

²⁷¹ European Parliament resolution of 15 February 2017 on Banking Union – Annual Report 2016, ([2016/2247\(INI\)](#)).

²⁷² European Parliament resolution of 1 March 2018 on Banking Union – Annual Report 2017, ([2017/2072\(INI\)](#)).

²⁷³ Council Conclusions on a roadmap to complete the Banking Union, (353/16), 17 June 2016.

²⁷⁴ European Commission, Press release, EU Banking Reform: Strong banks to support growth and restore confidence, November 2016.

²⁷⁵ Communication from the Commission to the European Parliament, the Council and the Committee of the Regions. Completing the Banking Union, [COM\(2017\)592](#), October 2017.

²⁷⁶ European Commission, Proposal for a Council Regulation on the establishment of the European Monetary Fund, [COM\(2017\)827](#), December 2017.

²⁷⁷ European Commission, Press release, Reducing Risk in the Banking Union: Commission presents measures to accelerate the reduction of non-performing loans in the banking sector, March 2018.

²⁷⁸ European Commission, Proposal for a Regulation of the European Parliament and of the Council on sovereign bond-backed securities, [COM\(2018\)339](#), May 2018.

of SBBSs without changing the regulatory treatment of sovereign bonds. In December 2018, the Council endorsed a package of measures to reduce risk ('banking package') in the banking industry.

12. Common deposit guarantee scheme

Potential efficiency gain: €5 billion per year

Key proposition

A common deposit guarantee scheme (DGS), now taking the form of a proposed European Deposit Insurance Scheme (EDIS), would provide a stronger and more uniform degree of insurance cover in the euro area. 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 also contribute to weaken the link between banks and their national sovereigns. An effective common DGS would thus constitute an additional pillar of the Banking Union alongside bank supervision and bank resolution.

This discussion raises the question of determining to what extent there is a need to ensure that banks are sufficiently robust on a standalone basis (risk reducing), before sharing the potential burden of bank failures (risk sharing). Several additional challenging issues have also been highlighted, such as the optimal size and the final design of the system (re-insurance, co-insurance or full insurance), the link with other instruments already in place, the potential heterogeneous degrees of moral hazard present in the national banking systems.

Research commissioned by the European Added Value Unit of EPRS in 2014 estimated the potential cost of not having a common DGS at €64 billion in the event of a new financial crisis, and €32 billion in the event of a new sovereign debt crisis.²⁷⁹ Although both scenarios are non-continuous by nature, a mid-range value of €48 billion was retained for this assessment. As in the case of the Banking Union, and following the recent historical trend of financial or banking crises that affect the European economy occurring at roughly decade-long intervals, it was calculated that the annual cost of not having a common deposit guarantee system was broadly equivalent to dividing the anticipated one-off loss by 10, and so represents a cost of some €5 billion on an annualised basis.²⁸⁰ This figure takes into account the potential reduced flight of deposits from EU banks in the case of a severe sovereign or financial crisis. A common DGS in conjunction with a completed Banking Union and a more integrated capital market might also contribute to improved resilience, financial integration and potential efficiency in the banking sector²⁸¹.

More detailed analysis of potential benefits

DGSs are particularly important in Banking Union, given that households have about 30 per cent 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

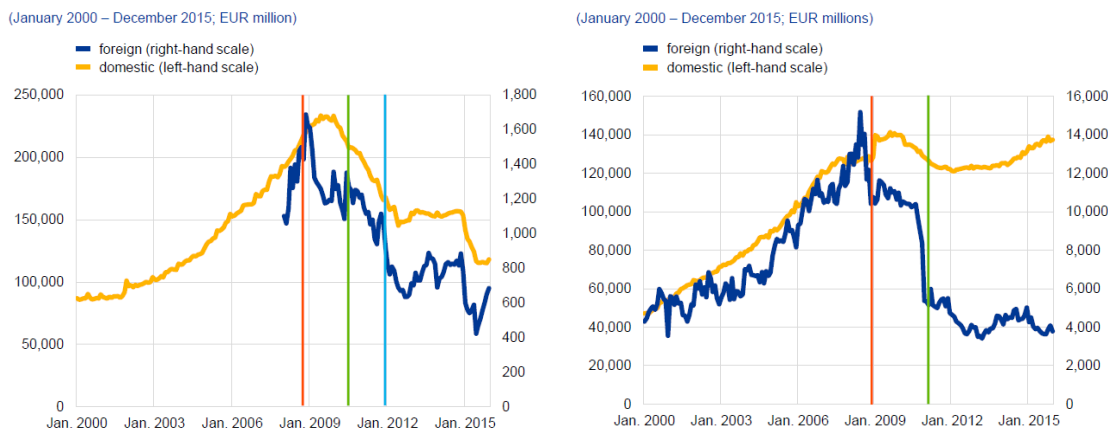
²⁷⁹ Mapping the Cost-of-Non-Europe 2014-2019, European Added Value Unit, EPRS, European Parliament, April 2015.

²⁸⁰ The Cost of Non-Europe of an incomplete EMU to prevent future crises, EPRS, European Parliament, December 2014, p.4.

²⁸¹ J. Carmassi, J. Evrard, L. Parisi, M. Wedow, Refocusing the debate on risk sharing under a European Deposit Insurance Scheme, VoxEu.org, May 2018.

Banking Union²⁸². While national DGSs are already in place and provide protection for covered deposit up to €100,000²⁸³, they are not backed by a common European scheme. According to the European Central Bank (ECB)²⁸⁴, without an effective EDIS, the Banking Union may thus still be vulnerable to future crises.

Figure 7: Deposits in Greece and Ireland of euro-area households and non-financial corporations, 2000-15



Source: Financial Integration in Europe 2016, ECB.

The primary purpose of EDIS is to strengthen the protection of bank depositors across the Banking Union. The financial disparity across national DGSs may indeed create adverse incentives, contributing to market fragmentation²⁸⁵. Notably, the banks' ability and willingness to expand to other Member States could be affected. In addition, in times of crisis, deposits from foreign residents tend to leave Member States with a less favourable fiscal position and to accumulate in Member States with a more favourable fiscal position. Data on deposits of households and non-financial corporations confirm that uneven levels of confidence in national DGSs and their backstops indeed play a relevant role in driving deposit inflows and outflows (see figure 7).

Moreover, an EDIS would reduce depositors' vulnerability to large local shocks for which national DGSs have more limited financial means. National DGSs can only meet a limited amount of disbursement requests, and in the case of a large crisis other options have to be explored, including the possible use of a public backstop. Furthermore, the harmonisation of national schemes alone seems insufficient to break the link between banks and their respective sovereigns as the effectiveness in protecting deposits remains connected to the credit-worthiness of the latter. By

²⁸² European Central Bank, European institutional reform – establishing a European Deposit Insurance Scheme, Financial Integration in Europe report, April 2016.

²⁸³ The Directive on Deposit Guarantee Schemes 2014/49/EU (DGSD) of 16 April 2014 amends previous legislation of 1994, and harmonises the rules governing deposit-guarantee schemes in all EU Member States: It ensures that deposits continue to be guaranteed in the amount of up to €100 000 per depositor and bank.

²⁸⁴ European Central Bank, Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation? Occasional Paper Series 208, April 2018.

²⁸⁵ R Cerrone, Deposit guarantee reform in Europe: does European deposit insurance scheme increase banking stability? Journal of Economic Policy Reform, 21:3, 224-239, 2018.

reducing the link between banks and their home sovereign and the bias towards domestic bonds, an EDIS would thus also increase the resilience of the Banking Union²⁸⁶.

A well-designed EDIS would reduce the need for government intervention through the bundling of funds within the euro area 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 across the euro area. Cross-border bank mergers could also be encouraged under such a scheme. Total benefits for the euro area as a whole, as well as for individual savers in euro area countries, could thus prove to be substantial.

Initial appraisals looking at the persisting disruption in the credit market engendered by not having a common EU deposit guarantee scheme in place following an economic crisis and, assuming various potential intervention scenarios and time frames, estimated the potential cost for the euro area to be between €12 and €35 billion per year²⁸⁷. Further estimates, based on previous EPRS research, concluded that the average annual cost of not having a common EU deposit guarantee scheme was around €5 billion on an annualised basis²⁸⁸. This figure takes into account the potential reduced flight of deposits from EU banks in the case of a severe sovereign or financial crisis. An EDIS in conjunction with an effective Banking Union might also contribute to improved resilience, financial integration and potential efficiency in the banking sector.

European Parliament position

The European Parliament has welcomed the Commission intention to create a reinsurance mechanism at EU level, to require further measures to achieve a substantial reduction of risks in the European banking system and to ensure a level playing-field in the Banking Union²⁸⁹. In November 2016²⁹⁰, the Parliament emphasised a gradual approach under which national compartments of EDIS would intervene first, and the European fund would only step in as a second line of defence²⁹¹. It also stressed the issue for the functioning of EDIS of the interaction with the new requirement for total loss-absorbing capacity (TLAC) and the new minimum requirement for own funds and eligible liabilities (MREL). Both will play a loss-absorbing function which, in principle, could shield the EDIS from losses related to resolution and already enhance the resilience of the banking system in general. The European Parliament's 2018 annual report on the Banking Union²⁹² took note of the agreement in principle reached at the Euro Summit meeting in June 2018 on the EDIS. It also

²⁸⁶ A Bénassy-Quéré et al, Reconciling risk sharing with market discipline: A constructive approach to euro area reform. CEPR, policy insight 91, January 2018.

²⁸⁷ G Stull, Towards a Genuine Economic and Monetary Union: European Added Value Dimensions, EPRS, October 2012; M-C Frunza, The Cost-of-Non-Europe of an incomplete EMU to prevent future crises, EPRS, December 2014.

²⁸⁸ European Added Value Unit, EPRS, European Parliament, April 2015. op. cit.

²⁸⁹ European Parliament resolution of 10 March 2016 on the Banking Union: Annual Report 2015 (2015/2221(INI)).

²⁹⁰ European Parliament, Committee on Economic and Monetary Affairs working document on European Deposit Insurance Scheme (EDIS), 2015/0270 (COD).

²⁹¹ European Parliament, Committee on Economic and Monetary Affairs, draft report (4.11.2016) on the Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme, 2015/0270 (COD).

²⁹² European Parliament, Draft resolution on the Banking Union: Annual Report 2018, (2018/2100(INI)).

underlined the necessity of EDIS as the third pillar of the Banking Union and stressed that it should be fully implemented once significant risk reduction has taken place.

European Commission and Council responses so far

In November 2015, the European Commission published a proposal to establish a European Deposit Insurance Scheme (EDIS)²⁹³. The proposal provides for the creation of a Deposit Insurance Fund (DIF) with a target size of 0.8% of covered deposits in the euro area and the progressive mutualisation of its resources until a fully-fledged scheme is introduced over time and in three stages by 2024.

The Council roadmap to complete Banking Union adopted in June 2016²⁹⁴ associated further progress on EDIS with enhanced risk reduction measures. In October 2017, the European Commission published a communication on the completion of Banking Union, including a proposed more gradual approach on EDIS²⁹⁵. In particular, the Commission suggested that the DIF could provide only liquidity assistance but no loss absorption in the first stage; there would be a conditionality test before the EDIS moved to the co-insurance phase; and there would be no full mutualisation after seven years. In the ECOFIN Council of June 2018, EU finance ministers took note of progress on the proposal for EDIS. A six-monthly progress report²⁹⁶ summarised work within the Council's working group on EDIS, on reducing risk and on a list of indicators to assess progress in that matter and other measures related to the Banking Union.

Estimated benefit of any Commission action so far

A paper by the European Commission²⁹⁷ analysed the effects of three options for the set up of deposit insurance within the Banking Union. The result stressed that, in each case, pooling risk delivers a significantly stronger deposit guarantee system than a system of purely national schemes with voluntary lending. The expected shortfall of a single scheme is also lower than that of multiple national schemes. Finally, the mutualised fund performs better than the mandatory re-insurance and lending schemes in all the simulations, both in providing liquidity and absorbing losses.

²⁹³ European Commission, Proposal of 24 November 2015 for a regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme (EDIS), COM (2015) 0586.

²⁹⁴ Council, Conclusions on a roadmap to complete the Banking Union, (353/16), 17 June 2016.

²⁹⁵ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Completing the Banking Union, COM (2017) 592, October 2017.

²⁹⁶ Council of the EU (ECOFIN), European Deposit Insurance Scheme - Progress report, ST (10217/18).

²⁹⁷ Effects analysis on the European Deposit Insurance Scheme. Non-paper from the Commission services, October 2016.

13. Common unemployment insurance scheme

Potential efficiency gain: €17 billion per year

Key proposition

The uneven impact of the recent economic and financial crisis between Member States, exacerbated by the need to pursue budgetary discipline in many Member States and helped generate rising inequality. These pressures impact not only those Member States directly affected, but spill over on to those more resistant to the effects of the crisis, through reduced aggregate demand, eroded confidence, and contagion via the financial markets. The consequence is that divergences and spill-over effects may threaten some of the core objectives of European Monetary Union (EMU).

Against this background, a common European unemployment insurance scheme (CUIS) has been considered as one potential response to EMU's lack of stabilisation instruments. First mentioned in the 2012 Four Presidents' Report, 'Towards a genuine EMU',²⁹⁸ an insurance system of this kind, set up at Union level, would have the advantage of improving the absorption of country-specific shocks. The European Commission's reflection paper on the deepening of EMU²⁹⁹ also mentions the re-insurance system as a possible additional supranational macro-economic stabilisation tool.

A Cost of Non-Europe Report undertaken by the European Added Value Unit of EPRS for the Parliament's Committee on Employment and Social Affairs (EMPL) in 2014 suggests that a common unemployment insurance scheme would have stabilised household incomes by a considerable degree and attenuated the GDP loss in the worst affected euro-area Member States by €71 billion over four years, equivalent to approximately €17 billion in any one year.³⁰⁰

More detailed analysis of potential benefits

The creation of a common unemployment insurance (or reinsurance) scheme (CUIS) for the euro area could act as an automatic stabiliser during any future serious economic downturns. Unemployment benefits are counter-cyclical and very responsive to shocks; their multiplier effect is estimated to be high, even if estimates of that effect vary across the economic literature.

A number of benefits can be expected from such a scheme, once certain conditions are met, such as the fact that it would only fund short-term unemployment and be limited in time, to avoid permanent financial transfers to certain Member States. Under these conditions, a scheme would *inter alia* limit severe economic crisis, through its stabilising effect on disposable income and hence private consumption and aggregate demand, and ensure a well-targetted stimulus, because the insurance scheme would intervene in areas where unemployment rates were higher. It would

²⁹⁸ [Towards a genuine economic and monetary union](#), Four Presidents' Report, 2012.

²⁹⁹ [Reflection paper on the deepening of the economic and monetary union](#), European Commission, 2017.

³⁰⁰ M Del Monte and T Zandstra, [Common unemployment insurance scheme for the euro area: Cost of Non-Europe](#), EPRS, European Parliament, September 2014. For instance, in the Spanish case, the net inflow, multiplied by the fiscal multipliers, generates an additional output equal to between €13 and 19 billion every year, starting from 2009.

reduce the pressure for using social policies as a variable of fiscal adjustment and avoid the 'race to the bottom' in welfare provision in periods of crisis.

The Cost of Non-Europe Report referred to above presents a range of estimates for the stabilisation effects of an EU unemployment scheme for national episodes of major shocks sufficient to trigger assistance from a central fund. The stabilisation effects are measured by combining the net inflow coming from the unemployment insurance scheme with a multiplier, on the basis that public expenditure generates an input to growth higher than the expenditure itself.³⁰¹ The six countries that suffered most during the 2008 recession were examined³⁰².

Concerning the funding of the central scheme, two main options were considered. The first variant would be a scheme where the necessary revenue would be generated through a dedicated tax on consumption or labour. In the second variant, revenue would be collected via a contribution from national governments not directly linked to a specific tax.

In 2008, Zandi³⁰³ calculated that in the United States, a one dollar increase in unemployment benefits could generate an estimated \$1.64 in near-term GDP. In 2010, Vroman³⁰⁴ considered this impact to be larger, estimating that every dollar spent on unemployment insurance would increase economic activity by \$2. Monacelli *et al*³⁰⁵ confirmed that 'in response to an increase in government spending normalized to 1% of GDP, ... an output multiplier well above one, in the range of 1.2 to 1.5 (at one-year and two- year horizon respectively) could be expected.

A 2012 study by Dullien³⁰⁶ suggested that a common insurance scheme would have reduced economic fluctuations. For instance, in Spain, the fourth largest economy in the zone, such a fund could have mitigated the downturn by almost 25 %.³⁰⁷ If so, the cost of the crisis in Spain would have been reduced by approximately €11 billion. Stabilisation of at least 10 % would also have occurred in Ireland and Greece, potentially resulting in a reduction of the cost of the crisis there of €1.6 and 2.3 billion respectively. These savings total €15 billion.

In 2014, a Bertelsmann Stiftung study, also by Dullien, argued that, while the positive impact of an unemployment scheme will differ widely between countries, for serious down-turns, the stabilisation impact of a euro-area unemployment insurance scheme would have been sizeable in a relatively large number of countries³⁰⁸.

³⁰¹ This multiplier varies with the type of expenditure, as well as according to the characteristics of the economy. Within the context of EPRS's own assessment, a multiplier of 1.5 was considered as a cautious estimation. By comparison, estimates for the US vary between USD 0.7 and 3.0 for every dollar spent on unemployment insurance.

³⁰² Estonia, Greece, Ireland, Latvia, Lithuania and Spain.

³⁰³ M M Zandi, *Assessing the Macroeconomic impact of Fiscal Stimulus*, 2008.

³⁰⁴ W Vroman, *The role of Unemployment insurance as an Automatic Stabilizer during a recession*, The Urban Institute, Impact International, July 2010.

³⁰⁵ Monacelli et al, *Unemployment fiscal multipliers*, *Journal of Monetary Economics*, 18 May 2010.

³⁰⁶ S Dullien and F Fichtner, '[A common unemployment insurance system for the euro area](#)', *DIW Economic*, Vol. 1, 2013.

³⁰⁷ Data source: www.tradingeconomics.com.

³⁰⁸ S. Dullien, *A European Unemployment Benefit Scheme, how to provide for more stability in the Euro Zone*, Bertelsmann Stiftung, 2014.

A 2016 study from the French Council of Economic Analysis recommends moving towards a European unemployment (re)insurance scheme for large shocks. This European system would be based on automatic stabilisers and involve conditionality when activated.

A synthesis report on the 'Feasibility and Added Value of a European Unemployment Benefit Scheme' (EUBS), was published by the Centre for European Policy Studies (CEPS) in 2017.³⁰⁹ Such a scheme would be beneficial as an automatic stabilisation mechanism for EMU (complementing existing instruments), even though the macroeconomic stabilisation impact of the EUBS might be limited (depending on the characteristics of the scheme finally implemented).

Moreover, the EUBS would have a number of other advantages such as the reduction of unemployment and most likely the boost of labour mobility by making benefits portable. It could also enhance the protection of people facing a high risk of poverty and therefore strengthen the social dimension of EMU and support social cohesion. The analysis estimates the costs of such system (under four shock scenarios) to amount to between 0.6 and 0.8 % of the GDP of participating countries per year, with an estimated stabilisation effect of 20 %.

European Parliament position

The European Parliament considers that ensuring unemployment compensation during a downturn has significant macro-economic stabilisation potential, as demonstrated by experience in the EU and the US. A second important benefit is that this type of expenditure goes where it is most needed: to support the consumption capacity of households whose labour income has suddenly reduced, mitigating the otherwise inevitable fall in demand among households. It gives the economies affected greater fiscal space to implement structural reforms and invest where it is needed for long-term sustainable recover. The Parliament has called for concrete steps in terms of building a genuine social and employment pillar as part of EMU, in particular by ensuring that the flexibility of the labour market is balanced by adequate levels of social protection.

In its resolution of February 2017 on the budgetary capacity for the euro area³¹⁰, the Parliament expressed the view that an EMU-wide basic unemployment benefit scheme would directly participate in stabilising household income. Under such a system, a certain share of contributions to unemployment insurance would be paid to a European fund, which would provide basic unemployment insurance for the short-term unemployed. Thereby, a direct link between the European institutions and the citizens could be established. The scheme could enhance the macro-economic convergence of the euro area and accelerate the integration of the labour market, thus in turn incentivising labour and wage mobility. Along the lines of the above-mentioned CEPS study, the resolution also underlines that the implementation of an EU-wide unemployment scheme would require a high degree of policy harmonisation of labour market rules.

³⁰⁹ M Beblavý and K Lenaerts, [Feasibility and Added Value of a European Unemployment Benefits Scheme](#), Centre for European Policy Studies, 2017.

³¹⁰ European Parliament resolution of 16 February 2017 on the budgetary capacity for the euro area ([2015/2344\(INI\)](#)).

European Commission and Council responses so far

The Four Presidents' Report³¹¹ of December 2012 called for an insurance system that would help Member States deal with some macroeconomic shocks without generating permanent net transfers. At the same time, the European Council agreed on a road map for the completion of EMU, in which the social dimension is included.

In May 2018, the Commission presented (within the MFF) a regulation on the establishment of a European Investment Stabilisation Function (EISF). This regulation foresees support for Member States hit by an asymmetric shock/increase of the unemployment rate.³¹²

In June 2018, France and Germany decided to examine the issue of a European Unemployment Stabilisation Fund, for the case of severe economic crises, without transfers. They will set up a working group with a view to making concrete proposals by the European Council of December 2018.³¹³

The European Commission's 2017 communication on the European pillar of social rights,³¹⁴ did not refer to the European unemployment benefit scheme, but mentioned, among 20 key principles, the right to unemployment benefit.³¹⁵ The Commission claimed that the Treaties in their current form do not provide a legal basis for tabling a legislative proposal for establishing a European unemployment scheme or other similar macroeconomic stabilisation systems.

³¹¹ [Towards a genuine economic and monetary union](#), Four Presidents' Report, 2012.

³¹² European Commission, [Proposal for a regulation on the establishment of a European Investment Stabilisation Function](#), COM (2018) 387 final 31, May 2018. The 'activation criteria' for the EISF support would be the simultaneous fulfilment of two criteria: (1) the quarterly national unemployment rate exceeded the average unemployment rate over a period of 60 quarters, (2) the quarterly national unemployment rate increased above 1% in comparison to the unemployment rate observed in the previous year.

³¹³ Meseberg Declaration, [Renewing Europe's promises of security and prosperity](#), 19 June 2018.

³¹⁴ European Commission Communication, [Establishing a Pillar of Social Rights](#), COM (2017) 250, April 2017.

³¹⁵ European Commission staff working document accompanying the communication, [Establishing a Pillar of Social Rights](#), SWD (2017) 201, April 2017.

14. Building more integrated capital markets

Potential efficiency gain: €137 billion per year

Key proposition

The economic and financial crisis and its aftermath revealed severe weaknesses in the regulatory coordination of the financial markets across the EU. Moreover, faced with the departure of the EU largest financial centre from the single market (the United Kingdom), the EU needs to continue progressing towards the building of a more integrated Capital Markets Union in Europe. Indeed, corporate financing in the EU continues to rely too heavily on bank loans and it lacks cross-border financing diversification. As a result, the EU faces lower average potential growth performance, as capital is less easily directed towards the more productive and innovative investments. Capital markets integration and development can also valuably complement Banking Union, as they both facilitate economic adjustment and contribute to increasing economic resilience. Finally, EU capital markets are still affected by a high level of fragmentation, with varying levels of regulatory rules, effective supervision and tax practices. This reduces the financing choices of businesses and consumers, and it makes access to capital more complicated and costly.

The potential benefits from more fully-integrated and more effectively regulated EU capital markets could, on the basis of research conducted by the European Added Value Unit of EPRS, be of the order of €137 billion per year, or 0.89 per cent of EU GDP.

More detailed analysis of potential benefits

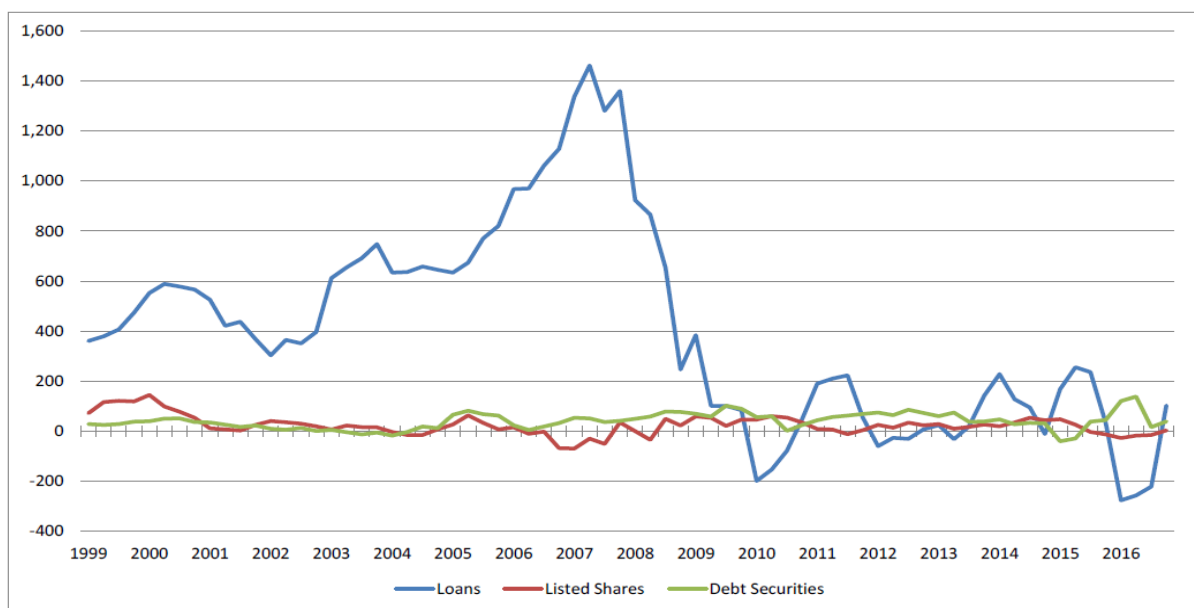
Capital markets consist of debt and equity markets that intermediate funds between savers and those that need capital; derivatives markets that facilitate risk management (consisting of contracts such as futures, options, interest rate and foreign exchange swaps); and securitisation and structured finance markets that improve funding access further by broadening the potential investor base. Efficient capital markets and sufficient access to finance are crucial elements for economic growth, as they reduce the cost of capital and enhance the development of the financial sector. Thus measures that aim at increasing efficiency in the transformation of savings, increasing efficiency in the allocation of capital, and reducing risks, should have positive effects on the overall growth performance of the economy.

In the EU, bank lending to companies remains low with few alternative fund sources (about 75 per cent of euro-area firms rely on banks for external funding). Capital markets remain relatively small and fragmented, which reduces the availability of funding for innovation and growth, in particular for start-ups and SMEs. Access to stock markets is costly and complex for businesses, and investors still face many barriers when investing in other EU countries. Households in Europe save heavily, but do not make the most of their savings and have fewer opportunities to invest for their future³¹⁶.

³¹⁶ Communication from the Commission to the European Parliament, the Council and the European Committee of the Regions. Completing the Capital Markets Union by 2019 - Time to accelerate delivery, COM(2018) 114, March 2018.

The primary purpose of an EU Capital Markets Union (CMU) is thus to broaden the depth of capital markets in the Member States. Deeper EU capital markets should indeed provide further financing for the economy and enlarge the investor base to make it easier for start-ups and companies to raise capital, irrespective of their location. Better developed capital markets may also offer better credit terms and conditions for some borrowers, potentially making capital more mobile and cheaper³¹⁷. The great majority of the literature confirms a positive association between financial markets development and economic growth. For the EU more specifically, London Economics³¹⁸, found that the benefits of integration in the European bond and equity markets would be equal to around 1% of GDP over a period of 10 years, or approximately €100 billion.

Figure 8: Financial net flows to non-financial corporations (€ billion)



Source: European Commission³¹⁹.

Second, diversification of funding sources implies less reliance on bank lending and therefore makes the financial system more flexible in crisis situations. Capital markets can act as shock-absorbers when an economy hits difficulties thus contributing to reinforcing the stability and the resilience of the financial system³²⁰. Moreover, whilst losses are incurred throughout the financial system, certain investors may be better placed to absorb them than banks. The European Central Bank³²¹ has provided tentative support to the idea that an ambitious CMU should place appropriate emphasis

³¹⁷ R Levine, Finance and Growth: Theory and Evidence, Handbook of Economic Growth, in: Philippe Aghion & Steven Durlauf (ed.), Handbook of Economic Growth, edition 1, volume 1, chapter 12, pages 865-934, Elsevier, 2005.

³¹⁸ London Economics, Quantification of the Macro-Economic Impact of Integration of EU Financial Markets. Final Report to the European Commission - Directorate-General for the Internal Market by London Economics, in association with PricewaterhouseCoopers and Oxford Economic Forecasting, November 2002.

³¹⁹ European Commission, op. cit., p5.

³²⁰ S Langfield and M Pagano, Bank bias in Europe: effects on systemic risk and growth, European Central Bank working paper series, No 1797, May 2015.

³²¹ European Central Bank, Financial integration in Europe, May 2018.

on non-bank financing of economic activity, particularly equity markets. The margin for improvement appears substantial as, looking at the cross-border channels which are at work in smoothing income and consumption when a country is hit by an output shock, the Joint Research Centre of the European Commission³²² calculated that the capital markets channel was at around 12% in the euro-area, whereas in the US the risk sharing via capital markets is about 45%.

Third, the CMU also aims at improving the efficiency of the capital markets. Indeed, bank financing is less effective than market financing when it comes to promoting radical innovation or financing new sources of growth³²³. This is because banks tend to take on less risky projects than market-based financiers, such as venture capital or private equity firms. Moreover, the prices of corporate debt and equity respond immediately to shifts in demand and supply, changes in the outlook for a company are quickly embodied in current asset prices. By raising the returns available from pursuing innovation, the capital markets also facilitate entrepreneurial and other risk-taking activities³²⁴.

The European Added Value Unit of EPRS has estimated³²⁵ that the potential benefits from a more fully-integrated retail finance service³²⁶ sector could, as a result of price convergence in the market for residential loans, be in the order of €67 billion per year, measured in interest savings alone. Moreover, non-financial corporations rely mostly on banks for external funding, especially SMEs. Integration of capital markets would thus allow for more equal financing conditions for non-financial corporations as long as they display the same level of risk and return³²⁷. As a result of price convergence, potential savings on businesses interest loans could be in the order of €51 billion per year³²⁸. Finally, some of the recently-adopted reforms of the financial markets (reform of the derivatives regime, to the reduction of the excess cost of post-trading and to post-trading market consolidation, as well as to Target2Securities) should result in net benefits amounting to at least €19 billion per year³²⁹. The total benefits from more fully-integrated and more effectively regulated EU capital markets could potentially be of approximately €137 billion per year, or 0.89 per cent of EU GDP.

³²² M Nardo, N Ndacyayisenga, F Pericoli, P Poncela Contribution to the Commission Staff Working Document on the Movement of Capital and the Freedom of Payments JRC technical report, 2018.

³²³ A Popov, Evidence on finance and economic growth, European Central Bank, Working Paper 2115, 2017.

³²⁴ C Kaserer and MS Rapp Capital Markets and Economic Growth – Long-Term Trends and Policy Challenge, Research Report, March 2014.

³²⁵ Graham Stull, Towards a Genuine Economic and Monetary Union: European Added Value Dimensions, European Added Value Unit, European Parliament, October 2012. Updated calculation using 2017 data. Source: European Mortgage Federation, hypostat, September 2018.

³²⁶ In the absence of barriers and asymmetric costs, market integration should generally imply price convergence at lower levels. This conceptual framework can be applied to the sectors such as the residential mortgage market and the bank financing of non-financial corporations.

³²⁷ PWC - Capital Market Union: integration of capital markets in the European Union, September 2015.

³²⁸ Mapping the Cost of Non-Europe 2014-19, European Added Value Unit, EPRS, March 2014. Updated calculation using 2017 data. Source: OECD, financing SMEs and entrepreneurs 2017 dataset and ECB, MFI interest rates on new euro-denominated loans to euro area non-financial corporations. 2018.

³²⁹ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. A reformed financial sector for Europe, COM(2014) 279, May 2014.

European Parliament position

The European Parliament acknowledges the role that capital markets can play in fostering growth, and welcomes the CMU action plan³³⁰. The Parliament stresses that priority must be given to serving the needs of the real economy and to breaking the bank-sovereign nexus at national level. Furthermore, it recalls that a strong CMU needs to be accompanied by strong EU-wide and national supervision.

The Parliament also notes the development of new financial services and institutions contributing to competition on financial markets and to new opportunities for consumers³³¹. It emphasises that a European retail financial services market must benefit SMEs in terms of improvement in access to financing and access cross-border markets.

Finally, the Parliament welcomes the new developments in the area of FinTech³³². In particular, it considers that FinTech can help to enable the success of CMU initiatives, for example by diversifying funding options in the EU, and encourages the Commission to harness the benefits of FinTech in driving forward the CMU.

European Commission and Council responses so far

The European Commission's Action Plan on Building a CMU³³³, published in September 2015, provides a list of measures necessary to deepen and further integrate the capital markets of the EU. It also contains a number of steps for a gradual building of the CMU to be completed by 2019. Most of the actions are focussed on shifting financial intermediation towards capital markets and breaking down barriers that are blocking cross-border investments. The EU Economic and Financial Affairs Council (Ecofin) welcomed this first package of legislative proposals and initiatives from the European Commission³³⁴.

In June 2017, the Commission, in its mid-term review of the CMU action plan³³⁵, set out a comprehensive programme for the CMU by 2019. The programme includes 13 additional legislative proposals tabled by the Commission to put in place the key building blocks of the CMU. In June 2017, the Council adopted the regulation on prospectus³³⁶. In its conclusions in July 2017, the

³³⁰ European Parliament resolution of 19 January 2016 on stocktaking and challenges of the EU Financial Services Regulation. Impact and the way forward towards a more efficient and effective EU framework for Financial Regulation and a Capital Markets Union (2015/2106(INI)).

³³¹ European Parliament resolution of 14 November 2017 on the Action Plan on Retail Financial Services (2017/2066(INI)).

³³² European Parliament resolution of 17 May 2017 on FinTech: The influence of technology on the future of the financial sector (2016/2243(INI)).

³³³ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Action Plan on Building a Capital Markets Union, COM(2015) 0468, September 2015.

³³⁴ Council conclusions on the Commission action plan on building a Capital Markets Union, (13922/15), November 2015.

³³⁵ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Mid-Term Review of the Capital Markets Union Action Plan, COM(2017) 292, June 2017.

³³⁶ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168, 30.6.2017.

Council³³⁷ reaffirmed its continued strong commitment to the CMU. In November 2017, the Council adopted new venture capital rules³³⁸. In December 2017, the Council adopted two regulations aimed at facilitating the development of a securitisation market in Europe³³⁹.

A comprehensive package reviewing the European system of financial supervision (ESFS) was adopted by the Commission in September 2017³⁴⁰, and in March 2018, it unveiled an Action Plan³⁴¹ on how to harness the opportunities presented by technology-enabled innovation in FinTech. In November 2018, the Commission called for 'renewed efforts' on CMU³⁴², highlighting the key role of the latter in building deep and liquid capital markets, deepening the Europe's Economic and Monetary Union and strengthening the role of the euro.

³³⁷ Council conclusions on the Commission Communication on the mid-term review of the Capital Markets Union Action Plan, (460/17), July 2017.

³³⁸ Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds, OJ L 293, 10.11.2017.

³³⁹ Regulation of the European Parliament and of the Council on securitisation and on criteria for simple, transparent and standardised products, PE-CONS 38/17, November 2017; Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, OJ L 347, 28.12.2017.

³⁴⁰ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Reinforcing integrated supervision to strengthen Capital Markets Union and financial integration in a changing environment, COM(2018) 767, September 2017.

³⁴¹ Communication from the Commission to the European Parliament, the Council and the Committee of the regions. FinTech Action plan: For a more competitive and innovative European financial sector, [COM\(2018\)109](#), March 2018.

³⁴² Communication from the Commission to the European Parliament, the Council and the Committee of the regions. Capital Markets Union: time for renewed efforts to deliver for investment, growth and a stronger role of the euro, [COM\(2018\) 767](#), November 2018.

15. Pan-European pension product

Potential efficiency gain: €58 billion per year

Key proposition

Pension systems, and in particular public pension schemes, have ensured that most of the older people in the majority of EU countries are protected against the risk of poverty. Nowadays, at the age of 65, people can expect to live for another 20 years. For this and other reasons, Member States encourage the build-up of private pension savings as a way to soften the burden of ageing populations on social security schemes and to complement public pension benefits. A pan-European pension product (PEPP) could be an attractive complement, particularly to young people and the self-employed, and especially in member states with under-developed occupational and/or private pension systems. Estimates suggest that the introduction of a PEPP could contribute about half of the growth of the personal pension market in the EU between now and 2030, representing a figure of some €700 billion or an average €58 billion per year.

More detailed analysis of potential benefit

Pension systems, and in particular public pension schemes, have ensured that most older people in the European Union are protected against the risk of poverty. Older people can enjoy living standards in line with the majority of the population, though considerable differences are hidden between and within Member States. Particular groups - women, older pensioners or those living alone or with atypical careers - remain at risk.³⁴³

The EU's population has grown in recent decades to more than 510 million people. This growth has slowed down and it is expected that falling birth-rates could only equalised by migration in the forthcoming years. In 2015, for the first time, there were fewer births than deaths in the EU. Furthermore, as a result of the intra EU-mobility, more than 12.4 million EU/EFTA citizens of working age reside in another EU/EFTA country.³⁴⁴ Life expectancy is also rising, as EU citizens live longer.

At the age of 65, people can (in 2016) expect to live for another 20 years, that is 1.7 years longer compared with those at the same age in 2005 (18.3 years).³⁴⁵ The ratio of people in working age (15 - 64) to each person aged 65 years or over will decrease from 3.5 (2015) to 2.2 (2050).³⁴⁶ Against this demographic backdrop, public pension systems are coming under pressure. Many Member States have responded by increasing the retirement age and the employment rates for older workers. In the majority of Member States, longer working lives contribute to more sustainable pension systems. From 2010 to 2016, the absolute employment of those aged 55-64 years increased

³⁴³ R Niemen and D Eatock, [Pan-European pension product](#), EPRS, March 2018.

³⁴⁴ The figures have more than doubled since 2004, when nearly 6 million citizens of working age (15-64 years) lived in another Member State.

³⁴⁵ From 2005 to 2016, working life increased by 2.1 years (Eurostat).

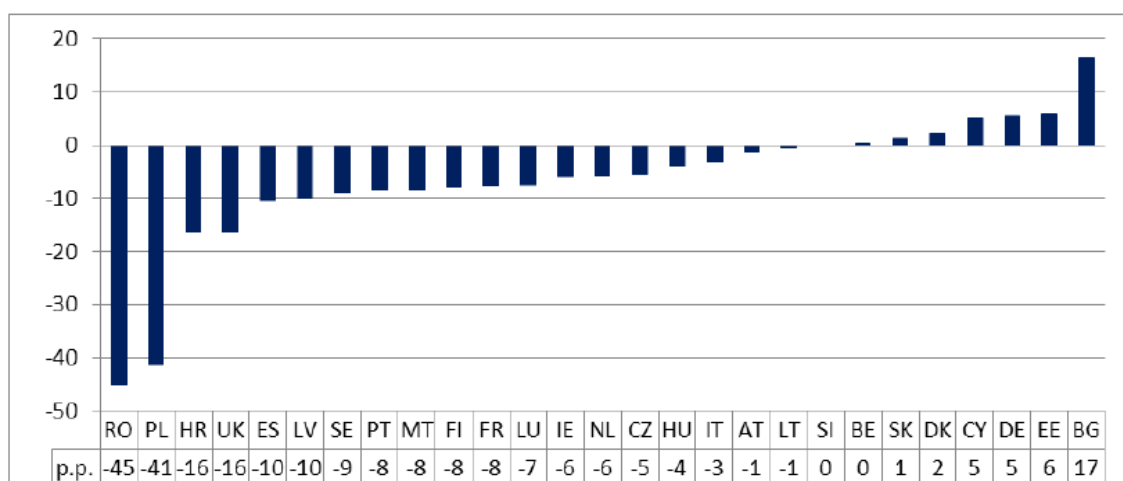
³⁴⁶ From 2011 - 2018 the natural change (birth - deaths) was still positive (+ 600,000) but low compared to net migration (+8,880,000) into the EU.

by 7.6 million in the EU 28 and its employment rate went up by 9.1 percentage points, from 46.2% to 55.3%. This means that despite demographic ageing, the overall EU spending on public pension as a percentage of GDP is expected to be similar in 2070 to today.³⁴⁷

Against this background, the generosity of public pensions is likely to be reduced in the future, making adequacy increasingly contingent on long and full careers supplementary savings and minimum guarantees for those falling short of an entitlement to a full pension.³⁴⁸

The exact impact of recent reforms on such adequacy, and how the person’s pre-retirement income is ‘replaced’ by the pension, is difficult to pin down. Projected 2056 Theoretical Replacement Rates (TRRs)³⁴⁹ depend strongly on the underlying assumptions concerning salary growth and the comparison group. The ‘base case’ for example represents the pension of a male worker who retires at the Standard Pensionable Age (SPA) after an uninterrupted 40-year career on a standard employment contract. Even, after a 40-year career, the TRR shows a decline of 5% or more in the majority of Member States (see figure below). For the ‘multiple other cases’ (e.g. with career breaks) a higher decline has to be expected.³⁵⁰

Figure 9: Net Theoretical Replacement Rate (TRR), base-case percentage change, 2016-56



Source: OECD and Member States’ projections

For this and other reasons, Member States are encouraging the build-up of private pension savings as a way to soften the burden of ageing populations on social security schemes and to complement public pension benefits. Private pension schemes would mitigate the decline in the public pension

³⁴⁷ [The 2018 Ageing Report: Economic and budgetary projections for the 28 EU Member States](#) (2016-2070), European Commission, May 2018.

³⁴⁸ [The 2018 Pension Adequacy Report: current and future income adequacy in old age in the EU](#). Volume I & Volume II, European Commission, April 2018.

³⁴⁹ Theoretical replacement rates measure how a retiree’s pension income in the first year after retirement would compare to their earnings immediately before retirement, taking into account the national pension rules.

³⁵⁰ [The 2018 Pension Adequacy Report: Current and future income adequacy in old age in the EU](#). Volume I & Volume II, European Commission, April 2018.

replacement rate.³⁵¹ A pan-European pension product (PEPP) could, in addition, take into account the needs of a European labour market where mobility of EU citizens is increasing.

The European Commission came forward with a proposal for such a product, and according to the impact assessment accompanying it, the general uptake of private pension products (PPPs) is estimated to increase (notably due to the continuation of in-payments) from €700 billion today to €1,400 billion by 2030. Based on the same quantification assumptions as for this baseline scenario, the volume of PPPs combined with the PEPP could reach €2,100 billion by 2030, in the most favourable scenario whereby the PEPP treatment is in line with the favourable tax treatment given to national PPPs. This implies that the introduction of the PEPP may contribute to 50% of the growth of the personal pension market between now and 2030.³⁵² This would represent a figure of €700 billion, or over the period from 2019 to 2030, or on average €58 billion per year.

European Commission response so far

In 2015, the European Commission published a green paper on 'Building a Capital Markets Union'³⁵³ accompanied by a consultation³⁵⁴ which noted that a large number of respondents supported the idea of a PEPP. Consumer organisations favoured a European approach to personal pensions offering value for money, certainty and mobility. Multiple fees and charges however can have a very detrimental effect on the return of pension products. Weak disclosure practices lead to low transparency of often very complex personal pension products. Most personal pension providers recognised the importance of encouraging citizens to save for their retirement at EU level. The insurance industry was generally open; but the pension products should have an explicit retirement purpose, restrict early withdrawal and provide guarantees. Some respondents suggested that the need for a European product is likely to be higher in smaller Member States where there is no or limited access to retirement savings.

In July 2016, the Commission launched a specific consultation and asked for proposals. Retail investors voted for simple and transparent pension products whilst consumer protection organisations referred to the low quality of existing products and the absence of transparency of cost and fees. The preferred option for providers was for a PEPP framework; the least-favoured option was the harmonisation of the existing legislation.³⁵⁵

In June 2017, the Commission presented a proposal for a regulation on a PEPP and a recommendation on the tax treatment thereof. It envisages that PEPPs would be voluntary personal pension products giving an option for complementary savings for retirement. PEPPs will be a pan-European product and hence will be particularly suitable for savers who may move to another

³⁵¹ The 2018 Ageing Report, April 2018.

³⁵² European Commission staff working document, [SWD \(2017\) 243](#) p. 32 and 34.

³⁵³ Green paper on Building a Capital Markets Union, [COM \(2015\) 63](#), European Commission, February 2015.

³⁵⁴ [Feedback statement on the green paper 'Building a Capital Markets Union'](#), SWD (2015) 184 final, European Commission, September 2015.

³⁵⁵ European Commission, [Impact Assessment accompanying a proposal for a regulation of the European Parliament and of the Council](#) SWD (2017) 243 final.

Member State. In turn, Member States are encouraged to extend the benefits of the tax advantages they grant to national PPPs also to the PEPP.³⁵⁶

The basic PEPP should allow a saver to recoup the capital and its overall costs and fees should not exceed 1% of the accumulated capital per annum. Thus, the PEPP could be an attractive product particularly to young people, self-employed and Member States with under-developed occupational (pillar II) and/or private (pillar III) pension systems. It could offer a trusted, low cost option for voluntary supplementary pension saving and help to facilitate the right of Union citizens to live and work across the Union. In Member States with highly developed pension markets, the PEPP could broaden consumer choice, or offer solutions to mobile citizens. The proposal would create a quality label for EU personal pension products and increase trust among consumers.

European Parliament position

In September 2018, the European Parliament prepared a draft report³⁵⁷ on the regulation on a PEPP and supported the concept. The proposed regulation enables the creation of a pension product, which could be simple, safe, reasonably priced, transparent, consumer-friendly and portable Union-wide complementing the existing national systems. The place of residence of a PEPP saver should determine the applicable tax regime. In Member States, the PEPP should benefit from the most favourable tax treatment applicable for the national pension products.

The final shape of the text will now be subject to negotiations between the European Parliament, the Council presidency and the Commission.³⁵⁸

³⁵⁶ [Proposal for a regulation on a pan-European Personal Pension Product](#) (PEPP) COM (2017)343, [Recommendation 'on the tax treatment of personal pension products, including the pan-European Personal Pension Product'](#), C(2017)4393, European Commission, June 2017.

³⁵⁷ [Report on the proposal for a regulation of the European Parliament and of the Council](#) on a Pan-European Personal Pension Product (PEPP), September 2018.

³⁵⁸ For more information, see the EPRS [Legislative Train Schedule](#), and EPRS, [Framework for a pan-European personal pension product \(PEPP\)](#), October 2018.

ENVIRONMENT, ENERGY AND RESEARCH

16. Climate change

Potential economic benefits of meeting the 2° C target: under assessment

Key proposition

Climate change due to human economic activity is changing weather patterns on our planet, with increasing economic, social and environmental consequences. To limit the negative effects of this phenomenon, the international community, with the EU as a front-runner, has committed to maintain the temperature rise this century to well below two degrees Celsius above pre-industrial levels. It is estimated that in Europe alone the total reported economic losses caused by weather and other climate-related extremes between 1980 and 2016 have already amounted to over €436 billion.³⁵⁹ Recent, though not exhaustive, research on climate change costs³⁶⁰ estimates the potential benefits from EU mitigation policies at around €160 billion per year. This would be the additional loss, in terms of consumer welfare, for the EU if the temperature were to rise above two degrees Celsius by the end of the century. This can be argued to be the cost of missing the EU target, given that limiting the temperature rise to below two degrees Celsius is the central objective of EU climate policies.

Moreover, research reveals further serious environmental and societal impacts - such as river and coastal flooding, droughts, affecting not only crops and farmland, but also transport and critical infrastructure, as well as causing human mortality from heat - which suggest that the total costs of inaction could rise to €240 billion per year. In this context, southern European regions appear to be much more vulnerable to climate change and would bear a larger share of the costs.

More detailed analysis of potential benefit

A 2018 report by the European Commission's Joint Research Centre, *Climate in Action in Europe*, (PESETA III final report), analyses a series of direct effects of climate change, focussing on two periods: the end-of-the-century >3°C global warming level (GWL) (high warming scenario), and the period for which GWL=2°C (2°C warming scenario), namely the Paris Agreement target.³⁶¹ Different sectorial impacts are then used as inputs in a computable general equilibrium model that allows heterogeneous climate impacts to be incorporated in a single structure, and to include indirect

³⁵⁹ European Commission, [Report from the Commission to the European Parliament and the Council on the implementation of the EU Strategy on adaptation to climate change](#), COM(2018)738, November 2018.

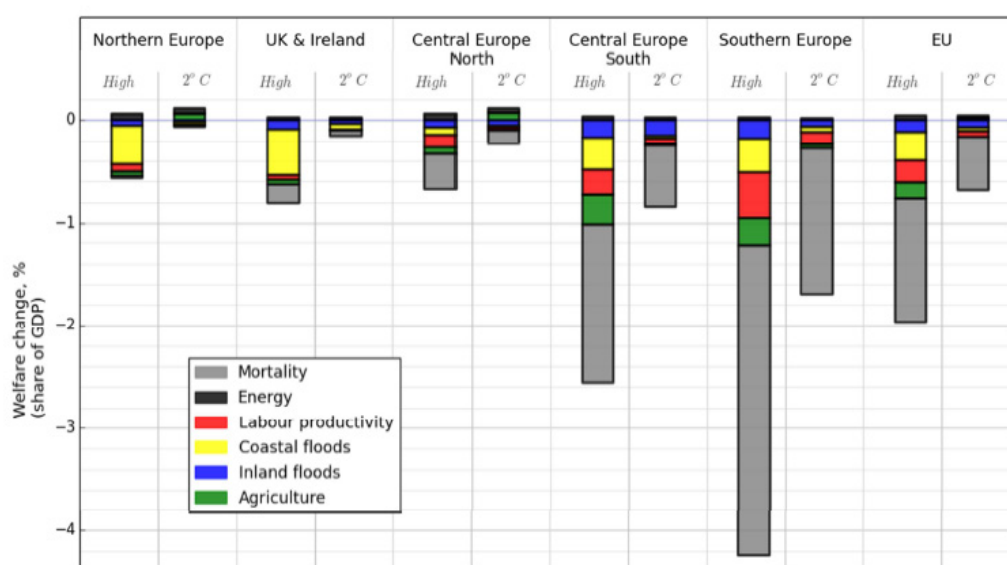
³⁶⁰ Calculation based on J C Ciscar, et al., [Climate impacts in Europe: Final report of the JRC PESETA III project](#), Joint Research Centre, 2018.

³⁶¹ J C Ciscar, et al., 2018, op.cit.

effects occurring through market mechanisms.³⁶² Not all the impacts could be consistently integrated in the economic model. Those which are taken into account are agriculture, energy, labour productivity, and river and coastal floods. The economic impact is measured as welfare loss as a percentage of GDP.³⁶³

Figure 10 shows that the high temperature scenario is estimated having a negative impact of about 1.9 % of GDP (a loss of about €240 billion per year). If, by contrast, the temperature increase can be maintained under two degrees Celsius, the economic loss can be limited to about 0.6 % of GDP (about €79 billion per year). It is assumed that the potential ‘avoided loss’, under the low temperature scenario, is the cost of non-Europe, namely, about €160 billion per year. Two major caveats need to be entered: first, as the authors of the study clearly indicate, one should be cautious in interpreting the potential benefits from mitigating measures, since the study covers a limited number of impacts; second, interpreting this figure as cost of non-Europe means assuming that the capacity to keep temperatures under two degrees Celsius can be ascribed entirely to EU climate policies.

Figure 10: Cost of high warming scenario and of 2° Celsius scenario in percentage welfare change (share of EU GDP)



Source: J C Ciscar, et al., Climate impacts in Europe: Final report of the JRC PESETA III project, Joint Research Centre, 2018.

Another 2018 report³⁶⁴ (COACCH) carried out a review of the existing economic analysis of the costs of climate change in the EU. It looked at those sectors that are particularly vulnerable to climate changes impacts including - but not limited to - water supply, coastal flooding, agriculture, forestry

³⁶² This is subject to a number of assumptions: for more detail, see J C Ciscar, et al., 2018, op.cit.

³⁶³ The model used is quasi-static, meaning that the results cannot be interpreted as changes in growth rates, but rather as a one-off change in the welfare level.

³⁶⁴ [The Economic Cost of Climate Change in Europe: Synthesis Report on State of Knowledge and Key Research Gaps](#), COACCH: Co-designing the assessment of climate change costs, May 2018.

and transport. Although the report acknowledges the limitations and data gaps, it argues that there is no doubt that inaction will generate large costs in the EU. The economic costs will be significant by mid-century and primarily depend on whether Europe will experience two degrees Celsius of warming or more. The report also shows evidence of the economic benefits that can be obtained should mitigation measures be adopted to reduce the costs of inaction. The table below summarises the main findings of the 2018 COACCH report.

Table 6: Cost of climate inaction by sector³⁶⁵

Sector	Costs in € billion per year	Time-frame
Costal flooding and erosion ³⁶⁶	Range from 6 to 19	by 2060
	Range from 18 to 111	by 2080
Flooding and water	Increase from 4 to 32 ³⁶⁷	by 2050
	98 ³⁶⁸	by 2080
	Range from 28-33 ³⁶⁹	by 2080
Water supply and management ³⁷⁰	Range from 8.5 to 15 ³⁷¹	by 2030
	1.5 ³⁷²	by 2050
Agriculture	18 ³⁷³	by 2080
	1.72 - 6.09 ³⁷⁴	by 2050
Forestry	1.5 ³⁷⁵	each year

³⁶⁵ This table is not exhaustive and does not include, for example, the existing extensive analysis looking at the impacts of future temperature increase on biodiversity and the ecosystem. Although evidence on impacts exists, it is very difficult to translate it in market prices and to monetise it. Extensive literature also exists in relation to climate impacts on health, including heat-related mortality, to deaths and injuries from climate disasters, but also other indirect impacts, such as those affecting food and water-borne disease. However, economic estimates may differ depending on the value attributed to statistical life (VSL), setting aside the fundamental ethical question of monetising a human life at all.

³⁶⁶ Using the integrated assessment DIVA model. The analysis argues also major differences in distribution of costs, with some Member States around the North Sea likely to bear the greatest costs.

³⁶⁷ Using the LISFLOOD model, a 2015 study estimates the expected annual damage (EAD) of climate change of future river flooding.

³⁶⁸ Using the LISFLOOD model, a 2011 study foresees a steady increase in costs by 2080 accompanied by uneven distribution of costs among Member States.

³⁶⁹ A 2018 study referring to the BASE project, estimates the expected annual damage to rise from €16 billion in 1960-199, to €28-33 billion by 2080.

³⁷⁰ In addition to the economic analysis, a 2015 Europe wide assessment, the IMPACTC project, looked at the impact of climate change on stream-flow drought, soil moisture drought and water scarcity, although without attaching monetary values.

³⁷¹ This only includes the costs of desalination and water transport.

³⁷² This only includes the costs of increased electricity demand for water supply and treatment, as a result of increased water demand.

³⁷³ Ciscar et al, 2014: the JRC PESETA II project estimates the climate related costs for agriculture.

³⁷⁴ USD 1.96 to 6.95 billion, see Balkovic et al. who have estimated the difference in welfare using the partial equilibrium model GLOBIOM in a 2°C scenario.

³⁷⁵ A 2010 study only focussed on forest fires. It estimated that, at the time of writing, fires affected more than half a million hectares of forest per year. A subsequent study in 2016 estimated that the affected area could increase by 200% by 2080.

Transport	2.5 ³⁷⁶	each year by 2100
	0.9 ³⁷⁷	
	18 ³⁷⁸	
	11.9 ³⁷⁹	
Tourism	15 ³⁸⁰	by 2100
Business and industry	0.3 ³⁸¹	by 2080
Energy	30 ³⁸²	by 2050
Health, food-borne diseases only	0.09 ³⁸³	by 2080
Welfare and GDP	190 ³⁸⁴	by 2080
	240 ³⁸⁵	by 2100

Source: Author's own assessment. Data source: [The Economic Cost of Climate Change in Europe: Synthesis Report on State of Knowledge and Key Research Gaps](#), COACCH: Co-designing the Assessment of Climate Change costs, May 2018, and J C Ciscar, et al., [Climate impacts in Europe: Final report of the JRC PESETA III project](#), Joint Research Centre, 2018.

European Parliament position

Fighting climate change is one of the main political priorities for the European Parliament. For the post-2020 period, in its consecutive resolutions of 2014 and 2015, the Parliament has endorsed in 2014 the EU 2030 binding climate target for 40 % reduction of greenhouse gas (GHG) emissions by 2030 (compared to 1990) that corresponded with the goal set by the EU leaders in 2014.³⁸⁶ However,

³⁷⁶ This estimate is based on the WEATHER project that looks at the total costs from extreme weather conditions

³⁷⁷ This estimate only covers damages to transport infrastructure due to extreme precipitation (PESETA II study in 2014).

³⁷⁸ This 2010 estimate also foresees a €2 billion increase each year by 2040-2060.

³⁷⁹ This figure is based on a 2018 JRC study looking at the damage that climate change could inflict on critical infrastructure only. It estimates an increase from €0.8 in 2010 to €11.9 by 2080.

³⁸⁰ The PESETA II study argues that a fall in revenue of about €15 billion per year would affect the tourism sector by 2010. Other studies look more specifically at tourism revenues for summer or winter tourism. In this latter case, for instance, the additional costs in use of snow machines is considered. Assuming 2°C of warming, one study in 2017 estimated the losses in winter overnight stays in the EU at around €780 million per season.

³⁸¹ A 2011 study argues that labour productivity will decrease between 0.4% and 0.9% in southern Europe by 2080, amounting to €300 to 740 million. Other studies look at particular sectors, such as agriculture, industry and services.

³⁸² A 2011 study estimated the cost increase in cooling systems predominantly powered by electricity. It argues that costs will raise up to €30 billion per year by 2050, and to €109 billion per year by 2080. At the same time, some economic benefits will emerge thanks to reduced heating demand in winter.

³⁸³ In 2011, the welfare costs of food-borne diseases were estimated to increase to €68 million per year by 2050, and to €89 million per year by 2080. In 2015, the hospitalisation costs related to salmonellosis and campylobacteriosis were estimated at around €700 million for the period between 2041-2170.

³⁸⁴ In 2014 the PESETA II study argued that a median temperature increase of about 3°C will generate damage in the EU of around €190 billion per year by 2080. The study uses a computable general equilibrium model (CGE) to assess the macro-economic costs of climate change.

³⁸⁵ The most up-to-date study within the PESETA project is J C Ciscar, et al., [Climate impacts in Europe: Final report of the JRC PESETA III project](#), Joint Research Centre, 2018, where the cost of the "high warming" scenario is €240 billion.

³⁸⁶ European Parliament resolution of 5 February 2014 on a 2030 framework for climate and energy policies ([2013/2135\(INI\)](#)), European Parliament resolution of 15 December 2015 'Towards a European Energy Union', ([2015/2113\(INI\)](#)), European Council, [Conclusions of 24 October 2014](#), EUCO 169/14.

for the share of renewable energy in final energy consumption by 2030, the Parliament proposed at first a more ambitious binding target of 30 % against at least 27 % proposed by the EU leaders. Moreover, the EP was also more ambitious on improvements in energy efficiency and proposed at least a 40 % binding increase compared to the at least 27 % indicative target set by the EU leaders. Nevertheless, after the European Commission proposed reviews of the energy efficiency and of the renewable energy sources directives, in the course of legislative process, the Parliament proposed a more realistic 35 % energy efficiency target by 2030 at EU level (higher than the European Commission's proposed goal of 30 %) ³⁸⁷ and endorsed an EU-wide binding target of at least 35% share of renewable energy (contrary to a 27% target proposed by the Commission). ³⁸⁸

The EU eventually agreed to increase energy efficiency by 32.5 % by 2030, and 32 % shall be generated by renewable sources by 2030, and GHG emissions shall be reduced by 40 % by 2030 (compared to 1990). In a non-binding resolution of March 2019, which referred to the Commission's November 2018 communication ³⁸⁹ on a 2050 long-term EU climate strategy and climate neutrality, the EP has called for a revision of the 2030 GHG emissions target and proposed a 55 % reduction (compared to 1990) in order to reach net-zero GHG emissions in 2050 in the most cost-efficient manner. ³⁹⁰

In the wake of the UN 21 Conference of Parties in Paris in 2015, the Parliament called for a legally-binding international agreement, limiting the temperature increase to below two degrees Celsius. ³⁹¹ It has also recurrently supported development of sustainable transport, including abating emissions from international maritime transport. ³⁹² In the context of the adoption of a new EU budget for 2021-2027, the Parliament has supported the idea of devoting at least 25 % of EU expenditure to climate objectives. ³⁹³ In its resolution on transparent and accountable management of natural resources in developing countries, it has called on the Commission to urgently prepare an EU Action Plan on deforestation and forest degradation, as well as to promote a similar binding regulatory framework

³⁸⁷ Amendments adopted by the European Parliament on 17 January 2018 on the proposal for a directive of the European Parliament and of the Council amending Directive 2012/27/EU on energy efficiency ([COM\(2016\)0761 – C8-0498/2016 – 2016/0376\(COD\)](#)).

³⁸⁸ Amendments adopted by the European Parliament on 17 January 2018 on the proposal for a directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources (recast) ([COM\(2016\)0767 – C8-0500/2016 – 2016/0382\(COD\)](#)).

³⁸⁹ European Commission, Communication 'A Clean Planet for all. A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy' ([COM\(2018\)773 final](#)).

³⁹⁰ European Parliament resolution of 14 March 2019 on climate change – a European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy in accordance with the Paris Agreement ([2019/2582\(RSP\)](#)).

³⁹¹ European Parliament resolution of 14 October 2015 'Towards a new international climate agreement in Paris' ([2015/2112\(INI\)](#)).

³⁹² Maritime transport is the only transport mode not covered by EU climate legislation. Negotiations are ongoing at international level in the International Maritime Organisation. Recently the Parliament has called for GHG emission reduction targets for international maritime transport through amendments adopted on 15 February 2017 on the proposal for a directive amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments ([COM\(2015\)0337 – C8-0190/2015 – 2015/0148\(COD\)](#)).

³⁹³ 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\(APP\)](#)).

at international level and to integrate forest diplomacy into its climate policy.³⁹⁴ In a resolution calling for more EU action on sustainability, the Parliament has recalled that climate change is not a stand-alone environmental issue but presents one of the greatest challenges of our time, which necessitates mainstreaming climate change mitigation and adaptation in development policy.³⁹⁵

European Commission and Council responses so far

The European Commission formulates and implements EU climate change policies with a view to reaching agreed GHG reduction targets. In 2016, it proposed a package of legislative proposals for the period between 2021 and 2030 aiming at further mitigation of climate change.³⁹⁶ The EU is also actively promoting and supporting climate adaptation, and in 2013, the Commission adopted a relevant strategy.³⁹⁷ Recent evaluation of the document revealed that although its main targets were achieved, a lot of adaptation effort is still needed.³⁹⁸

Moreover, 20 % of the current EU budget is earmarked (equivalent of €200 billion) for climate-related expenditure.³⁹⁹ Progress on reaching climate targets is strictly monitored and recent data from the Member States shows that EU-wide reduction of GHG emissions by 2030 could fall short of the 40 % target⁴⁰⁰. That is why a proper implementation of the post-2020 climate and energy policies will be crucial for the success of EU fight against climate change in a long run. In addition, preliminary data for 2017 showed that previously positive prospects of reaching the 2020 targets looks less positive.⁴⁰¹

Estimated benefit of any Commission action so far

There are multiple benefits from pursuing EU climate policies, including the creation of new 'green' jobs, improved competitiveness, economic growth, cleaner transport, development of new technologies, more secure supply of energy sources linked to reduced imports of fossil fuels.⁴⁰² For example, reaching the 20% renewable energy target by 2020 is estimated to bring 400,000 jobs, and EU climate policy is estimated to reduce fuel import costs by around €175-320 billion annually over the period from 2011 to 2050.⁴⁰³ The Commission's 2013 adaptation strategy has brought added

³⁹⁴ European Parliament resolution of 11 September 2018 on transparent and accountable management of natural resources in developing countries: the case of forests ([2018/2003\(INI\)](#)).

³⁹⁵ European Parliament resolution of 6 July 2017 on EU action for sustainability ([2017/2009\(INI\)](#)).

³⁹⁶ European Commission, Directorate-General for Energy, [Clean Energy for all Europeans](#), accessed in December 2018.

³⁹⁷ European Commission, [Communication 'An EU Strategy on adaptation to climate change'](#), COM(2013)216 final.

³⁹⁸ European Commission, [Report from the Commission to the European Parliament and the Council on the implementation of the EU Strategy on adaptation to climate change](#), COM(2018)738 final.

³⁹⁹ European Parliament, [The EU spending on fight against climate change](#), Directorate General For Internal Policies, 2018.

⁴⁰⁰ European Environmental Agency, [Trends and projections in Europe 2018. Tracking progress towards Europe's climate and energy targets](#), EEA Report No 16/2018.

⁴⁰¹ European Environmental Agency, Trends and projections..., op.cit.

⁴⁰² European Commission, Directorate-General for Climate Action, [Benefits of climate action](#), accessed in December 2018.

⁴⁰³ Ibid.

value for Europe as decision-makers at different governance levels were compelled to act on adaptation.⁴⁰⁴

Looking forward

Fighting climate change is a very complex challenge but European citizens are concerned about it and support EU action in this field.⁴⁰⁵ Although EU policies set ambitious targets, and the EU is a world leader in fighting climate change, proper implementation of policies will be crucial in order to minimise negative impacts. Despite the fact that prospects of the EU fulfilling its 2020 GHG emission and renewable energy targets look promising, the recent increase in energy consumption might make it difficult to achieve the energy efficiency 2020 target. Consequently, as recently indicated by the EEA, renewed efforts are needed in view of the three 2030 targets.⁴⁰⁶ Moreover, some issues still remain to be addressed at EU level, such as desertification of soils.⁴⁰⁷

⁴⁰⁴ European Commission, Report on the implementation of the EU Strategy on adaptation to climate change, op.cit.

⁴⁰⁵ European Commission, [Special Eurobarometer 459](#), 2017.

⁴⁰⁶ European Environmental Agency, Trends and projections..., op.cit.

⁴⁰⁷ In its special report, the European Court of Auditors (ECA) has called on the European Commission to propose legislative measures to fight desertification. ECA, [Combating desertification in the EU: a growing threat in need of more action](#), 2018.

17. Strengthened water legislation

Potential efficiency gain: €25 billion per year

Key proposition

The effective use and management of water is an increasingly important part of an efficient and environmentally sustainable economy and society. EU citizens are well aware of this⁴⁰⁸: more than a third (36%) consider the pollution of rivers, lakes and ground water as one of the most important environmental issues, followed by the shortage of drinking water (30%) and the impact of droughts or floods (25%).⁴⁰⁹ However, the EU water sector is characterised by structural under-investment. According to the European Investment Bank (EIB), investment needs in water security and flood risk management amount to €15 billion per year, while only €2 billion is actually invested. In addition, investment needs to upgrade and renew the EU's water infrastructure are estimated at €75 billion per year, while currently investment only account for €30 billion per year.⁴¹⁰

A Cost of Non-Europe Report undertaken by the European Added Value Unit of EPRS for the European Parliament's Committee on Environment, Public Health and Food Safety (ENVI) in 2015 found that the absence of European action in four specific areas of water policy generated an economic welfare loss of about €25 billion per year.

More detailed analysis of potential benefit

The Water Framework Directive (WFD),⁴¹¹ which entered into force in 2000, introduced innovative policy instruments and stringent goals to improve the quality and management of European waters. However, a Cost of Non-Europe Report undertaken for the European Parliament's Committee on the Environment, Public Health and Food Safety (ENVI) by the European Added Value Unit of the EPRS in 2015 identified shortcomings in the existing water framework which impede the achievement of the goals set in the WFD. Research suggests that if existing EU legislation were fully implemented, and all water bodies achieved a 'good' status in ranking, the benefits could be at least €2.8 billion.⁴¹²

The assessment of the need for more European action identified four policy challenges where the absence of European action would lead to a cost of non-Europe of €25 billion annually, divided as follow:

⁴⁰⁸ European Environment Agency (EAA) data on household consumption. European citizens use, on average, 100 to 200 litres of tap water a day. Households account for about 10 % of total water consumption in the whole of the EU. Only about 5 % of this is used for drinking and cooking and some 20 % of water in the EU is lost on account of inefficiency.

⁴⁰⁹ Eurobarometer, [Attitudes of European citizens towards the environment](#), September 2017.

⁴¹⁰ European Investment Bank, [Restoring EU Competitiveness](#), 2016 updated version, p 34.

⁴¹¹ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000, [establishing a framework for Community action in the field of water policy](#).

⁴¹² T Zandstra, [The Cost of Non-Europe in Water Legislation](#), EPRS, 2015.

- The delayed restoration of 8.8 million hectare of flood-plains would cost €15.2 billion per year;
- The lack of effective measures to reduce the pollution, especially pharmaceutical residues, in urban waste-water streams would cost €9.2 billion per year;
- The current exclusion of European criteria for maximum water consumption of showerheads would cost €1.2 billion per year; and
- As water pricing is a proven incentive for reducing the use and the cost of fresh water, the absence of water meters in households would cost of €200 million per year.

Table 7: Potential economic gains from stronger EU water legislation⁴¹³

Potential efficiency gains	Cost of non-Europe (€ billion)
Restoration flood plains	15.2
Reduction of pharmaceutical residues in urban waste-water	9.2
Increased use of water-efficient equipment	1.2
Increased use of water metering	0.2
Total	25.8

Source: T Zandstra, *The Cost of Non-Europe in Water Legislation*, EPRS, 2015.

European Parliament position

In September 2015, the European Parliament⁴¹⁴ called on the Commission to put forward legislative proposals in the area of water policy – and if appropriate a revision of the WFD – that would recognise universal access and the human right to water. In doing so, the Parliament gave its support to the primary objective of the European citizens' initiative (ECI)⁴¹⁵, 'Right2Water', and criticised the Commission's response to the initiative,⁴¹⁶ which it considered too vague and 'insufficient'⁴¹⁷.

The Parliament has also supported actions such as rational use, recycling and reuse of water, in order to promote a reduction of costs, the protection of the environment and the improvement of resource management. It has called on the Member States to strengthen investment to improve infrastructure. It has also underlined that the WFD, the Groundwater Directive,⁴¹⁸ the Drinking Water Directive,⁴¹⁹ and the Urban Wastewater Directive need to be implemented fully and effectively. They also need to be better coordinated with other EU environmental legislation.

⁴¹³ T Zandstra, [The Cost of Non-Europe in Water Legislation](#), EPRS, European Parliament, May 2015, p. 6-7 and 91.

⁴¹⁴ European Parliament, [Follow-up to the European Citizens' Initiative Right2Water](#), September 2015.

⁴¹⁵ [European Citizens' Initiative Right2Water](#).

⁴¹⁶ European Commission, [Communication on the European Citizens' Initiative 'Water and sanitation are a human right! Water is a public good, not a commodity!'](#), COM(2014)177, March 2014.

⁴¹⁷ European Parliament, [Follow-up to the European Citizens' Initiative Right2Water](#), September 2015.

⁴¹⁸ Directive 2006/118/EC of the European Parliament and of the Council of 12 December 2006 [on the protection of groundwater against pollution and deterioration](#).

⁴¹⁹ Council Directive 98/83/EC of 3 November 1998 [on the quality of water intended for human consumption](#).

Member States were reminded that they should take advantage of synergies between the instruments of the WFD and the Flood Risk Management Plans under the Floods Directive. In order to improve the implementation of the WFD, the Parliament called for completion of river basin management plans and increased Member-State preparedness for floods.

In October 2018, the Parliament voted in favour of an update of the rules to increase consumer confidence and encourage the drinking of tap water and to 'promote universal access' to clean water for everyone, especially vulnerable groups with no or only limited access. The legislation aims to further increase tap water quality by tightening the maximum limits for certain pollutants such as lead (to be reduced by half), or harmful bacteria and introduces new caps for certain endocrine disruptors. Levels of microplastics will also be monitored. The new rules would also increase transparency and provide consumers with better access to information.⁴²⁰

Commission and Council responses so far

In response to the Parliament's resolution on the follow-up to the European citizens' initiative, Right2Water, the European Commission confirmed that a review of the WFD would take place by 2019 at the latest.⁴²¹

To address the problems of water scarcity, to achieve 'good' status for waters under the WFD, and with a view to investment required by the Urban Waste Water Treatment Directive, the Commission, together with Member States and stakeholders, has developed 'Guidelines on Integrating Water Reuse into Water Planning and Management' (published in July 2016).⁴²²

In February 2018, the European Commission adopted a proposal for a revised Drinking Water Directive concerning the quality of drinking water and access for citizens. The Council held a policy debate in June 2018 on this proposal, welcoming the initiative to update the legislation and highlighting the fact that a high level of protection of human health was the priority in the review process. The debate in June 2018 provided guidance for further work on the drinking water under the Austrian presidency.⁴²³

In May 2018, the Commission proposed new rules to stimulate and facilitate water reuse in the EU for agricultural irrigation, which has the highest potential for an increased water reuse. The policy objective would also be to provide clarity, coherence and predictability to market operators who wish to invest in treated wastewater reuse in the EU under comparable regulatory conditions.⁴²⁴

In September 2018, the Commission launched a consultation, covering the Water Framework Directive and the Floods Directive on how these directives do and could contribute to an improved management of water and the capacity of water bodies and to reduce the risk of flooding. It is

⁴²⁰ European Parliament, [Quality of water intended for human consumption](#) recast, 23 October 2018, first reading; T Laaninen, [Revision of the Drinking Water Directive](#), EU Legislation in Progress, EPRS, October 2018.

⁴²¹ European Parliament, [Follow-up to the European citizens' initiative Right2Water, 9 December 2015](#).

⁴²² Common implementation strategy for the Water Framework Directive and the Floods Directive, [Guidelines on Integrating Water Reuse into Water Planning and Management in the context of the WFD](#), July 2016.

⁴²³ Council, [Outcome of the Council Meeting Environment, Luxembourg](#), 25 June 2018.

⁴²⁴ European Commission, [Impact Assessment accompanying the Proposal](#) for a Regulation of the European Parliament and of the Council on minimum requirements for water reuse, SWD (2018) 249 final, May 2018.

intended to collect opinions on the functioning and interaction of the different directives, as well as the costs and benefits involved.⁴²⁵

Estimated benefit of any Commission action so far

Complementary to the existing water legislation and their targets, EU cohesion policy provided in the 2007-2013 period a major contribution to achieving EU water and waste water targets in many EU13 and southern EU15 Member States. An additional 5.9 million people were connected to a new or improved supply of clean drinking water, and an additional 6.7 million people were connected to new or upgraded wastewater treatment facilities.⁴²⁶

Looking forward

If fully implemented, the Drinking Water Directive will further improve the quality of drinking water and provide greater access to it for the citizens. As far as water reuse is concerned, it is estimated that the proposed instrument could lead to water reuse in the magnitude of 6.6 billion m³ per year, as compared to 1.7 billion m³ per year without any EU legal framework.⁴²⁷

ESI Funds have allocated about €15 billion for the period 2014 - 2020 in the water field. The largest share goes to wastewater treatment infrastructure in Member States that still needs to fulfil basic needs. Further investment will contribute to the availability and security of drinking water services, and to water management and conservation, including water reuse.⁴²⁸ An additional 17 million people will be served by improved waste-water treatment and 12.4 million by improved water supply.⁴²⁹

⁴²⁵ European Commission, [Consultation. Fitness Check of the Water Framework and the Floods Directive](#), December 2018.

⁴²⁶ European Commission, [Ex post evaluation ERDF and Cohesion Fund 2007-13](#), SWD (2016)318, September 2016.

⁴²⁷ European Commission, [Proposal for a Regulation on minimum requirements for water reuse](#), Mai 2018.

⁴²⁸ European Commission, [Regional Policy, Themes, Environment](#), December 2018.

⁴²⁹ European Commission, [European Structural and Investment Funds](#), Environment Protection, Data, December 2018.

18. More integrated energy market with greater energy efficiency

Potential efficiency gain: up to €231 billion per year

Key proposition

Progress has been made in recent years in implementing the Energy Union Framework Strategy⁴³⁰, set out as part of the Juncker Plan in 2015. Some obstacles however, still persist, thus limiting the full achievement of potential benefits in this area. In particular, there is still scope for the realisation of a fully integrated EU energy market, as lack of coordination and regulatory barriers continue to restrict competition. Many consumers still face limited choices of supplier and are denied the benefit of lower energy prices. Households and businesses should also be able to fully participate in the energy transition, managing their consumption while benefiting from the introduction of smart demand management technology and transparent information. Finally, investment towards using energy more efficiently would boost EU GDP while contributing to lower Europe energy bills, increase security of supply, and help protect the environment.

Based on the latest research available⁴³¹ and on a Cost of Non-Europe Report on the Single Market for Energy⁴³², prepared by the European Added Value Unit of EPRS for the European Parliament's Committee on Industry, Research and Energy (ITRE), it is reasonable to assume that a more integrated energy market could increase potential GDP by up to €29 billion per year, while a full implementation of EU's energy efficiency measures could bring additional gains of around €202 billion per year. In total, a more integrated market with greater energy efficiency could thus generate potential benefits of up to €231 billion per year.

A more detailed analysis

The European Parliament has consistently supported progress toward more integrated energy markets so to ensure that households and businesses fully benefit of increased choice and lower energy prices and, that economic gains can be achieved thanks to, inter alia, greater energy efficiency. However, according to recent analysis, the fragmented EU energy market is characterised by insufficient investment and competition⁴³³. Regulatory barriers, together with uncoordinated national policies, impede progress towards an effective European energy policy. As a result, households and businesses are confronted with limited choice and higher energy prices, with

⁴³⁰ European Commission, Communication on A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, COM(2015)80, February 2015.

⁴³¹ European Commission, Communication "[Clean Energy Package for All European](#)", (COM(2016) 860) and European Commission, [Communication "Third Report on the State of the Energy Union"](#), COM(2017) 688 final.

⁴³² M Del Monte, [The Cost of Non-Europe in the Single Market for Energy](#), European Added Value Unit, European Parliament, September 2013.

⁴³³ European Commission, [Communication 'Third Report on the State of the Energy Union'](#), COM(2017) 688 final.

electricity prices in Europe twice as high as in the US for instance, and gas prices more than twice as high, according to 2018 data.

An integrated EU energy market is the most cost-effective way to ensure secure and affordable supplies to EU citizens. Through common energy market rules and cross-border infrastructure, energy can be produced in one EU country and delivered to consumers in another. This keeps prices in check by creating competition and allowing consumers to choose energy suppliers⁴³⁴.

For this to occur, a fully completed infrastructure connecting various energy markets is necessary, in combination with the supporting regulatory and political conditions needed to foster energy trade. Data from the Cost of Non-Europe Report on the Single Market for Energy indicated that a fully integrated energy market could result in potential gains for the European economy of at least €29 billion annually.⁴³⁵ The potential gains are composed as follows:

- First, regarding the development of hubs and exchanges, the report compared the costs of non-integrated generation portfolios with a physically fully integrated situation. This showed that roughly 8.0 % less generation capacity was required in the integrated situation. The costs thus avoided on a per annum basis would translate into more than €3.0 billion per year in the long term at EU level.
- Second, other energy market integration benefits have been estimated to represent €12.5 billion annually. In particular, achieving generation adequacy in the internal electricity market would amount to up to €7.5 billion per year. Furthermore, it is expected that EU-wide sharing of balancing reserves would generate annual net benefits of up to €0.5 billion. Better market coupling⁴³⁶ and more coordinated balancing operations⁴³⁷ would amount to a gain of €1 billion per year.
- Third, regarding the regulation of retail prices can represent a barrier to effective competition as social policy objectives such as protecting vulnerable consumers with general regulated tariffs lack transparency and may actually increase energy costs for vulnerable and non-vulnerable consumers alike. Other form of intervention should thus be foreseen with the view of ensuring better-targetted, effective protection of vulnerable consumers. Eliminating regulated prices could lead to a potential gain for consumers of €9.5 billion per year for the Union as a whole.
- Fourth, on the demand side, smart demand response programmes for instance via access to price signals that reward flexible consumption and the use of smart grids technologies would contribute to facilitate self-generation and efficient consumption of energy. This would help lowering energy bills for consumers while reducing grid losses and congestion and saving network costs in the long-term that would otherwise have to be

⁴³⁴ European Commission, Communication '[Clean Energy Package for All European](#)', (COM(2016) 860).

⁴³⁵ M Del Monte, op.cit and European Parliament Research Service, Mapping the Cost of Non-Europe, 2014-19, Fourth edition, December 2017.

⁴³⁶ In a situation where two markets are already connected, physically as well as commercially, market coupling increases the efficiency of capacity allocation.

⁴³⁷ Transmission system operators (TSOs), whose area of responsibility is usually defined along national borders, generally manage their balancing operations separately. Working together would reduce the back-up capacity required and the amount of energy used.

paid by consumers. This could amount to €4 billion in efficiency gains and cost savings per year.

Regarding energy efficiency, in 2018, the co-legislators agreed on an energy efficiency target of at least 32.5 % by 2030 and on a renewable energy target of at least 32 % by 2030. This would help to continue positioning the EU as a leader in this field. It will also allow the economy to increase its growth potential through substantial investment in old buildings⁴³⁸ and infrastructure, while lowering energy expenditure and meeting climate goals. A study⁴³⁹ showed that the EU has a 41 % cost-effective end-use energy savings potential for 2030. Tapping this potential could reduce greenhouse gas emissions in 2030 by up to 61 %, compared with 1990 levels, while also boosting competitiveness and lowering net energy costs for households and industry by 2030. According to the study, households and industry would receive net benefits of €240 billion annually by 2030 and of about €500 billion by 2050 in lower energy bills.

A study for the European Commission⁴⁴⁰, focussing on energy efficiency in buildings, found that potential GDP would increase by up to 0.6 per cent, or €93 billion in 2030, compared to a no change policy scenario. A more comprehensive study in 2017⁴⁴¹ concluded that the full implementation of measures to meet the energy efficiency target would have a positive impact on both GDP on employment. In the scenario with a 33 % energy efficiency target, GDP would increase by between 1.3 and 1.5 per cent depending on the severity of the crowding out linked to investment. A scenario of partial crowding out being more realistic, a value of 1.3 per cent of GDP, representing €202 billion of economic benefits annually appears to be a reasonable estimate in that field.

Table 8: Potential benefits from integrated energy market and greater energy efficiency

Potential benefits from integrated energy market and greater energy efficiency	€ billion per year
More integrated internal energy market	29
Development of hubs and exchanges	12.5
Other benefits for further integration on the supply side of energy market	3
Phasing out regulated energy prices	9.5
Smart grids for consumers' demand response and self-generation	4
Full implementation of EU energy efficiency measures	202
Total	231

In total, a more integrated energy market with greater energy efficiency could thus generate potential benefits of up to €231 billion per year.

⁴³⁸ Improving energy efficiency in building alone could save more than 30% of primary energy consumption in Europe.

⁴³⁹ The Fraunhofer Institute, [Analysis of a European Reference Target System for 2030](#), final report 2013.

⁴⁴⁰ European Commission, [The macroeconomic and other benefits of energy efficiency](#), August 2016.

⁴⁴¹ European Commission, [The macro-level and sectoral impacts of energy efficiency policies](#), July 2017.

European Parliament position

Against the overall backdrop of increased European dependence on energy imports, scarce energy resources, and the need to mitigate climate change, both the European Parliament⁴⁴² and the European Council,⁴⁴³ have called repeatedly for more integration of the energy markets in Europe. In the meantime, they have also advocated further steps towards the creation of a genuine European Energy Union⁴⁴⁴, aiming at affordable, secure and sustainable energy.

In its December 2015 resolution on the Commission's Energy Union strategy,⁴⁴⁵ the Parliament welcomed the new framework and underlined that a fully functioning, interconnected internal energy market was the backbone of the future Energy Union. It notably called for the establishment of a pan-European electricity grid and gas network with the capacity to transmit power and gas across the EU from multiple sources. The Parliament also advocated continuing efforts to increase Europe's security of energy supply and to strengthen the external dimension of the Energy Union, by granting a more powerful role to the Commission in negotiations relating to energy issues.

Regarding some key aspects of the post-2020 EU climate and energy framework, the Parliament was in favour of removing state subsidies for most polluting coal power plants in Europe. Regarding energy efficiency, it advocated for at least 35 % target by 2030⁴⁴⁶, supported the idea of making the EU electricity market more consumer-friendly and empowering EU energy consumers so that they can produce, consume, store and trade energy and actively engage in energy market through customer choice.⁴⁴⁷ The Parliament has been supporting increase in cross-border flow of electricity and the EU-wide 15 % interconnection target by 2030.⁴⁴⁸ Moreover, it has since long time advocated for abolition by Member States of regulated prices. Although Member States will still be able, under strict conditions, to temporarily regulate prices to protect and assist energy-poor households, the EP was in favour of EU governments preferably addressing energy poverty through social security systems instead.⁴⁴⁹

European Commission and Council responses so far

In 2015, the European Commission adopted a strategy for a resilient Energy Union with a forward-looking climate change policy beyond 2020, a key point in the Commission President Jean-Claude

⁴⁴² [European Parliament resolution of 15 January 2015 on the situation in Ukraine](#), 2014/2965(RSP).

⁴⁴³ European Council, [Strategic Agenda for the Union in Times of Change](#), Conclusions of 26-27 June 2014.

⁴⁴⁴ European Council, [Conclusions on the Energy Union of 19 March 2015](#).

⁴⁴⁵ [European Parliament resolution of 15 December 2015 'Towards a European Energy Union'](#), 2015/2113(INI).

⁴⁴⁶ European Parliament, [Amendments adopted by the European Parliament on 17 January 2018 on the proposal for a directive of the European Parliament and of the Council amending Directive 2012/27/EU on energy efficiency](#), COM(2016)0761 – C8-0498/2016 – 2016/0376(COD).

⁴⁴⁷ European Parliament, [Press release : EU deal on electricity market rules to benefit both consumers and environment](#), 19 December 2018.

⁴⁴⁸ [EP resolution of 15 December 2015 on achieving the 10 % electricity interconnection target – Making Europe's electricity grid fit for 2020](#), 2015/2108(INI).

⁴⁴⁹ European Parliament, Press release : EU deal on electricity market rules (...), op.cit.

Juncker's 10-point plan.⁴⁵⁰ The Energy Union strategy sets out key actions, both legislative and non-legislative, to be taken in five dimensions: (i) energy security, (ii) the internal energy market, (iii) energy efficiency, (iv) decarbonisation and, (v) research, innovation and competitiveness.

Since 2015, the Commission has presented several packages of legislative and non-legislative documents of energy measures. Among the different measures, a package called 'Clean Energy for All Europeans'⁴⁵¹ aims at ensuring that energy transition would deliver investment and growth. The 'Clean Energy for All Europeans' package covers energy efficiency, renewable energy, design of the electricity market, security of electricity supply and governance rules for the Energy Union. Other complementary actions include measures to accelerate clean energy innovation, to renovate Europe's buildings and to encourage public and private investment and promote EU competitiveness. In line with these changes in the regulatory framework, a continued investment in physical infrastructure is needed in order to ensure successful EU's energy transition and security of energy supply. Therefore, at the end of 2017, the Commission made recommendations⁴⁵² to the Member States on how to achieve a 15 % electricity interconnection target by 2030 and in parallel proposed a revised list of Projects of Common Interest in energy infrastructure (updated every two years).⁴⁵³ Moreover, the Commission has proposed to continue financing of key Trans-European Energy Networks (TEN-E) in the new MFF financing period from 2021 to 2027.⁴⁵⁴ A mid-term review of the Connecting Europe Facility⁴⁵⁵ proved that the key EU infrastructure networks projects enabled by this instrument brought significant EU added value.

In its 'Strategic Agenda for the Union in Times of Change' of June 2014, the European Council set the objective of building a resilient Energy Union aiming at affordable, secure and sustainable energy.⁴⁵⁶ In October 2014, the EU Heads of State or Government gave guidance on the EU 2030 climate and energy framework⁴⁵⁷ and in March 2016 they recalled the importance of a fully-functioning and interconnected energy market.⁴⁵⁸

⁴⁵⁰ European Commission, Communication on A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, [COM\(2015\)80](#), February 2015.

⁴⁵¹ Commission Communication, [Clean Energy For All Europeans](#), COM(2016)860, November 2016.

⁴⁵² European Commission, [Communication on strengthening Europe's energy networks](#), COM(2017)718.

⁴⁵³ European Commission, [Commission Delegated Regulation \(EU\) 2018/540 of 23 November 2017 as regards the Union list of projects of common interest](#), C/2017/7834.

⁴⁵⁴ European Commission, [Proposal for a regulation establishing the Connecting Europe Facility and repealing Regulations \(EU\) No 1316/2013 and \(EU\) No 283/2014](#), COM/2018/438 final.

⁴⁵⁵ The programme funds not only key energy infrastructure projects but also transport and digital ones.

⁴⁵⁶ European Council, [Strategic Agenda for the Union in Times of Change](#), Conclusions of 26-27 June 2014.

⁴⁵⁷ European Council, [Conclusions of 24 October 2014](#), EUCO 169/14.

⁴⁵⁸ European Council, [Conclusions of 17-18 March 2016](#).

Estimated benefit of any Commission action so far

Since 2015, the EU has already achieved substantial progress towards its 2020 climate and energy goals, as the European Commission's 'State of the Energy Union' report shows.⁴⁵⁹ The EU committed to reduce its energy consumption by 20 % by 2020, which goes along with change in EU energy mix due to decarbonisation of the economy. Overall, since 1990s, the EU has managed to decouple its economic growth from the increase in energy consumption, reducing primary energy consumption by 11 % between 2005 and 2015.⁴⁶⁰ This was due to energy-intensity improvements and structural shifts towards less energy intensive sectors.

The key proposals presented by the Juncker Commission under the Energy Union since 2015 have been almost all adopted by the co-legislators. The EU 2030 climate and energy targets have been set: at least 40 % reduction of greenhouse gas emissions (compared to 1990), at least 32 % share for renewable energy and at least 32.5 % of energy efficiency (with an upwards revision clause by 2023).⁴⁶¹ If the adopted regulatory framework is properly implemented it will have an important impact on improving of the functioning and further integration of the European energy market, will increase energy efficiency, strengthen security of energy supply as well as enable the EU to achieve its 2030 climate and energy goals.

Looking forward

Despite progress in integration of the EU gas market in the last years, mainly due to implementation of the Third Energy Package, reform remains to be undertaken, as many inefficiencies and barriers prevent a seamless functioning of EU internal gas market. Therefore, a review of gas sector regulatory framework, as undertaken for the electricity market, could help remove remaining obstacles, such as barriers to cross-border trade and regulated gas prices. A recent study prepared for the Commission has identified several reform scenarios, which could bring substantial increase in EU consumer welfare.⁴⁶²

⁴⁵⁹ European Commission, [Third Report on the State of the Energy Union and its annexes](#), SWD(2017) 384 final - SWD(2017) 414 final.

⁴⁶⁰ M Economidou, [Assessing the progress towards the EU energy efficiency targets using index decomposition analysis](#), EUR 28710 EN, Publications Office of the European Union, Luxembourg, 2017.

⁴⁶¹ These targets are higher than those initially proposed by the Commission and will lead to steeper emission reductions for the whole EU – some 45 % by 2030 instead of 40 %.

⁴⁶² European Commission, [Quo vadis EU gas market regulatory framework – Study on a Gas Market Design for Europe](#), February 2018. Study on Quo vadis gas market regulatory framework Study on Quo vadis gas market regulatory framework Study on Quo vadis gas market regulatory framework.

19. Promoting research and innovation

Potential efficiency gain: €40 billion per year

Key proposition

Successful research and innovation (R&I) are key to economic prosperity and sustainable development. A wide range of studies have underlined their importance to economic growth, competitiveness, new and better jobs, improved healthcare systems and the alleviation of climate change.⁴⁶³ With more than 1.8 million researchers, the EU is home to more researchers in the world than any other jurisdiction. China and the United States follow, with 1.6 million and 1.3 million researchers respectively.⁴⁶⁴ Although the EU accounts for one-fifth of the world's research and development (R&D) investment, the Union's competitors and main trade partners are investing proportionally more: in 2015 China's R&D activity overtook the EU28's, with an expenditure of over 2.0 per cent of GDP, whilst the figures for the United States and Japan are respectively somewhat below and above 3.0 per cent.⁴⁶⁵

The EU is committed by Article 179 TFEU to strengthen 'its scientific and technological bases by achieving a European Research Area (ERA) in which researchers, scientific knowledge and technology circulate freely'. Launched in 2000, the ERA helps to maximise the use of scientific capacities and material resources in the EU Member States, but it has yet to be fully completed. In 2018, the European Commission put forward a proposal for a more ambitious EU research and innovation programme, Horizon Europe, covering the seven-year period of the next Multiannual Financial Framework (MFF), 2021-27. The successor to Horizon 2020, the Horizon Europe proposal is strongly supported by the European Parliament, and based on existing findings by the Commission, using various macro-economic simulations, such a deeper programme could achieve potential efficiency gains up to €40 billion per year.⁴⁶⁶

More detailed analysis of potential benefit

Over two-thirds of the economic growth in recent decades has derived from research and innovation, and it has accounted for 15 % of all productivity gains between 2000 and 2013.⁴⁶⁷ Studies indicate that EU-funded research activity has been characterised by considerable growth in terms of participating entities and participation across successive framework programmes, resulting

⁴⁶³ ['The Economic rationale for public R&I and its impacts'](#), Policy Brief Series, European Commission, 2017, as well as [Science, Research and Innovation Performance of the EU 2018, European Commission, 2018](#).

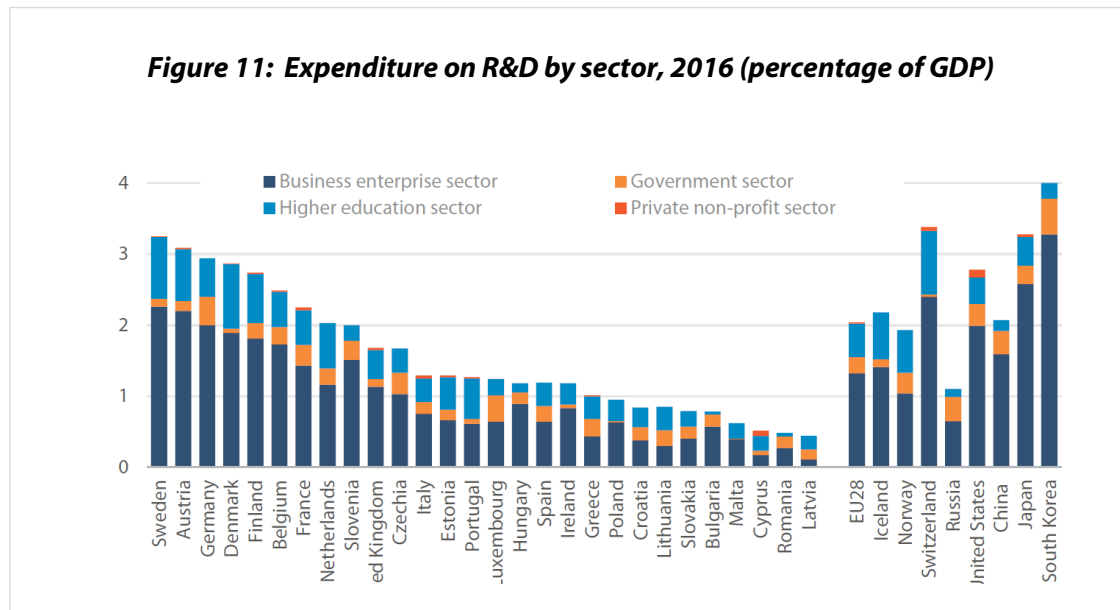
⁴⁶⁴ [Science, Research and Innovation Performance of the EU 2018, European Commission, 2018](#).

⁴⁶⁵ [R & D expenditure](#), Eurostat, March 2018.

⁴⁶⁶ [Science, Research and Innovation Performance of the EU 2018](#), European Commission, 2018.

⁴⁶⁷ V Reillon, [Preparing FP9: Designing the successor to the Horizon 2020 research and innovation framework programme](#), EPRS, April 2018.

in a wider set of networks, helping to create critical mass in research.⁴⁶⁸ Although R&D investment is rising, most Member States lag behind the 'Barcelona target' of spending 3% of GDP in this field, unlike countries such as South Korea, the US and Japan.⁴⁶⁹



Source: Eurostat, R & D expenditure.⁴⁷⁰

In 2016, a Cost of Non-Europe Report on the European Research Area⁴⁷¹, drafted by the European Added Value Unit of EPRS for the European Parliament's Committee on Industry, Research and Energy (ITRE), identified a remaining 'implementation gap' of 19 per cent before the ERA would be complete. On the basis of a distance-to-target calculation, it was estimated that those shortcomings could amount to GDP foregone of up to €3 billion per year.

The European Research Area is more than a framework and coordination and indeed EU support for research and innovation plays an essential role in achieving the objectives stated in the EU Treaty. To this end, this Mapping analysis broadens the scope and takes into account the planned successor to the current EU research and innovation framework programme, Horizon 2020, namely Horizon Europe. The future programme, proposed by the Commission, is estimated to generate an average GDP increase of 0.08% to 0.19% over a 25-year period. Conversely, if its predecessor, Horizon 2020, were to be discontinued, a decline of competitiveness and growth would be expected, including a loss of GDP up to €720 billion over a 25-year period, and up to €27 billion per year.⁴⁷²

⁴⁶⁸ T Roediger-Schluga and M J Barber, [R&D collaboration networks in the European framework programmes: data processing, network construction and selected results](#), International Journal of Foresight and Innovation Policy 4: 321-347, 2008. Breschi and 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.

⁴⁶⁹ [R & D expenditure](#), Eurostat, March 2018.

⁴⁷⁰ Taken from: C Karakas, [Research and innovation in the EU](#), EPRS, November 2018.

⁴⁷¹ C Salm and T Zandstra, European Research Area: Cost of Non-Europe Report, EPRS, European Parliament, April 2016.

⁴⁷² Impact Assessment for Horizon Europe [SWD\(2018\) 307](#), European Commission, June 2018.

The Commission's impact assessment uses a wide set of sources for its data, most notably the interim evaluation of Horizon 2020 and the Lamy High-Level Group Expert Report on the impact of EU research and innovation programmes. In order to quantify the economic impact of Horizon Europe in terms of GDP gains, three macro-economic models - NEMESIS, QUEST and RHOMOLO - are used.⁴⁷³

Based on these models, the estimated GDP gains of Horizon Europe for the EU compared to the baseline could range from +0.04% in a low scenario to +0.1% in a more optimistic scenario (which includes direct and indirect effects). The total impact could range from €30 billion to €40 billion on GDP per year over 25 years (€800 billion to €975 billion in total) with the Seureco⁴⁷⁴ analyses even estimating the total impact up to €~45 billion per year over 25 years (€~1,100 billion in total). This means that each euro invested could potentially generate a return of up to €11 of GDP.⁴⁷⁵ Based on the Seureco analyses and the Commission's impact assessment, it is assumed that additional growth within the European economy of up to €40 billion per year could be achieved.⁴⁷⁶

Table 9: Economic costs and benefits of Horizon Europe proposal

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 gain	€720 to 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 by 2027 Indirect benefit: Over 200,000 jobs by 2035	Management of projects and proposal evaluation	Cost for administrations: €500 - 600 million per year

Source: European Commission, A New Horizon for Europe, Impact Assessment on the 9th EU Framework Programme for Research and Innovation, 2018.

⁴⁷³ H Dailli, [Initial Appraisal of a European Commission Impact Assessment, 2021-2027 MFF](#), EPRS, November 2018.

⁴⁷⁴ SEURECO (Société EUROpéenne d'ECONomie) is a private company founded in 1995 by researchers from the University of Paris 1 Panthéon-Sorbonne and the Ecole Centrale Paris. Seureco was contracted by the European Commission, for an assessment of socio-economic and environmental impacts of Horizon Europe. More see: Seureco, [Support for assessment of socio-economic and environmental impacts \(SEEI\) of European R&I programme: The case of Horizon Europe - Study](#), European Commission, 2018.

⁴⁷⁵ Impact Assessment Horizon Europe [SWD\(2018\) 307](#), European Commission, June 2018, and Seureco, [Support for assessment of socio-economic and environmental impacts \(SEEI\) of European R&I programme: The case of Horizon Europe - Study](#), European Commission, 2018.

⁴⁷⁶ [Science, Research and Innovation Performance of the EU 2018](#), European Commission, 2018.

European Parliament position

The European Parliament has strongly supported the concept of the European Research Area and its being rapidly put in place. In its 2017 resolution, the Parliament considered the strengthening of the ERA to be 'a collective European duty' and encouraged Member States to contribute properly to meeting the target of 3% of EU GDP for R&D. The Parliament has supported the existing Horizon 2020 programme, whilst criticising under-used synergies between research and other EU policies, inadequate openness in public-private partnerships, and gender disparity in the participation in R&D.⁴⁷⁷ The Parliament believes that with the planned successor to Horizon 2020 - the Commission's proposal for Horizon Europe - 'the EU has the potential to become a world-leading global centre for research and science'. It has also called for an increase in the overall budget of €120 billion (in constant or 2018 prices) for that programme,⁴⁷⁸ namely by additional €20 billion to that proposed. If the multiplier effect of spending under Horizon 2020 - of somewhere between 6.0 and 8.5 - were to apply for Horizon Europe, let alone the multiplier of 11 assumed by the Commission, that additional spending of 20 billion could generate between 120 and 220 billion in additional GDP over 25 years, in addition to the sums analysed above.

European Commission response so far

Within the context of the new MFF, the European Commission is proposing Horizon Europe as the framework programme for research and innovation to succeed Horizon 2020.⁴⁷⁹ In June 2018, the Commission proposed a total budget allocation of €100 billion to finance research and innovation projects during the 2021-27 financing period. In detail, €94.1 billion in current prices would be allocated to Horizon Europe, €3.5 billion from the InvestEU Fund for Horizon Europe, and €2.4 billion for the Euratom research and training programme. This would represent an increase of 29 % in comparison with the current (2014-20) Multiannual Financial Framework.⁴⁸⁰

Estimated benefit of any Commission action so far

To date, the Horizon 2020 Framework Programme has supported over 18,000 projects on the basis of more than €31 billion in funding. According to the Commission's impact assessment, every euro invested under Horizon 2020 brings an estimated GDP increase of €6 to €8.5 (€400 to €600 billion⁴⁸¹ and 179,000⁴⁸² jobs by 2030).

⁴⁷⁷ C Karakas, [Research and Innovation in the EU](#), EPRS, November 2018.

⁴⁷⁸ H Dailli, [Initial Appraisal of a European Commission Impact Assessment 2021-2027 MFF](#), EPRS, November 2018.

⁴⁷⁹ Ibid.

⁴⁸⁰ C Karakas, EU Legislation in Progress 2021-2027 MFF [Horizon Europe – Specific programme](#), EPRS, November 2018.

⁴⁸¹ [Horizon 2020 Interim Evaluation](#), May 2017.

⁴⁸² H Dailli, [Initial Appraisal of a European Commission Impact Assessment 2021-2027 MFF](#), EPRS, November 2018.

20. Robotics and Artificial Intelligence

Potential efficiency gain: €206 billion per year

Key proposition

Developments in the field of robotics and artificial intelligence (AI) offer an enormous economic potential for the European Union. The most recent estimate by the World Economic Forum suggests that only 'developing and diffusing AI in its current assets and digital position could add up to an estimated €2.7 trillion to European economic output by 2030.'⁴⁸³ Forecasting developments in in this fast-moving policy area is difficult and subject to many assumptions that lack, at this point of time, sufficient empirical evidence.⁴⁸⁴ On the one hand, the growth in robotics and AI related industries can create real economic value and, appropriately regulated, can have positive implications for individual citizens and the society as a whole. It can improve the qualities of life, health and the environment, and provide citizens with new business opportunities that can underpin economic growth.⁴⁸⁵ On the other hand, the development and uptake of AI technologies can also, if not appropriately regulated, create significant economic externalities, reinforce regional and foster social inequalities and exclusion.

In order to capture the benefits of this potentially powerful technological development, the EU is already engaged in assessing the implications for its policies - with implications not just for innovation and research and development, but competition, cohesion and labour market policies - as well as focussing on complex issues related to ethics, liability, data protection, safety and security, standardisation and intellectual property rights. Considering that the very early uptake of the AI technologies is inevitably surrounded by a high degree of uncertainty, it is especially difficult to make confident estimates about the potential economic gains from EU-level action in this field. However, an initial assessment is that appropriate EU policies to promote and regulate these new technologies could help realise a potential efficiency gain within the European economy of €206 billion per year.

More detailed analysis of potential benefit

Key AI technologies, such as machine learning, are increasingly considered as the most important general-purpose technologies (GPT) of our era.⁴⁸⁶ Similarly to other GPTs in the past - such as the steam engine, electricity and internet - AI technologies will have profound effects on all areas of

⁴⁸³ World Economic Forum and McKinsey, [Innovate Europe Competing for Global Innovation Leadership](#), 2019.

⁴⁸⁴ For analysis and review, see Joint Research Centre, [Artificial Intelligence: A European Perspective](#), 2018.

⁴⁸⁵ For discussion on challenges and opportunities of AI technologies see e.g. Agrawal, A et.al. (eds.) *The Economics of Artificial Intelligence*, University of Chicago Press, 2019; European Commission, [Artificial Intelligence: A European Perspective](#). December 2018.

⁴⁸⁶ Cockburn, IM, et al., *The Impact of Artificial Intelligence on Innovation*, NBER Working Paper No. w24449., 2018.; Trajtenberg, Manuel 'AI as the Next GPT: A Political Economy Perspective.' in, Agrawal, A et.al. (eds.) *The Economics of Artificial Intelligence*, University of Chicago Press, 2019.

economy.⁴⁸⁷ As Brynjolfsson and McAfee have written: 'The impact of these innovations on business and the economy will be reflected not only in their direct contributions but also in their ability to enable and inspire complementary innovations. New products and processes are being made possible by better vision systems, speech recognition, intelligent problem-solving, and many other capabilities that machine learning delivers.'⁴⁸⁸ This broad impact of the AI technologies, as well as relatively early adoption of these technologies, makes the quantification of the potential impact of AI, for example, on growth, productivity, employment and income distribution very difficult to quantify. Estimates on the worldwide economic impact of the development in the robotics and AI by 2030, for example, range of between € 2 and € 12 trillion.

Table 10: Estimated potential economic impact of robotics and AI (€ per year)

Global potential efficiency gain from AI technologies (annually) by 2025	Estimated EU share in the global market ⁴⁸⁹	Estimated EU added value
€6.5 trillion to €12 trillion	€1.03 trillion to €1.9 trillion (15.9%)	€206 billion to €381 billion

Table 11: Estimated European added value of robotics and AI (€ per year)

Source	Estimate	Coverage	Time-scale
McKinsey, 2017 ⁴⁹⁰	500 billion	Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, Netherlands, Norway Sweden	2017 - 2030
PWC, 2018 ⁴⁹¹	2.19 trillion	UK, Germany, Spain	2016 - 2030
Accenture, 2016 ⁴⁹²	3.331 trillion	Austria, Belgium, Finland, France, Germany, Italy, Netherlands, Spain, Sweden, UK	2035
McKinsey, 2018 ⁴⁹³	11.42 trillion	World	Only for 2030

Sources: Author's own calculations, based on the reports cited.⁴⁹⁴

There is not yet any comprehensive estimate of the potential added value to Europe related to robotics and AI. A recent EP study, focussing only on three already-adopted EU legal instruments

⁴⁸⁷ See e.g McKinsey, [Notes from the AI Frontier](#), 2018, that discusses over 400 use cases of AI

⁴⁸⁸ Erik Brynjolfsson and Andrew McAfee, Harvard Business Review, 2017.

⁴⁸⁹ PWC, [The macroeconomic impact of Artificial Intelligence](#), February 2018.

⁴⁹⁰ McKinsey, [Shaping the future of work in Europe's digital front-runners](#), 2017.

⁴⁹¹ Pwc, [The macroeconomic impact of Artificial Intelligence](#), 2018.

⁴⁹² Accenture, [Why Artificial Intelligence is the future of growth](#), 2016.

⁴⁹³ McKinsey, [Modelling the Impact of AI on the World Economy](#), 2018

⁴⁹⁴ the currently available economic projections, based on quantification of the economic potential of the AI technologies, diverge widely, both in the coverage of countries and estimated period.

related to data and AI, estimates an annual economic benefit of €51.6 billion.⁴⁹⁵ Our preliminary estimation on the EU potential efficiency gain focusses on three dimensions - (i) automation of knowledge work, (ii) robots, and (iii) autonomous vehicles⁴⁹⁶ - based on European Commission data on the potential global impacts of AI by 2025⁴⁹⁷ and EU share of the global market.⁴⁹⁸ At the moment, the robotics and AI sector is expected to represent between €6.5 and €12 trillion of global GDP by 2025, with the European share of that market at 15.9 percent (in other words, between €1.03 and €1.9 trillion). Investment by EU institutions and Member-State governments currently represents around 20 per cent of total investment in the sector in Europe. Assuming a comparable rate of return between public and private investment, it is reasonable to assume that properly coordinated governmental action within the EU could help realise an annual figure of between €206 and €381 billion in additional GDP during the period in question. For the purpose of this analysis, the lower bound is retained.

European Parliament position

In 2015, the European Parliament established a working group on legal questions related to the development of Robotics and AI in the European Union. This work resulted in the adoption of the 2017 Parliament resolution on Civil Law Rules on Robotics.⁴⁹⁹ In this resolution the Parliament prioritised six main areas of EU legislative concern: ethics, liability, intellectual property and flow of data, standardisation, employment and institutional coordination and oversight. The Parliament also called on the Commission to submit a proposal for a directive on civil law rules on robotics. The Parliament has also carried out an EU-wide public consultation on robotics and AI.⁵⁰⁰ The results suggested that large majority of respondents supported the need for public regulation in the area and that this regulation should take place at EU and/or international level.

In 2018, the Parliament also adopted resolutions on blockchain technology⁵⁰¹ and autonomous weapon systems⁵⁰², and at the beginning of 2019, resolutions on the autonomous driving in European transport⁵⁰³ and a comprehensive European industrial policy on artificial intelligence and robotics.⁵⁰⁴

⁴⁹⁵ [Contribution to growth: The European Digital Single Market delivering economic benefits for citizens and businesses](#), EP Policy Department A, 2019.

⁴⁹⁶ This is also a partial approach and does not yet fully cover the full spectrum of actual or potential use cases and impacts of AI.

⁴⁹⁷ By 2025, the global potential efficiency gain from automation of knowledge work, robots and autonomous vehicles. Source European Commission, [Communication on Artificial Intelligence for Europe](#), COM(2018) 237, April 2018.

⁴⁹⁸ According to a PWC report around 15.9% of the overall impact of AI on the global future GDP will be reached within Europe. PWC, [The macroeconomic impact of artificial intelligence](#), February 2018.

⁴⁹⁹ European Parliament, [Civil Law Rules on Robotics](#).

⁵⁰⁰ European Parliament, [Public Consultation on Robotics and AI](#), 2017.

⁵⁰¹ [Distributed ledger technologies and blockchains: building trust with disintermediation](#) 2017/2772(RSP)).

⁵⁰² [Autonomous weapon systems](#), P8_TA-PROV(2018)0341.

⁵⁰³ [Autonomous driving in European transport](#), 2018/2089(INI).

⁵⁰⁴ [Comprehensive European industrial policy on artificial intelligence and robotics](#), 2018/2088(INI).

European Commission response so far

In 2018, the European Commission adopted a communication on Artificial Intelligence for Europe⁵⁰⁵ and a Coordinated EU Plan on Artificial Intelligence.⁵⁰⁶ In the first half of 2019, the Commission is expected to adopt ethics guidelines for trustworthy artificial intelligence,⁵⁰⁷ guidance on the Product Liability Directive, and a report on broader implications for liability and safety frameworks.⁵⁰⁸

Estimated benefit of any Commission action so far

Between 2014-2017, the European Commission invested, under the Horizon 2020 Programme, €2.6 billion on AI-related areas, and €27 billion through European Structural and Investment Funds on skills development.⁵⁰⁹ A further €1.5 billion are earmarked by the Commission to support AI research by 2020 through Horizon 2020.

Looking forward

The increased possibilities of interpenetration between human and artificial intelligence systems have a potential for empowerment and economic growth, but they also trigger tensions or risks related to human safety, privacy, integrity, dignity, autonomy and data ownership. The increased autonomy of robots also raises the questions of their legal responsibility and liability, as well as set of complex ethical questions related to the design, production and use of robots. The development of robotics and AI also raise concerns about the future of employment and the viability of social security systems. These sets of questions need to be analysed in more detail.

⁵⁰⁵ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on Artificial Intelligence for Europe, [COM\(2018\)237](#), April 2018.

⁵⁰⁶ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Coordinated Plan on Artificial Intelligence, [COM\(2018\)795](#), 2018.

⁵⁰⁷ European Commission, [Draft Ethics guidelines for trustworthy artificial intelligence](#).

⁵⁰⁸ The European Commission established in 2018 a [High-Level Expert Group on Artificial Intelligence](#) that should support work of the Commission.

⁵⁰⁹ From funding via the European Structural and Investment funds, €2.3 billion have been specifically invested in digital skills through European Social Fund, European Commission [AI Factsheets](#), 2018.

TRANSPORT AND TOURISM

21. Single European Transport Area Potential efficiency gain: €6 billion per year

Key proposition

Transport plays a key role in the smooth operation of the European Union economy. Despite significant progress made over the last 20 years in creating a single market for transport and decreasing the impact of external costs, the sector still suffers from multiple barriers that generate substantial additional costs affecting the environment, safety, human health, and the competitiveness of the economy. Together with adaptation to new socio-economic and technological challenges, the sector requires implementation of integrated measures to secure efficient transport systems, higher levels of transport safety, adequate social rules, and the enhanced environmental sustainability of the sector.

Research commissioned by the European Added Value Unit of EPRS for the European Parliament's Committee on Transport and Tourism (TRAN) in 2014⁵¹⁰ showed that the removal of inefficiencies in the transport sector has the potential to yield annual gains of at least €5.7 billion and would mean improved mobility for citizens, enhanced environmental sustainability, better intra-EU connectivity and greater international competitiveness.

More detailed analysis of potential benefit

The European Parliament's research identified remaining regulatory gaps in the Single European Transport Area and quantified, wherever it was possible, the potential impact of filling those gaps. It estimated the potential benefits of removing barriers and inefficiencies in the single market for rail transport at between €20 and 55 billion during the 2015-35 period, or between €1 and 2.7 billion per year (Table 8). Integration in the road sector could bring a net benefit of €50 to 90 billion over the same period, or between €2.5 and €4.5 billion per year. In air transport, between €18 billion and 36 billion could be saved over the 2014-34 period, or between €0.9 and 1.8 billion per year. Optimisation of maritime and inland logistic container routes could generate between €26 and 52 billion in savings over the same period, or between €1.3 and €2.6 billion annually.

⁵¹⁰ M Nogaj, [Cost of Non-Europe Report - Single Market in Transport and Tourism](#), EPRS, October 2014.

Table 12: Potential savings and efficiency gains in transport by sector

Building blocks - Potential savings and efficiency gains in transport and tourism by sector	Annual cost of non-Europe (€ billion) ⁵¹¹
Rail transport	1
Road transport	2.5
Air transport	0.9
Water transport	1.3
Total	5.7

Source: M Nogaj, [Cost of Non-Europe Report - Single Market in Transport and Tourism](#), EPRS, October 2014.

The calculations for rail and road (land) transport reflect direct efficiency gains for the economy and represent a small proportion of potential overall indirect benefits, such as improved environmental sustainability. Additional benefits in land transport were assessed at between €300 and €800 billion by 2035 (or between €15 and €40 billion annually).⁵¹² The study did not quantify missing rail infrastructure links at borders, which would have a positive effect on the competitiveness of rail and improved connectivity in Europe.

A 2015 study prepared for the European Commission analysed the costs of potential non-completion of nine European Core Network Corridors (CNC), which the EU has been developing under the name of Trans-European Transport Networks (TEN-T) to increase connectivity in transport by 2030.⁵¹³ The research showed that non-completion of CNC would mean a total EU GDP reduction of €2,570 billion between 2015 and 2035 (€128.5 billion annually on average) and that about 8.9 million job-years of employment would not have been generated. The study was based on an economic model which estimates both direct effects of non-completing the CNC on the transport system and economy, as well as indirect or second-round impacts on the economy.

Also a number of other studies by the Commission already point to potentially significant gains from further action in specific EU transport modes. In the *maritime sector*, the potential of environmental charging in ports was recently analysed. It showed that if all ports in the EU (plus Norway and Turkey) were to apply an environmental charging scheme based on common characteristics, an average 30% rebate on port dues for 'green ships' could result in incentives for the shipping sector of €1.4 billion over 5 years (provided that at least 30% of the EU fleet met the eligibility criteria).⁵¹⁴ In *air transport*, review of European slot allocation rules alone could lead to €5 billion in efficiency gains by 2025, or €334 million per year (estimated over a period of 15 years from 2010 to 2025).⁵¹⁵

⁵¹¹ M Nogaj, [Cost of Non-Europe Report](#), op.cit., p.62. Lowest-range estimates have been used.

⁵¹² Steer Davies Gleave, [Cost of Non-Europe in the Single Market for Transport and Tourism - Road Transport and Railways \(Annex I\)](#), 2014, p.87.

⁵¹³ W Schade et al., [Cost of non-completion of the TEN-T](#), 2015.

⁵¹⁴ European Commission, [Differentiated port infrastructure charges to promote environmentally friendly maritime transport activities and sustainable transportation](#), 2017.

⁵¹⁵ European Commission, [Impact Assessment accompanying the White Paper – Roadmap to a Single European Transport Area - Towards a competitive and resource-efficient transport system](#), SEC(2011)0391, March 2011.

European Parliament position

The European Parliament has stressed the importance of a single transport area characterised by intermodality, inter-connectivity and inter-operability, based on genuine European management of transport infrastructure and systems, and which is to be achieved by eliminating 'border effects' between Member States in all transport modes.⁵¹⁶ In the Parliament's view, this requires both effective implementation of existing EU legislation by Member States, and where necessary its simplification for the future. The Parliament has strongly supported efforts to increase the sustainability of transport by reducing the sector's emission output. It has called on the Commission to adapt transport greenhouse gas (GHG) emissions targets to the EU 2030 climate goals and called for a proposal that would deliver the 2011 White Paper's long-term target of reducing GHG emissions from transport by at least 60 % by 2050.⁵¹⁷

Consequently, the Parliament has advocated setting mandatory limits on heavy-duty vehicles' emissions.⁵¹⁸ The Parliament has also long supported the development of multimodal combined transport modes⁵¹⁹ and called on the Commission to revise the combined transport directive, eliminate unfair practices and ensure compliance with the relevant social legislation.⁵²⁰ In the air transport sector, the Parliament has welcomed the 2015 Aviation Strategy and the related legislative proposals⁵²¹ and supported the Commission's proposal to update aviation safety rules with new rules on drones.⁵²² Regarding files blocked in the Council - the Single European Sky (SES2+) package and the review of the common rules on allocation of slots at EU airports - the Parliament has called on Member States to take steps to advance in negotiations, but also on the Commission to propose viable alternatives in view of the stalemate.⁵²³

Commission and Council responses so far

In the field of *maritime transport* the Commission has conducted in 2016 a fitness check of the EU legislation on passenger ship safety and presented a package of legislative proposals aimed at simplifying rules and cutting administrative costs, while at the same time making sea travel safer. In

⁵¹⁶ [European Parliament resolution of 9 September 2015 on the implementation of the 2011 White Paper on Transport: taking stock and the way forward towards sustainable mobility \(2015/2005\(INI\)\)](#).

⁵¹⁷ European Commission, [2011 White Paper on transport](#), COM(2011)0144; European Parliament resolution of 9 September 2015, op.cit.

⁵¹⁸ European Parliament resolution of 9 September 2015, op.cit.

⁵¹⁹ European Parliament resolution of 9 September 2015, op.cit.

⁵²⁰ European Parliament, [Committee on Transport and Tourism legislative report on the proposal for a directive amending Directive 92/106/EEC on the establishment of common rules for certain types of combined transport of goods between Member States](#), 2017/0290(COD).

⁵²¹ [European Parliament resolution of 11 November 2015 on aviation \(2015/2933\(RSP\)\)](#).

⁵²² [European Parliament resolution of 16 February 2017 on an Aviation Strategy for Europe 2016/2062\(INI\)](#).

⁵²³ [European Parliament resolution of 16 February 2017](#), op.cit.

result, three directives were adopted in November 2017.⁵²⁴ Regarding *road transport*, in 2017 and 2018, Commission presented several legislative and non-legislative proposals within the 'Europe on the Move' road package.⁵²⁵ Three sets of proposals aim at modernising EU road transport, keeping it competitive, safe, providing rules ensuring social fairness, as well as accelerating the shift to clean energy, and digitalisation. In relation to *air transport*, three legislative files stemming from the Commission's Aviation Package⁵²⁶ were recently adopted⁵²⁷, and on one the Council and the Parliament have reached a preliminary agreement.⁵²⁸ The Commission is also negotiating, on behalf of the Member States, EU-level comprehensive aviation agreements with EU's major trading partners⁵²⁹ as well as bilateral air safety agreements with China and Japan.

These EU-level responses have addressed several of the gaps identified in the 2014 Cost of Non-Europe Report. However, it is still too early to estimate their exact impact, as the legislation has either not yet entered into force or awaits full implementation.

Estimated benefit of any Commission action so far

As mentioned above, during the EP's current legislative term, the European Commission has taken a number of initiatives in order to fully exploit the potential of the EU transport market.

In the *rail sector*, several studies supporting the so-called Fourth Railway Package⁵³⁰, estimated the net gains in the range of €18 billion to 32 billion over a period from 2019 to 2034 from further market opening, greater open tendering for public service contracts and continued unbundling.⁵³¹ If the lower figure was retained, average benefits could be around €1 billion per year. Revision of the

⁵²⁴ [Directive \(EU\) 2017/2108 on safety rules and standards for passenger ships](#), [Directive \(EU\) 2017/2109 on registration of persons sailing on board passenger ships](#) and [Directive \(EU\) 2017/2110 on Inspections of ro-ro ferries and passenger craft](#).

⁵²⁵ European Commission, [Europe on the Move: Commission takes action for clean, competitive and connected mobility](#), DG Mobility and Transport, 31 May 2017; European Commission, [Energy Union: Commission takes action to reinforce EU's global leadership in clean vehicles](#), DG Mobility and Transport, 8 November 2017; European Commission, [Europe on the Move: Commission completes its agenda for safe, clean and connected mobility](#), DG Mobility and Transport, 17 May 2018.

⁵²⁶ European Commission, [An Aviation Strategy for Europe](#), DG Mobility and Transport.

⁵²⁷ [Regulation \(EU\) 2018/1139 of the European Parliament and of the Council of 4 July 2018 on common rules in the field of civil aviation and establishing a European Union Aviation Safety Agency](#) and [Regulation \(EU\) 2019/2 of the European Parliament and of the Council of 11 December 2018 amending Regulation \(EC\) No 1008/2008 on common rules for the operation of air services in the Community, which is only a technical adaptation to ensure legal consistency of the regulation with an international agreement with the United States and a full review of the rules is being prepared by the Commission](#).

⁵²⁸ [Proposal for a Regulation of the European Parliament and of the Council on safeguarding competition in air transport, repealing Regulation \(EC\) No 868/2004, COM/2017/0289 final - 2017/0116 \(COD\)](#).

⁵²⁹ European Commission, [An ambitious external aviation policy](#), DG Mobility and Transport.

⁵³⁰ European Commission, [Fourth Railway Package of 2016](#), Directorate-General for Mobility and Transport.

⁵³¹ [Further action at European level regarding market opening for domestic passenger transport by rail and ensuring non-discriminatory access to rail infrastructure and services](#), Steer Davies Gleave, November 2012.

institutional framework of the European Railway Agency (ERA), proposed in the same package, could bring an economic benefit of €508 million from 2015 to 2025, or some €50 million per year.⁵³²

In the *maritime transport* field, work has been finalised on the regulation on ports services and financial transparency of ports, which is estimated to bring €1 billion of savings annually thanks to cuts in port-related costs by around 7%.⁵³³ The proposal on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport that has been adopted as Regulation (EU) 2015/757 is expected not only to deliver emission reductions but also to generate fuel savings of up to €52 billion by 2030 for the sector.

In *road transport*, some potential benefits stemming from the recently-proposed road package (see above), once adopted, will include: reduction of congestion costs by €9 billion by 2030, thanks to the revision of the Eurovignette directive; €10 billion of additional toll revenues annually for national budgets, helping to increase investment in roads by 25 %⁵³⁴; and €64.6 billion of savings (reduced cost) for industry between 2022 and 2030, thanks to common rules on combined transport of goods⁵³⁵. This could be achieved because of clearer conditions in the implementation of the directive, usage of electronic transport documents and means, and extended economic support. However, the failure to reach the modal shift target between 2005 and 2030 would mean losing €1.2 billion in external cost savings and 4.4 Mtons of CO2 emissions.⁵³⁶

Looking forward

During the current (2014-19) parliamentary term, much new transport-related legislation has been adopted. This should contribute to the further creation of the Single European Transport Area, which is a crucial component of a thriving single market. Coming years will show what the effects and benefits of these actions undertaken at EU level are. Moreover, the forthcoming Multiannual Financial Framework (MFF) for the period 2021-27 will continue to finance key transport infrastructure (mainly through the Connecting Europe Facility) in order to address market failures, remove persistent gaps and bottlenecks, create cross-border connections and enable synergies between the transport, energy and telecommunications sectors.

⁵³² [Impact assessment support study on the revision of the institutional framework of the EU railway system, with a special consideration to the role of the European Railway Agency](#), Steer Davies Gleave, June 2012.

⁵³³ European Commission, [Impact Assessment accompanying the proposal for a regulation establishing a framework on the market access to port services and the financial transparency of ports](#), SWD(2013)0182, May 2013.

⁵³⁴ European Commission, [Commission Staff Working Document executive summary of the impact assessment of revision of the Eurovignette directive](#), SWD(2017)0181 final.

⁵³⁵ European Commission, [Staff Working Document executive summary of the impact assessment on the establishment of common rules for certain types of combined transport of goods between Member States](#), SWD(2017)0363 final.

⁵³⁶ European Commission, [Impact Assessment of amending the combined transport directive](#), SWD(2017)0362 final.

22. Developing tourism policy

Potential efficiency gain: €6 billion per year

Key proposition

With some 539 million international visitors each year, representing around 40 per cent of world market share, the EU is the leading tourism destination in the world and the outlook for the future remains positive.⁵³⁷ Nevertheless, the tourism industry faces multiple challenges and constraints. It is heavily depending on small and medium-sized enterprises (SMEs), the sector's backbone, which struggle with administrative burdens and a multitude of regional and national regulations. The incremental seasonality of tourism affects its human resources, which are mainly young people, migrants, part-time workers and women.⁵³⁸ There are many low-skilled jobs available, a mismatch between supply and demand in the workforce, and a situation where workers see little perspective of career development. Moreover, although EU still grows as a tourist destination, the sector faces competition from emerging non-European destinations. The complexity of tourist visa arrangements for third-country visitors may affect the latter's decision as to where to go on holiday. EU tourism policy aims at preserving the bloc's leading tourist destination position, ensuring it contributes to economic growth, employment and regional and social development. The Lisbon Treaty provides for the Union complementing the action of EU Member States in tourism sector, but excludes any harmonisation of laws.⁵³⁹

Research commissioned by the European Added Value Unit of EPRS for the European Parliament's Committee on Transport and Tourism (TRAN)⁵⁴⁰ has looked at the potential benefits from further action in the tourism sector. It suggests that the EU-level action on to help reduce inefficiencies in the sector has the potential to yield annual gains of at least €5.7 billion to the European economy.

More detailed analysis of potential benefit

The European tourism industry continues to face many challenges and to be hampered by many market inefficiencies. Further benefits can be achieved by addressing tourism industry sectors which have lowest economic efficiency, supporting the development of SMEs, and promoting the development of quality, sustainable tourism. The food-related sector has been identified as the one with the lowest economic efficiency and with the highest potential of efficiency gains from further EU action (see table below). The total potential efficiency gains from addressing the industry sectors identified for the purpose of the above study, have been estimated at an average between €5.7 and 6.8 billion per year. This excludes potential gains to be achieved from implementation of

⁵³⁷ World Tourism Organization, [UNWTO Tourism Highlights, 2018 Edition](#).

⁵³⁸ European Commission, [Blueprint for sectoral cooperation on skills - Tourism. Responding to skills mismatches at sectoral level. A key action of the New Skills Agenda for Europe](#), 2017.

⁵³⁹ [Consolidated version of the Treaty on the Functioning of the European Union, Article 195](#).

⁵⁴⁰ M Nogaj, [The Cost of Non-Europe in the Single Market in Transport and Tourism](#), EPRS, October 2014.

current policies, focuses only on future action and excludes the transport sector to avoid double-counting with other sections of the Mapping exercise.

Table 13: Potential gains from further EU action in tourism

Potential gains in main tourism industry sectors	Annual potential gains from further EU action (€ billion) ⁵⁴¹
Food-related services	4.1-4.4
Accommodation	1.0-1.2
Real estate	0.6-1.2
Total	5.7-6.8

Source: M Nogaj, [The Cost of Non-Europe in the Single Market in Transport and Tourism](#), EPRS, October 2014.

European Parliament position

In 2015, the European Parliament underlined the importance of promoting sustainable, responsible and eco-friendly tourism in Europe and called on the Commission to present a new strategy for EU tourism to replace or update its 2010 communication.⁵⁴² It called for tourism industry to be better recognised as an individual economic activity in terms of budget and actions through a dedicated budget line for tourism in the 2021-27 Multiannual Financial Framework (MFF). It also called for better management and fullest possible use of funds available for tourism sector - such as European Structural and Investment Funds (ESIF) and European Fund for Strategic Investments - and asked for doubling the financial envelope of the EU programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), which finances many SMEs projects in the tourism sector.⁵⁴³

The Parliament supported the Commission's proposal to review EU visa policy in order to ensure greater flows of tourists from certain third countries. It also called for further Commission action to eliminate skills gap in tourism, which remains one of the main challenges for the sectors' workforce management. The Parliament proposed to create a 'Destination(s) Europe' brand and to develop more transnational products and services to enhance sector's promotion and competitiveness.

European Commission and Council responses so far

The last comprehensive strategy on tourism presented by the European Commission dates back to 2010, when four priorities for action were set out.⁵⁴⁴ Since then, the Commission has been working

⁵⁴¹ Ibid, p.62., Low-range value estimates have been used.

⁵⁴² [European Parliament resolution of 29 October 2015 on new challenges and concepts for the promotion of tourism in Europe \(2014/2241\(INI\)\)](#).

⁵⁴³ [European Parliament resolution of 14 March 2018 on the next MFF: Preparing the Parliament's position on the MFF post-2020 \(2017/2052\(INI\)\)](#).

⁵⁴⁴ The four priorities for European tourism are: stimulating competitiveness; promoting the development of sustainable, responsible, and high-quality tourism; consolidating Europe's image as a collection of sustainable, high-quality destinations; and maximising the potential of EU financial policies for developing tourism. European Commission,

on several initiatives improving range of services and products European tourism has to offer, supports businesses involved in the tourism sector and engages in promoting destination Europe.⁵⁴⁵

Following the 2014 strategy⁵⁴⁶ dedicated to growth and jobs in coastal and maritime tourism, the 14 outlined actions are being implemented (closing gaps in tourism data availability, promoting pan-European dialogue on cruise tourism and supporting different forms of transnational and interregional tourism sector partnerships). The current Commission has addressed tourism through initiatives in different fields, such as a blueprint for sectoral cooperation on skills, an initiative that is meant to support strategic cooperation in skills development, by stimulating investment and a better use of existing funding opportunities among others in tourism sector.⁵⁴⁷ In the field of shared (collaborative) economy, which is closely linked with tourism and travel products and services, the Commission provides guidance and policy recommendations.⁵⁴⁸

Estimated benefit of any Commission action so far

The main recent EU tourism-specific legislation is Directive (EU) 2015/2302 on package travel and linked travel arrangements, which entered into force in July 2018. The legislation has been amended mainly to update it to take account of digital age, with new ways of online holiday-booking. It is expected to reduce damage to consumers by about €430 million a year, thanks to improved protection of package-holiday travellers and linked travel arrangements, including insolvency protection⁵⁴⁹. It will also benefit cross-border trade in the travel sector through increased harmonisation and modernisation of information requirements, which are expected to save travel companies €390 million per year in administrative costs. This will render the competition between travel-market entities fairer and keep the compliance costs lower than otherwise.

The Commission's 2014 report showed that the current EU short-term visa regime deters third-country tourist arrivals to the EU due to unnecessary burdens for applicants and consulates.⁵⁵⁰ In 2018, the Commission put forward a proposal to address this problem.⁵⁵¹ If adopted, it could save

[Communication 'Europe, the world's No 1 tourist destination – A new political framework for tourism in Europe'](#), COM(2010)0352, June 2010.

⁵⁴⁵ European Commission, [Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Enhancing what European tourism has to offer](#). See for example the initiatives on [European Destinations of Excellence \(EDEN\)](#) or [European Capital of Smart Tourism](#).

⁵⁴⁶ European Commission, [Communication 'A European Strategy for more Growth and jobs in coastal and maritime tourism'](#), COM(2014)086, February 2014.

⁵⁴⁷ European Commission, [Professional skills](#), Directorate General for Internal Market, Industry, Entrepreneurship and SMEs.

⁵⁴⁸ European Commission, [Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Collaborative economy](#).

⁵⁴⁹ European Commission, [Commission Staff Working Document Impact Assessment Accompanying the document on package travel and assisted travel arrangements](#), SWD(2013)063, July 2013.

⁵⁵⁰ European Commission, [Study on the economic impact of short stay visa facilitation on the tourism industry](#), 2014.

⁵⁵¹ It is a second proposal on the subject as the first Commission proposal was made in 2014 but the co-legislators could not find agreement on certain issues. European Commission, [Proposal for a regulation amending Regulation \(EC\) No 810/2009 establishing a Community Code on Visas \(Visa Code\)](#), COM(2018)0252, March 2018.

between €4.2 billion and 12.6 billion per year, which translates to between 80,000 and 250,000 jobs, from both direct and indirect effects, within the Schengen area.

23. Stronger passenger rights

Potential efficiency gain: €0.3 billion per year

Key proposition

EU passengers travelling by air, road (bus), rail and water (sea and inland waterway) are protected by a specific legislative framework, which is virtually unique in the world. However, significant challenges remain both legally and practically in the respect for and execution of these rights. Differences in the level of protection from one mode of transport to another, cases of 'non-application', problems with interpretation of some regulations, low awareness of passenger rights and low rates of claims submitted by passengers, mean that passengers often do not enjoy in practice the rights to which they are entitled.⁵⁵² A Cost of Non-Europe Report prepared by the European Added Value Unit of EPRS for the European Parliament's Committee on Transport and Tourism (TRAN)⁵⁵³ estimated that the cost to citizens and businesses resulting from the absence of a consolidated framework for passenger rights is at least €355 million per year.

More detailed analysis of potential benefit

The Cost of Non-Europe Report identifies the current gaps and inconsistencies in the protection of 10 core passenger rights across the different transport modes (air, rail, water and road transport). These rights are: 1) The right to non-discrimination in access to transport; 2) the right to mobility; 3) the right to information; 4) the right to renounce travelling in case of disruption; 5) the right to the fulfilment of the transport contract in case of disruption; 6) the right to assistance in cases of delay or cancellation; 7) the right to compensation under certain circumstances; 8) the right to carrier liability towards passengers and their baggage; 9) the right to a quick and accessible system of complaint handling; and 10) the right to full application and effective enforcement of EU law.

On this basis, the study quantifies the economic costs arising from such shortcomings, as well as from the fragmentation of current EU passenger rights legislation. The quantitative analysis focusses on selected aspects in four areas of passenger rights: transparency, quality of service, enforcement and inter-modality. The costs taken into consideration include: the cost of time lost by passengers while searching for adequate information on the final price of tickets and other services included (or not) in the final price; legal costs related to complaint-handling and litigation; and the cost of time lost owing to delays, cancellations and non-optimal intermodal connections.

⁵⁵² For more information, see the latest European Court of Auditors' report on [Passenger rights in the EU](#), 2017.

⁵⁵³ M Nogaj, [Codification of passenger rights: Cost of Non-Europe Report](#), EPRS, European Parliament, July 2015, and [Single Market in Transport and Tourism : Cost of Non-Europe Report](#), EPRS, October 2014.

Table 14: Potential savings due to the codification of passenger rights, by transport mode

	Transport mode	Cost of non-Europe (€ million per year)
Transparency	Air	130
Quality of service	Air	18
Enforcement	Air, rail, road, water	69
Intermodality	Air-rail (high speed train airport connections and integrated ticketing)	138
Total:		355

Source: M Nogaj, Codification of passenger rights: Cost of Non-Europe Report, EPRS, European Parliament, July 2015; and Single Market in Transport and Tourism : Cost of Non-Europe Report, EPRS, October 2014.

European Parliament position

The European Parliament has called for completion of the passenger rights legislative framework with measures eliminating all possible loopholes in the legislation⁵⁵⁴ and for non-discrimination and removal of barriers in access to transport.⁵⁵⁵ It has also called for passenger rights protection in *multimodal journeys* and proposed establishment of a Charter of Passengers' Rights⁵⁵⁶ covering all forms of transport, taking account of the specific characteristics of each transport mode and integrated multimodal ticketing.⁵⁵⁷ Currently, passenger rights in multimodal journeys are limited because they apply separately to each contract of carriage individually, and are not guaranteed when it comes to cross-border legs.

Regarding *rights of passengers travelling by air*, the Parliament has called⁵⁵⁸ on the Member States to agree on the pending revision of regulations on air passenger rights.⁵⁵⁹ It also asked the Commission to act on clarification and legal certainty, liability, delays and cancellations, security clearance, open data and data-sharing standards.⁵⁶⁰ In its 2016 resolution on unleashing potential of waterborne passenger transport, the Parliament encouraged the Commission to integrate provisions from the regulation on *passenger rights travelling by sea* into the set of multimodal

⁵⁵⁴ [European Parliament resolution of 9 September 2015 on the implementation of the 2011 White Paper on Transport: taking stock and the way forward towards sustainable mobility \(2015/2005\(INI\)\)](#).

⁵⁵⁵ [European Parliament resolution of 22 November 2016 on unleashing the potential of waterborne passenger transport \(2015/2350\(INI\)\)](#), European Parliament resolution of 9 September 2015, op.cit.

⁵⁵⁶ [European Parliament resolution of 23 October 2012 on passenger rights in all transport modes \(2012/2067\(INI\)\)](#).

⁵⁵⁷ [European Parliament resolution of 7 July 2015 on delivering multimodal integrated ticketing in Europe \(2014/2244\(INI\)\)](#).

⁵⁵⁸ European Parliament resolution of 9 September 2015, op.cit. and resolution of 16 February 2017, op.cit.

⁵⁵⁹ European Parliament has adopted its [first reading position](#) on the [Proposal for a Regulation amending Regulation \(EC\) No 261/2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights and Regulation \(EC\) No 2027/97 on air carrier liability in respect of the carriage of passengers and their baggage by air](#), COM(2013)0130 final - 2013/0072 (COD). Nevertheless, the proposal has been on ice in the Council since 2013. Problems in reaching agreement stem from Member States' divergent views of on passengers and airlines interests and from an on-going dispute over the Gibraltar airport between Spain and the UK.

⁵⁶⁰ [European Parliament resolution of 16 February 2017 on an Aviation Strategy for Europe \(2016/2062\(INI\)\)](#).

passenger rights that is being prepared. It also stressed the need to take into account the needs of people travelling by waterborne transport with bicycles.⁵⁶¹ Regarding *rights of rail passengers*, in 2018, the Parliament voted a legislative resolution on a proposal for rules review.⁵⁶² It supported linking the level of compensation with the length of delay, and ensuring that passengers on journeys which involve more than one connection and who have been issued separate tickets are fully protected. The Parliament also called on Member States to stop using exemptions, supported a provision calling for facilitation of travelling with bicycles on trains. MEPs also voted against the Commission's proposal to introduce a *force majeure* clause in the event of delays, intended to align rail legislation with other EU transport legislation.

European Commission and Council responses so far

In response to the European Parliament's request that it address the legislative gap in the protection of passenger rights in multimodal transport, the European Commission is currently evaluating the relevance and possible scope of a legislative proposal. Regarding EU air passenger rights, as mentioned above, the review of rules is blocked due to divergent views of Member States.⁵⁶³ That is why in 2016 the Commission issued interpretative guidelines on the matter.⁵⁶⁴ These should ensure better application and enforcement of the existing regulation and align it with the relevant jurisprudence of the European Court of Justice.⁵⁶⁵ In 2016, the Commission evaluated the regulation protecting the rights of passengers travelling by coach and bus.⁵⁶⁶ It found that there were no deliberate or serious breaches, as well as identifying some factors that prevent the regulation from being applied more efficiently. In 2016, the Commission also published a report on the application of the regulation on rights of passengers travelling by sea and inland waterway, concluding that overall implementation of this law is satisfactory and pointing out several obstacles, which prevent more efficient application.⁵⁶⁷ In 2017, the Commission published results of an ex-post evaluation of

⁵⁶¹ European Parliament resolution of 22 November 2016, op.cit.

⁵⁶² [European Parliament legislative resolution of 15 November 2018 on the proposal for a regulation on rail passengers' rights and obligations \(recast\)](#), (COM(2017)0548 – C8-0324/2017 – 2017/0237(COD)).

⁵⁶³ European Commission, [Proposal for a Regulation amending Regulation \(EC\) No 261/2004](#), op.cit. [The latest Council progress report informs that there are still a number of areas where further work is needed so that negotiations with the Parliament can be reached as soon as possible](#).

⁵⁶⁴ European Commission, [Interpretative Guidelines on regulation \(EC\) No 261/2004 of the European Parliament and of the Council establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights and on Council Regulation \(EC\) No 2027/97 on air carrier liability in the event of accidents as amended by Regulation \(EC\) No 889/2002 of the European Parliament and of the Council](#), C(2016)3502.

⁵⁶⁵ M Juul, [Strengthening air passenger rights in the EU](#), EPRS, European Parliament, 2015.

⁵⁶⁶ European Commission, [Report from the Commission to the European Parliament and the Council on the application of Regulation \(EU\) No 181/2011 concerning the rights of passengers in bus and coach transport and amending Regulation \(EC\) No 2006/2004](#), COM(2016)0619 final.

⁵⁶⁷ European Commission, [Report from the Commission to the European Parliament and the Council on the application of Regulation \(EU\) No 1177/2010 concerning the rights of passengers when travelling by sea and inland waterway and amending Regulation \(EC\) No 2006/2004](#), COM/2016/0274 final.

the regulation on the liability of carriers of passengers by sea in the event of an accident, concluding that the regulation is efficient and that its benefits outweigh the estimated costs.⁵⁶⁸

⁵⁶⁸ European Commission, Staff Working Document, [Ex-post evaluation of Regulation \(EC\) No.392/2009 on the liability of carriers of passengers by sea in the event of accidents, SWD\(2017\) 329 final](#), 28 September 2017.

24. Odometer manipulation in motor vehicles

Potential efficiency gain: up to €9 billion per year

Key proposition

Europeans buy more second-hand cars than new ones. Unfortunately, up to 50 per cent of used cars traded among EU Member States have an illegally manipulated odometer (the instrument measuring the distance travelled by a vehicle). This malpractice is aimed at increasing vehicle's market value. Research on odometer tampering in the EU showed that imported cars have a much higher rate of manipulated odometer and the number of kilometres clocked is also higher than in the cars sold on national markets, where it is often easier to track a car's history. This rate can be even higher in the 'new' EU Member States, where odometer fraud in imported cars is between 2.5 to 3 times more frequent than in the 'old' Member States. The main negative impacts of odometer fraud are borne by consumers, as their rights are breached, confidence is lowered, and maintenance and repair expenses are increased. Road safety is also impacted, as cars are not adequately maintained at the right time.

A European Added Value Assessment⁵⁶⁹, undertaken recently by the European Added Value Unit of EPRS for the European Parliament's Committee on Transport and Tourism (TRAN), has shown that the total economic costs of odometer fraud in second-hand cars traded cross-border in the EU can be estimated to be at least €1.3 billion per year, with the most probable fraud-rate scenario yielding €8.8 billion in economic loss⁵⁷⁰.

More detailed analysis of potential benefit

The Parliament's European Added Value Assessment identifies five weaknesses in the current legal system, which should be addressed to limit odometer fraud in the EU cross-border trade of used vehicles. Two policy options which could help solve the problem are identified, each comprising two variants. Policy option 1 foresees the creation of a 'car-pass' like system (which eliminated 97 % of odometer fraud in Belgium) in all EU countries with a cross-border EU information exchange. Variant 1 consists of creating a mileage certificate accompanying a car sold abroad, and Variant 2 envisages a mileage information exchange system between the Member States. Assuming the same success rate of odometer fraud reduction for the whole EU as for Belgium, this option could bring a benefit of €8.5 billion to the European economy.

Policy option 2 envisages installation of a tamper-proof technological solution in vehicles – newly registered cars in Variant 1 and additionally in the entire existing fleet in Variant 2 – to better protect their odometers from manipulation. Assuming that the new technology could reduce odometer fraud by 70 %, it would yield benefits of €6.1 billion in the most probable research scenario.

⁵⁶⁹ [A Heflich, Odometer manipulation in motor vehicles in the EU](#), EPRS, January 2018.

⁵⁷⁰ Calculations for the year 2014.

Considering the cost-benefit analysis results (Table 15) and an assessment against efficiency, effectiveness and synergy, both Policy option 1 with its Variant 1 and/or Variant 2, as well as Policy option 2 in Variant 1, would offer clear European added value, though each to a different extent. Moreover, the policy options and their variants do not have to be exclusive. If implemented jointly, they would surely provide even greater added value.

Table 15: Cost-benefit ratio of policy options against odometer manipulation under most probable fraud scenario*

Policy option	Policy Option 1 – Variant 1: including operational and certification cost	Policy Option 1 – Variant 2: with EU-level information exchange system	Policy Option 2 – Variant 1: tamper-proof odometer only in newly-registered cars	Policy Option 2 – Variant 2: tamper-proof odometer retrofitting + in newly-registered cars
CBR under most probable fraud scenario	0.013	0.011	0.002	3.202

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

* This most probable fraud scenario assumes a medium rate of odometer tampering in EU traded second-hand cars and mileage roll-back of around 60 000 vkms per case and excludes the emissions component.

According to the Automobile Club of Germany (ADAC), the illicit business of tampering second-hand cars costs the German economy around €6 billion a year.⁵⁷¹ Germany is the biggest used car exporter in the EU, where it is estimated that a third of used cars traded have their mileage lowered fraudulently.⁵⁷² One of the most comprehensive studies conducted to date on odometer tampering in the second-hand EU car market,⁵⁷³ estimates that the economic cost of odometer fraud could amount to between €5.6 and €9.6 billion per year for the EU25.⁵⁷⁴

European Parliament position

In May 2018, the European Parliament adopted a legislative initiative resolution requesting the European Commission to propose within twelve months a legislative framework, which would

⁵⁷¹ TRT Trasporti e Territorio, [Research for TRAN Committee – Odometer tampering: Measures to prevent it](#), Policy Department B, European Parliament, 2017.

⁵⁷² ADAC, [ADAC Recommendations for the 2014 European Elections. Making Mobility Sustainable](#), Position Paper, 2014.

⁵⁷³ Car-Pass, [Impact study of mileage fraud with used cars and Adaptability of the Car-Pass model in other EU-countries](#), Brussels October 2010.

⁵⁷⁴ EU25: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

require Member States to create legal, technical and operational barriers to make odometer manipulations impossible⁵⁷⁵.

In particular, the Parliament called for: (i) fostering provisions on securing odometer device inscribed in the Regulation (EU) 2017/1151, including reporting to the EP on monitoring and implementation of this regulation; (ii) the Commission to provide a legal framework increasing the frequency of registering odometer readings, which should be done at each periodical technical inspection, service, maintenance operation and repair starting with the vehicle's registration; (iii) interconnecting odometer data in all EU Member States by connecting existing national databases, creating a legal framework for setting comparable mileage recording databases in the Member States as well as allowing consumers to access the odometer data; (iv) using blockchain technology and connectivity as potential and complementary long-term solutions; and (v) the Member States to create or amend legislation on odometer to make it a criminal offence for both the person who orders the odometer to be manipulated and by the person doing it.

Commission response so far

In its response to the Parliament's legislative initiative, the Commission indicated that it did not intend to present a new proposal for legislation targeting odometer fraud, but committed to several other actions.⁵⁷⁶ Regarding type approval and fostering technical solutions, the Commission will monitor implementation of Regulation (EU) 2017/1151. It will take into account the development of increased interconnectivity in vehicles including the development of blockchain technology. In its answer the Commission acknowledged that the existing odometer data exchange practices and establishment of mandatory cross-border exchange of data between national authorities could yield positive effects on reducing odometer fraud in cross-border second-hand car purchases. It will therefore launch an assessment of potential instruments and measures including a pilot project. Based on its results, the Commission will decide on a most appropriate follow-up. Regarding the issue of consumers' access to data on odometer reading of a second-hand car purchased in the EU, the Commission explained that it needs further detailed analysis whether it is a Member States' competency or whether it should be dealt with at the EU level.

The Commission did not agree with the Parliament's assessment that the Directive 2014/45/EU qualifies odometer fraud as a criminal offence and responded that the directive does not provide for this. Regarding the use of connectivity to solve the odometer manipulation problem, the Commission considers it as a solution possibly quicker to implement by car manufacturers and other economic actors than by a set of national databases allowing cross-border exchange of information. Consequently, it has proposed relevant provisions in the update of the Regulation (EU) 2017/1151, obliging the manufacturers to 'effectively deter reprogramming of the odometer readings' and

⁵⁷⁵ 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\(INL\)](#)).

⁵⁷⁶ European Commission, [Follow-up to the 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), SP(2018)516, 26 September 2018.

'include systematic tamper-protection strategies and write-protect features to protect the integrity of the odometer reading'.⁵⁷⁷

⁵⁷⁷ [Commission Regulation \(EU\) 2018/1832](#) of 5 November 2018 amending Directive 2007/46/EC of the European Parliament and of the Council, Commission Regulation (EC) No 692/2008 and Commission Regulation (EU) 2017/1151 for the purpose of improving the emission type approval tests and procedures for light passenger and commercial vehicles, including those for in-service conformity and real-driving emissions and introducing devices for monitoring the consumption of fuel and electric energy (Text with EEA relevance.)

25. Liability rules and insurance for autonomous vehicles

Potential efficiency gain: €30 billion

Key proposition

The growing shift towards connected and autonomous vehicles (AVs) will have a major impact on the automotive sector and potentially bring substantial socio-economic benefits. By 2050, autonomous vehicles could potentially contribute €17 trillion to the European economy.⁵⁷⁸ It is widely assumed that AVs have the potential to save human lives, minimise the financial cost of car accidents, improve urban mobility, decrease congestion and negative environmental impacts, provide more inclusive forms of mobility for the elderly and people with special needs, and increase productivity.⁵⁷⁹ A European Added Value Assessment, prepared by the European Added Value Unit of EPRS in 2018 for the Parliament's Legal Affairs Committee (JURI), estimates that accelerating the 'adoption curve' of AVs by five years, through clarification of liability rules at European level, would generate European added value of approximately €148 billion or €29.6 billion per year.⁵⁸⁰

More detailed analysis of potential benefit

The allocation of risks is one of the key regulatory issues related to the roll-out of AVs. The uncertainty related to the application of the EU Product Liability⁵⁸¹ and EU Motor Insurance Directives⁵⁸² to the AVs could negatively impact the roll-out and acceptance of this technology by consumers. Furthermore, the application of the current legal framework, if not adjusted to the AVs, would likely generate substantial costs and externalities. Consumers will be negatively impacted by increased burden of proof and complexity of legal disputes.⁵⁸³ Businesses will incur substantial litigation costs due to legal uncertainty which will be driven by two main factors: 'grey areas' and new risks not explicitly covered by the current law.⁵⁸⁴ The acceleration of the roll-out of AVs by five

⁵⁷⁸ [Think Tank Policy Network forecast](#).

⁵⁷⁹ For an overview and analysis see, for example, [Autonomous Vehicle Implementation Predictions, Implications for Transport Planning](#), Victoria Transport Institute, 26 January 2018; and '[Autonomous Vehicles: Are You Ready for the New Ride?](#)', MIT Technology Review Insights, 9 November 2017.

⁵⁸⁰ T Evas, [A Common EU Approach to liability rules and insurance for connected and autonomous vehicles, European Added Value Assessment](#), EPRS, February 2018.

⁵⁸¹ Council Directive 85/374/EEC of 25 July 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products amended by [Directive 1999/34/EC](#) of the European Parliament and of the Council of 10 May 1999.

⁵⁸² [Directive 2009/103/EC](#) of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

⁵⁸³ T Evas, [A Common EU Approach to liability rules and insurance for connected and autonomous vehicles, European Added Value Assessment](#), Annex I, EPRS, February 2018.

⁵⁸⁴ Ibid.

years through clearer EU rules on liability could potentially generate European added value of €148 billion.⁵⁸⁵

Table 16: Added value of accelerated adoption of AVs due to liability rules

Quantitative analysis	Quantification of socio-economic benefits of accelerated adoption of AVs (5 years earlier than baseline scenario 2025) due to liability rules - approximately €148 billion considering consumer, transport user, health and external accident costs, external environmental cost, tax revenue and wider economic impacts.
Qualitative analysis	Adjusting current EU liability framework for the roll-out and deployment of AVs would: <ul style="list-style-type: none"> • reduce transaction and litigation costs currently generated by the fragmentation of EU law and divergence among Member States regulations; • increase legal certainty for producers; • increase consumer trust in the new technologies.

Source: T Evas, A Common EU Approach to liability rules and insurance for connected and autonomous vehicles, EPRS, 2018.

European Parliament position

In February 2017, the European Parliament adopted a resolution⁵⁸⁶ calling on the European Commission to submit a proposal for a directive on civil law rules on robotics on the basis of Article 114 TFEU. More specifically, as regards liability issues, the Commission is urged to submit a legislative proposal accompanied by non-legislative instruments to address legal issues relating to the development and use of robotics and artificial intelligence, including AVs. The Parliament also launched a public consultation on the civil law rules on robotics, which, among other topics, covered issues of liability of autonomous vehicles.⁵⁸⁷

In March 2018, in its resolution on the European strategy on Cooperative Intelligent Transport Systems,⁵⁸⁸ the Parliament recommended the rapid establishment of an adequate legal framework laying down rules on liability for the use of the various forms of connected transport. In January 2019, the Parliament adopted a resolution on 'Autonomous driving in European transport'.⁵⁸⁹

⁵⁸⁵ Ibid, i.e. 0.1 % of EU GDP over the same period. This is a cautious estimate of the benefits of the earlier deployment of this technology due to the liability regime. The benefits of introducing AVs compared to not doing so are considerably higher, estimated to be in the range of 2% of GDP over the period 2015-2030.

⁵⁸⁶ European Parliament resolution of 16 February 2017 with recommendations to the Commission on Civil Law Rules on Robotics ([2015/2103\(INL\)](#)).

⁵⁸⁷ T Evas, [Findings and results of the public consultation on the Future of Robotics and Artificial Intelligence](#), 2017.

⁵⁸⁸ European Parliament resolution of 13 March 2018 on a European strategy on Cooperative Intelligent Transport Systems ([2017/2067\(INI\)](#)).

⁵⁸⁹ Resolution on autonomous driving in European transport ([2018/2089\(INI\)](#)).

European Commission and Council responses so far

The European Commission is now in the process of assessing the need for possible legislative action concerning civil liability rules, as well as the scope of that action.⁵⁹⁰ It established an expert group on Liability and New Technology in 2018, with results to be expected in 2019.⁵⁹¹

Looking forward

In order to ensure that the EU is at the forefront of technological developments in the industry, and to avoid unnecessary obstacles from diverse regulatory approaches in various Member States, a review of legislation and action at EU level appears necessary. The spectrum of necessary regulatory review is broad and includes not only issues already covered by the EU legislation - for example, liability, civil and contract law, insurance, consumer protection, safety, and technical and environmental standards of motor vehicles - but also those in related fields such as telecommunications, cybersecurity, privacy and data protection.

⁵⁹⁰ European Commission response SP(2017)310 to the European Parliament resolution [of 16 February 2017 on civil law rules on robotics](#) (2015/2103 (INL)).

⁵⁹¹ [Expert Group on Liability and New Technology](#).

SOCIAL EUROPE, EMPLOYMENT AND HEALTH

26. Reducing the gender pay gap Potential efficiency gain: €43 billion per year

Key proposition

Progress in closing the gender pay gap (GPG) has been slow, although the principle of equal pay has been enshrined in the EU Treaties since the very beginning.⁵⁹² According to the latest available data (2016) from Eurostat⁵⁹³, women's gross hourly wages were 16.2% lower than those of men in the EU as a whole (there has been only a small decrease since 2015, when the gap was 16.3 %). Reducing the GPG is not only desirable in its own right, but it would also have positive effects on economic growth in Europe. A European Added Value Assessment, prepared by the European Added Value Unit of EPRS for the European Parliament's Committee on Women's Rights and Gender Equality (FEMM) in 2013, estimated that a decrease in gender pay gap by one percentage point would increase economic growth by 0.14%⁵⁹⁴.

This would amount to about a €21.5 billion GDP increase in today's money. According to this study, a revision of the directive on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (2006/54/EC) could reduce GPG between 1 and 3%. A more recent Cost of Non-Europe Report,⁵⁹⁵ undertaken by the European Added Value Unit in 2018, identifies an additional net benefit of about €13 billion per year deriving from improved access to different forms of leave and of flexible working arrangements⁵⁹⁶. Assuming that the combined effect of these two measures could reduce GPG by 2 percentage points, this would mean a GDP increase of €43 billion per year.

⁵⁹² Article 119 of the Treaty of Rome. Currently the principle of equal pay is recognised in Article 157 of the Treaty on the Functioning of the European Union (TFEU).

⁵⁹³ Difference between average gross hourly wage between men and women. Eurostat, [Gender gap in unadjusted form](#).

⁵⁹⁴ M Del Monte, [Application of the principle of equal pay for men and women for equal work of equal value](#), European Added Value Unit, European Parliament, July 2013.

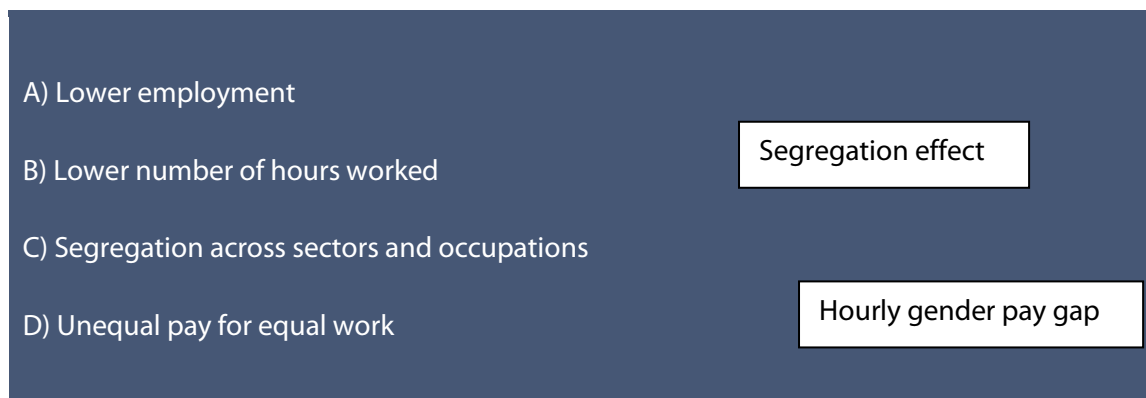
⁵⁹⁵ W. van Ballegooij and J Moxom, [Cost of Non-Europe Report on Equality and the Fight against Racism and Xenophobia](#), European Added Value Unit, European Parliament, March 2018. The expected benefits identified are between 7 and 19 billion per year.

⁵⁹⁶ Based on European Commission Staff Working Document, [SWD\(2017\)202](#).

More detailed analysis of potential benefit

The hourly gender pay gap is due both to segregation effects (C)⁵⁹⁷ and to pay discrimination (D), but a broader view on overall earning inequalities has to include employment gap (A+B) too.

Figure 12: Gender inequalities on the labour market



Data source: Eurostat: A decomposition of the unadjusted gender pay gap using Structure of Earnings Survey data, 2018 edition, May 2018.

Segregation (C) means that women are under-represented in well-paying industries, reflecting selection in education, lower probability for highly educated women to find a job matching their skills⁵⁹⁸ and less career opportunities. The gender pay gap varies widely across countries, from 5.2% in Romania to 25.2% in Estonia. If it is true that countries with higher female employment rates display a larger GPG, in most countries we observe a decrease in GPG alongside an increase in female employment: higher wages may attract more women in the labour market. We can therefore expect that reducing the GPG also has an employment-increasing effect.

The European Parliament's legislative initiative⁵⁹⁹ requesting the revision of Directive (2006/54/EC) deals specifically with factor D, namely pay discrimination. The proposal on work-life balance for parents and carers⁶⁰⁰ is transversal to all factors (A, B, C, D): most women bear the burden of taking care of children, elderly and ill persons and because of this, they are less likely to be employed, and more likely to work part time, to select in jobs where there is a lower penalty for care work, and to suffer a wage disadvantage. In order to address these shortcomings, the proposal foresees a number of measures in terms of paternity leave and flexible work arrangements.

⁵⁹⁷ According to Eurostat (2018), about 1/3 of gender pay gap can be ascribed to factors such as selection into occupation, type of contract and education.

⁵⁹⁸ European Commission, [2018 report on equality between women and men in the European Union](#) and EIGE, 2017, [Economic Benefits of Gender Equality in the European Union. Report on the empirical application of the model.](#)

⁵⁹⁹ European Parliament resolution of 24 May 2012 with recommendations to the Commission on application of the principle of equal pay for male and female workers for equal work or work of equal value, [2011/2285\(INI\)](#).

⁶⁰⁰ European Parliament, Work life balance for parents and carers, [2017/0085\(COD\)](#).

With women over-represented in jobs with low pay, short hours and low job security, minimum wages can also be tools in raising wages in the sectors with a predominantly female workforce⁶⁰¹. The overall cost of the status quo⁶⁰² in terms of gender pay gap (C+D) includes lost earnings between €241 and €379 billion per year (that translate into lower tax revenues) and increased health costs. As a consequence of lower earnings, pensions of women are also lower: gender pension gap is around 37.2% for the pensioners aged 65-79⁶⁰³. A major cost imposed by the pay gap is women's economic dependence on higher earning partner, which makes more difficult for women to leave abusive relationships, leading to increased intimate partner violence⁶⁰⁴. A 2016 Eurofound study⁶⁰⁵ estimates the loss due specifically to the gender employment gap (A) amounts to yearly €370 billion. A 2017 EIGE study⁶⁰⁶, while being more conservative with respect to the impact of hourly pay gap alone, underlines the role of education gap and of the gap in activity rates (affecting possibly A and C): addressing the three channels together would increase GDP of about 3% in 2030.

The broader economic literature also suggests that the benefits of reducing GPG are numerous. They include an increase in women's wages, a reduction in poverty among women, an increase in female employment (the incentive to look for a job being higher) and, on a more pragmatic note, an increase in tax revenue for the state, an increase in purchasing power in the economy, and a decrease in the depreciation of human capital. A European Implementation Assessment by EPRS in 2015 on Directive 2006/54/EC concludes that by implementing various policy measures - transparency of results, work evaluation and job classification, equality bodies and legal remedies, sanctions, and streamlining of EU regulation and policy - the EU could achieve a maximum reduction of 9% in the current GPG.

Diversity programmes can contribute to closing the GPG. In Germany, for example, enterprises with at least 10 workers adopting diversity programmes could have increased women's wages by 16%. However, as pointed out in a 2017 study by Matt Huffman, Joe King and Malte Reichelt, only 13% of German enterprises with at least 10 workers did so.

Comparing the European GPG with those of other developed countries can show us the potential economic loss pay gap. As in Europe, the GPG in Australia is about 16%. According to a 2016 Australian Council of Trade Unions' report, the GPG means in concrete terms that a woman loses on average more than US\$1 million over a lifetime. A 2017 study by the American Association of University Women estimates, based on hourly earnings of both full- and part-time workers, that women in the United States earn 80% of that of their male counterparts. The same study argues that,

⁶⁰¹ In the case of Germany, it is estimated that the introduction of a minimum wage would reduce the gender pay gap by 2.5 percentage points, see Boll Ch., Hüning H., Leppin J., Puckelwald J. (2015), [Potential Effects of Statutory Minimum Wage on the Gender Pay Gap: A Simulation-Based Study for Germany](#).

⁶⁰² W van Ballegooij and J Moxom, *ibid*, 2018.

⁶⁰³ European Commission, Directorate-General for Employment, Social Affairs and Inclusion, [Pension Adequacy Report](#), 2018 and European Commission, [2018 Report on equality between women and men in the EU](#), 2018.

⁶⁰⁴ For more details, see EIGE, 2014, [Estimating the costs of gender-based violence in the European Union](#): Report and W van Ballegooij and J Moxom, *ibid*, 2018.

⁶⁰⁵ Eurofound (2016), [The gender employment gap: Challenges and solutions](#), Publications Office of the European Union, Luxembourg.

⁶⁰⁶ EIGE, 2017, *ibid*.

at the rate of pay gap reduction between 1960 and 2016, women are expected to reach the same level of pay as men in 2059.

European Parliament position

The European Parliament has been calling for the revision of Directive 2006/54/EC for a number of years, most recently, in its resolution of March 2017 on equality between women and men in the EU in 2014-2015⁶⁰⁷. Concerning work-life balance, a 2016 Parliament resolution⁶⁰⁸ pointed out that social welfare rights are not always granted throughout the entire duration of parental leave and called for the extension of the minimum duration of parental leave. The same year the Parliament stressed that reconciliation of professional, private and family life should be a fundamental right for everyone⁶⁰⁹. In July 2018, the Committee on Employment and Social Affairs (EMPL) voted the draft report on the new Directive on work-life balance for parents and carers⁶¹⁰.

Commission and Council responses so far

Equal pay for work of equal value is one of five key areas⁶¹¹ of the Commission's Strategic Engagement for Gender Equality for the 2016-2019 period.⁶¹² A 2017 Commission report on the implementation of the 2014 Recommendation on strengthening the principle of equal pay between men and women⁶¹³ (accompanying the new Action Plan on the Gender Pay Gap⁶¹⁴) underlines that only six Member States improved pay transparency measures following the adoption of the recommendation. The same year, the Commission presented a proposal on work-life balance as part of the European pillar of Social Rights⁶¹⁵. The 2017 Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) conclusions emphasised that more visibility should be given to the gender

⁶⁰⁷ European Parliament, Equality between women and men in the European Union in 2014-2015, [2016/2249\(INI\)](#).

⁶⁰⁸ European Parliament resolution of 12 May 2016 on the application of Council Directive 2010/18/EU of 8 March 2010 implementing the revised Framework Agreement on parental leave concluded by BUSINESSEUROPE, UEAPME, CEEP and ETUC and repealing Directive 96/34/EC ([2015/2097\(INI\)](#)).

⁶⁰⁹ European Parliament resolution of 13 September 2016 on creating labour market conditions favourable for work-life balance ([2016/2017\(INI\)](#)).

⁶¹⁰ European parliament, Draft Report on the new Directive on work-life balance for parents and carers, [2017/0085\(COD\)](#).

⁶¹¹ The other key areas are: (i) equal economic independence for women and men; (ii) equality in decision-making; (iii) dignity, integrity and an end to gender-based violence; and (iv) promotion of gender equality beyond the EU.

⁶¹² European Commission, [Strategic Engagement for Gender Equality, 2016-2019](#), 2015.

⁶¹³ COM(2017) 671, Report From The Commission To The European Parliament, The Council And The European Economic And Social Committee, Report on the implementation of Commission Recommendation on strengthening the principle of equal pay between men and women through transparency.

⁶¹⁴ European Commission, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee EU Action Plan 2017-2019 Tackling the gender pay gap, [COM\(2017\) 678 final](#).

⁶¹⁵ Proposal for a Directive of the European Parliament and of the Council on work-life balance for parents and carers and repealing Council Directive 2010/18/EU, [Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on work-life balance for parents and carers and repealing Council Directive 2010/18/EU COM/2017/0253 final - 2017/085 \(COD\)](#).

pay gap and gender gap in coverage of pensions.⁶¹⁶ In June 2018, the EPSCO Council issued a general approach to the Proposal for a Directive on work-life balance for parents and carers⁶¹⁷.

Estimated benefit of any Commission action so far

Following the Parliament's legislative own-initiative report⁶¹⁸ requesting the revision of Directive (2006/54/EC), the Commission adopted Recommendation 2014/124/EU⁶¹⁹, strengthening the principle of equal pay between men and women through transparency, but no legal binding act has followed. Concerning the measure on work life balance, both the Parliament and the Council have finalised their positions and inter-institutional negotiations started in September 2018. Should this proposal be adopted and implemented by the Member States, the expected increase in GDP could be €13 billion per year.⁶²⁰

⁶¹⁶ Council of the EU, [Outcome of proceedings](#), EPSCO Council meeting held on 3 March 2017.

⁶¹⁷ Council of the EU, [Outcome of proceedings](#), Council Meeting held on 25 June 2018.

⁶¹⁸ European Parliament resolution of 24 May 2012 with recommendations to the Commission on application of the principle of equal pay for male and female workers for equal work or work of equal value, [2011/2285\(INI\)](#).

⁶¹⁹ Commission Recommendation of 7 March 2014 on strengthening the principle of equal pay between men and women through transparency, [2014/124/EU](#).

⁶²⁰ Average annual figure from Commission Staff Working Document Impact Assessment accompanying the Proposal for a Directive of the European Parliament and of the Council on work-life balance for parents and careers and repealing Council Directive 2010/18/EU [COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a Directive of the European Parliament and of the Council on work-life balance for parents and carers and repealing Council Directive 2010/18/EU SWD/2017/0202 final - 2017/085 \(COD\)](#).

27. Better information for and consultation of workers

Potential efficiency gain: €12 billion per year

Key proposition

Article 27 of the EU Charter of Fundamental Rights gives employees the right, at appropriate levels, to be guaranteed information and consultation on key decisions affecting them, notably the transfer, restructuring and merger of undertakings,⁶²¹ with the exercise of this right at national and company level further regulated by EU secondary legislation⁶²². Research undertaken by the European Added Value Unit of EPRS for the European Parliament's Committee on Employment and Social Affairs (EMPL) in 2013, looked at the costs and benefits of possible improvements to the current legislative framework in relation to information and consultation, and concluded that it could generate efficiency gains of around €12 billion per year⁶²³. It notably suggested that a more systematic information and consultation of workers would lead to significant economic benefits – by reducing the incidence and severity of industrial conflicts, reducing the rate at which people leave their jobs (known as the 'quit rate'), increasing employability, and/or easing social and health effects on social welfare systems and the related costs (notably in health-related treatment). More recently, the European Pillar of Social Rights has clarified and 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”.⁶²⁴

More detailed analysis of potential benefit

The above-mentioned European Added Value Assessment looked specifically into how an improved EU regulatory framework could limit the social costs of structural adjustment and help eliminate potential distortions of competition within the single market and inequalities in treatment of workers resulting from divergences in national regulations. The main impacts investigated included the impact on the number of redundancies, on employability (the prospect of workers finding future employment), and on job quality (workers within their current job). The evidence concerning

⁶²¹ Article 151 of the Treaty on the Functioning of the European Union (TFEU) defines the promotion of dialogue between management and labour as a common objective of the Union and the Member States. According to Article 153(2) TFEU, the Union is empowered to adopt measures to support and complement the activities of Member States in the fields of the information and consultation of workers. Based on Article 154 TFEU the Commission has the task of promoting the consultation of management and labour at Union level and takes any relevant measure to facilitate the dialogue by balanced support for the parties. Before submitting proposals in the social policy field, the Commission consults management and labour on the possible direction of Union action.

⁶²² Council Directive 98/59/EC [on the approximation of the laws of the Member States relating to collective redundancies](#), Directive 2002/14/EC of the European Parliament and of the Council establishing a general framework [for informing and consulting employees in the European Community](#) and, Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the [safeguarding of employees' rights in the event of transfers of undertakings](#), businesses or parts of undertakings or businesses.

⁶²³ M Del Monte, [European added value of an EU measure on information and consultation of workers, anticipation and management of restructuring processes](#), European Added Value Unit, European Parliament, November 2012.

⁶²⁴ [Monitoring the Implementation of the European Pillar of Social Rights](#), SWD(2018) 67.

impacts at company level was then combined with information concerning costs, and a simple cost-effectiveness analysis was presented. The main conclusions were that, if applied in all EU Member States, early consultation would reduce the number of redundancies by approximately 22 %.⁶²⁵ This data was subsequently combined with labour productivity, a measure often used to estimate how efficient a given population is in producing goods and services.⁶²⁶ Based on a cautious assumption of the average of labour productivity per hour at EU-28 level of US\$26 per hour,⁶²⁷ the economic added value of the proposed measure was estimated to be around US\$40 950 per year per unit of labour.⁶²⁸ The average labour productivity per hour, multiplied by the estimated number of redundancies that could have been avoided for example in 2011, then gives a figure of approximately €3 billion.⁶²⁹

Table 17: Potential efficiency gains from information for and consultation of workers

Potential efficiency gains from information for and consultation of workers	Cost of non-Europe (€ billion)
Early consultation and reduction in the number of redundancies by around 22 %	3
Helping 35 % of redundant workers find new jobs	4.8
Training to help 36 % of redundant workers find new jobs	4.9
Total	12.7

Source: M Del Monte, [European added value of an EU measure on information and consultation of workers, anticipation and management of restructuring processes](#), European Added Value Unit, European Parliament, November 2012.

Evidence suggests that the success of redeployment depends very much on the past career of the workers concerned and how much they benefitted from training and career guidance in the transition process.⁶³⁰ It can be observed that advance notification of redundancies encourages

⁶²⁵ Had this taken place in 2011, when there were 464, 000 planned redundancies, such a measure could have resulted in an estimated reduction of approximately 100, 000 redundancies.

⁶²⁶ The OECD defines labour productivity as gross domestic product (GDP) per hour worked. More simply, productivity is a measure of output from a production process, per unit of input. The labour input is defined as total hours worked by all persons engaged.

⁶²⁷ This figure was obtained by multiplying the labour productivity by the labour hours (H) in a given week (W), and then by the labour weeks in a year (US\$26 x 35H x 45W).

⁶²⁸ Based on the OECD Employment Outlook, Annual National Accounts and Labour Force Statistics, the productivity level in Europe – or GDP output per hour worked – in 2012 varied from US\$26.2 per hour in Poland to US\$77.1 dollars per hour in Luxembourg, with the euro area having labour productivity of around US\$51 per hour.

⁶²⁹ US\$4 billion, dollar - euro exchange rate from the original study. The result was combined with the potential costs of implementing the measures and further reduced by applying a 'compliance rate' (i.e. the extent to which the proposed measures would be implemented in Member States).

⁶³⁰ B Gazier, [Using active and passive employment policies to accompany globalization-related restructuring](#), Offshoring and the internationalisation of employment – A challenge for fair globalisation, (ILO), 2005.

successful redeployment, especially where it is accompanied by job-search assistance and training.⁶³¹

European Parliament position

The European Parliament has adopted three resolutions specifically dealing with workers' right on information and consultation⁶³² and a resolution on the European Pillar of Social Rights, which addresses matters related to information and consultation of workers among other issues.⁶³³ In this latter, the Parliament reiterated its call to monitor the 'application of European legislation on European Works Councils and the information and consultation of workers and for effective measures to ensure that company restructuring takes place in a socially responsible manner'. Among issues to be addressed are the exclusion of certain workers from the information and consultation process, and the desirability of greater clarity about what that process encompasses.

European Commission and Council responses so far

In relation to the information about employment conditions and protection in case of dismissals,⁶³⁴ the European Pillar of Social Rights requires that written information is provided to the worker about working conditions *at the start* of the employment relationship, rather than within the two months currently provided for by Directive 91/533/EEC⁶³⁵. The Pillar also foresees a number of additional measures including, procedural and substantive safeguards for workers in case of dismissals, reasonable period of notice, and the right to adequate redress in case of unjustified dismissals, such as re-instatement or pecuniary compensation. In 2017, Commission has launched a first-stage consultation with the social partners on the revision of the Directive 91/533/EEC.

On the social dialogue and involvement of workers, the European Pillar of Social Rights underlines the right for social partners to be involved in the design and implementation of employment and social policies. It supports their stronger involvement in policy and law-making, taking into account the diversity of national systems. It states: 'Workers or their representatives have the right to be informed and consulted in good time on matters relevant to them, in particular on the transfer, restructuring and merger of undertakings and on collective redundancies'⁶³⁶. The pillar goes further

⁶³¹ R Torres, [Social accompaniment measures for globalization: sop or silver lining?](#), Offshoring and the internationalisation of employment – A challenge for fair globalisation (ILO), 2005.

⁶³² European Parliament resolution [on strengthening European legislation in the field of information and consultation of workers](#), 2007/2546(RSP). European Parliament resolution [on the implementation of Directive 2002/14 establishing a general framework for informing and consulting employees in the European Community](#), 2008/2246(INI). European Parliament resolution with [recommendations to the Commission on information and consultation of workers, anticipation and management of restructuring](#), 2012/2061(INL).

⁶³³ European Parliament resolution [on a European Pillar of Social Rights](#) 2016/2095(INI).

⁶³⁴ Commission Staff Working Document accompanying the Commission Communication on [Establishing a European Pillar of Social Rights](#), SWD (2017) 201.

⁶³⁵ Council Directive [91/533/EEC](#) of 14 October 1991 on an employer's obligation to inform employees of the conditions applicable to the contract or employment relationship.

⁶³⁶ Commission Staff Working Document accompanying the Commission Communication [on Establishing a European Pillar of Social Rights](#), SWD (2017) 201.COMMISSION STAFF WORKING DOCUMENT Accompanying the document

than Article 27 of the Charter of Fundamental Rights. It considers that in case of restructuring and merger of companies workers should not only be informed but consulted about any such corporate action that would imply the establishment of a consistent dialogue between workers and employers.

Estimated benefit of any Commission action so far

Following the European Parliament's legislative own-initiative report in 2013 on information and consultation of workers⁶³⁷, anticipation and management of restructuring, the European Commission adopted a communication⁶³⁸ on the subject. However, to date no legislative act has been put forward by the Commission to comply with the Parliament's request.

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Establishing a European Pillar of Social Rights.

⁶³⁷ European Parliament resolution with recommendations to the Commission on information and consultation of workers, anticipation and management of restructuring [2012/2061\(INL\)](#).

⁶³⁸ Commission Communication on an [EU Quality Framework for anticipation of change and restructuring](#), COM(2013)882.

28. Addressing health inequalities

Potential efficiency gain: € 72 billion per year

Key proposition

Being healthy and/or able to live a good life when sick is one of the most important issues for every human being. Although the EU only has a supporting competence in health policy, access to cross-border healthcare and better coordination and promotion of best practice between member states can bring considerable benefits. Analysis by the European Commission specifically of the costs of major health inequalities, both between and within EU member states, leading to poorer health among several social groups or in certain localities, suggests there would be a potential gain for the European economy of up to €72 billion per year from more effective action in this field. A health dimension could be introduced to other EU policies - such as greater use of existing structural funds to support projects that and that improve health infrastructure, increase health research and training, contribute to healthier living and promote 'active ageing'.

More detailed analysis of potential benefit

Looking at the provision of health care in EU Member States, differences in the amounts of public money spent, as well as the design of the health-care systems are significant. A common challenge is to contain the increase in public spending: in 2015, total health care expenditures equalled 10.1 % of EU GDP.⁶³⁹ European societies are faced with major demographic challenges: according to the most recent Eurostat data⁶⁴⁰, the EU old-age-dependency ratio has steadily increased, by 28% between 2001 and 2014, and this structural transformation combined with technological progress and its externalities have a direct effect on the sustainability of public healthcare systems. This challenge is compounded by the growing incidence of unhealthy lifestyles. Studies indicate that smoking, alcohol, and obesity have resulted to an estimated annual GDP loss of at least €287 billion per year⁶⁴¹. The Commission also estimates the cost of the deterioration of health related to air pollution to amount to €300 billion to €940 billion per year⁶⁴². In parallel, mental health problems. The OECD and European Commission estimate the total costs of these latter to be over €600 billion annually⁶⁴³.

The analysis here concentrates on the potential efficiency gain from EU action to reduce health inequalities. We have looked at the estimated annual monetary value related to health discrepancies, due to education inequalities, across the EU Member States. This range is composed

⁶³⁹ [The 2018 Ageing Report](#), Institutional paper 079, European Commission, May 2018.

⁶⁴⁰ [Theme 4: demographic changes](#), Eurostat, 2015.

⁶⁴¹ T Forster, A Kentikelenis, C Bamba, [Health Inequalities in Europe: Setting the Stage for Progressive Policy Action](#), 2018.

⁶⁴² Impact assessment clean air policy package, [SWD\(2013\) 531](#), European Commission, December 2013.

⁶⁴³ [Health at a Glance: Europe 2018](#), OECD and European Commission, 2018.

of a lower bound of 9.4% of GDP⁶⁴⁴ (or €1,445 billion) and an upper bound of 25.2% of GDP (or €3,875 billion). The latter is estimated by relating the differences in life expectancy at age 30 between those with high and low educational attainment (EU average of 6.3 years⁶⁴⁵), and the boost of GDP for every year of increase in a population's life expectancy (4% per year⁶⁴⁶). As tackling health inequalities across Europe and their related losses is one of the priorities of the new programme for EU health, it is assumed that the potential annual efficiency gain from action at the EU level could correspond to 5% of the lower bound of the above range, generating a figure of around €72 billion.

European Parliament position

The European Parliament is strongly in favour of the establishment of a coherent EU public health policy.⁶⁴⁷ The Programme of Community Action in the field of Health and Consumer Protection 2007- 2013, based on the strategy 'Healthier, safer, more confident citizens: A health and consumer protection strategy', backed by a budget of €321.5 million, offers one component of this approach.⁶⁴⁸ The EU Health Strategy 'Together for Health' with a budget of almost €450 million, is another dimension. In 2014, the Third Health Programme, 'Health for Growth', was launched, aimed at fostering health in Europe by encouraging cooperation between EU countries in order to improve the health policies that benefit their citizens and encouraging the pooling of resources.⁶⁴⁹ Furthermore, in its resolution on EU options for improving access to medicines from 2017, the Parliament stressed the importance of public health systems to guaranteeing universal access to health care, as a fundamental right of European citizens. It recalled that challenges such as more chronic diseases, an ageing population and higher costs for pharmaceuticals and new technologies, all underlined the need for stronger European cooperation and new policy measures, at both EU and national level.⁶⁵⁰

European Commission response so far

EU health policy focusses on strategic objectives,⁶⁵¹ such as fostering good health, protecting citizens from serious cross-border health threats, supporting dynamic health systems and facilitating access to better and safer healthcare for EU citizens. EU spending on health is set out in the 2014-2020 Multiannual Financial Framework (MFF), under heading 3, with a total budget of €17.7 billion.⁶⁵² The Commission's strategy has mainly been achieved through successive action programmes - currently the Third Health Programme (2014-2020), with a seven-year budget of €449.4 million. Other Commission policies with the potential to contribute to EU health policy

⁶⁴⁴ T Forster, A Kentikelenis, C Bamba, [Health Inequalities in Europe: Setting the Stage for Progressive Policy Action](#), 2018.

⁶⁴⁵ V Corsini, [Eurostat: Statistics in Focus 24/2010](#).

⁶⁴⁶ Staff working document Social investment package Investing in Health, [SWD\(2013\)43 final](#), European Commission, February 2013.

⁶⁴⁷ [Public Health](#), Fact sheet, European Commission, October 2018.

⁶⁴⁸ Resolution on community action in the field of consumer protection (2007-2013) ([COD\(2005\)0042B](#)), European Parliament, 2006.

⁶⁴⁹ Resolution on Health for Growth Programme 2014-2020 ([2011/0339\(COD\)](#)), European Parliament, 2014.

⁶⁵⁰ Resolution on EU options for improving access to medicines ([2016/2057\(INI\)](#)), European Parliament, 2017.

⁶⁵¹ N Scholz, M Kiss, A Dobрева, EU policies – Delivering for citizens [Health and social security](#), EPRS, November 2018.

⁶⁵² N Scholz, N Milotay et al., Public expectations and EU policies [Health and social security](#), EPRS, July 2016.

objectives are the European Structural and Investment Funds (ESIF), the European Regional Development Fund (ERDF), and the European Social Fund (ESF).⁶⁵³

Estimated benefit of any Commission action so far

The major achievements of the Third Health Programme (2014-2020), assessed at mid-term,⁶⁵⁴ have so far been the establishment of 24 European Reference Networks, the provision of support to build capacity to respond to cross-border outbreaks of diseases, and the training of health professionals and other front-line staff. The ERDF and ESF include more than €9 billion for health-related investments during the period 2014-2020. This includes investments linked to active ageing and social services.⁶⁵⁵ Through projects under the European Fund for Strategic Investments (EFSI), 42 million Europeans are expected to gain access to improved health services.⁶⁵⁶ Further areas where results have been achieved since 2014 are access to medicines, antimicrobial resistance, childhood obesity, support of Member States' health system reforms, medical devices and vaccination.^{657 658}

Looking forward

The European Commission has suggested embedding the current health programme as the 'health strand' of ESF+, with a dedicated budget of €413 million. One of the objectives is tackling social inclusion and poverty, which includes addressing health inequalities.⁶⁵⁹ The Commission's aim is to create synergies between the different strands. Other EU financial instruments relating to health policy are Horizon Europe, Digital Europe, the European Regional Development Fund (ERDF), InvestEU and the Emergency Aid Rescue programme (rescEU).⁶⁶⁰ Initiatives for the future might cover access to medicines, promotion of healthy nutrition for children, a European Reference Network model for cross-border healthcare, health technology assessment and vaccination promotion.⁶⁶¹ A stronger focus could also be put on the cross-sectoral policy actions as health care systems have, for example, a role to play in reducing environmental risk factors, as highlighted by the OECD in 2017.⁶⁶²

⁶⁵³ N Scholz, M Kiss, A Dobрева, EU policies – Delivering for citizens [Health and social security](#), EPRS, November 2018.

⁶⁵⁴ Executive Summary Mid-term evaluation 3rd Health programme 2014-2020, [SWD\(2017\) 333](#), European Commission, October 2017.

⁶⁵⁵ N Scholz, M Kiss, A Dobрева, EU policies – Delivering for citizens [Health and social security](#), EPRS, November 2018.

⁶⁵⁶ [EIB operations inside the European Union 2017](#), European Investment Bank, 2018.

⁶⁵⁷ N Scholz, M Kiss, A Dobрева, EU policies – Delivering for citizens [Health and social security](#), EPRS, November 2018.

⁶⁵⁸ N Lomba, [The benefit of EU action in health policy: the record to date](#), EPRS, March 2019.

⁶⁵⁹ Impact assessment, European Social Fund Plus (ESF+) [SWD\(2018\) 289 final](#), European Commission, May 2018.

⁶⁶⁰ [EU health budget for the future](#), European Commission, 2018.

⁶⁶¹ N Scholz, M Kiss, A Dobрева, EU policies – Delivering for citizens [Health and social security](#), EPRS, November 2018.

⁶⁶² [Health at a Glance: Europe 2018](#), OECD and European Commission, 2018.

29. Social enterprises and mutual societies

Potential efficiency gain: €15 billion per year

Key proposition

Social and solidarity-based enterprises combine societal goals with the entrepreneurial spirit. They can take a variety of legal forms and statuses, - whether foundations, cooperatives, associations, mutual societies (mutuals), companies or specific legal forms designed for them. They generally operate in the areas of work integration, social services, the environment, sports, arts, and culture. There are around two million 'social economy' entities within the EU, employing over 14.5 million people, or over 6.5 per cent of the entire EU working population.⁶⁶³ There is currently no specific EU legal framework to help social enterprises and mutual societies to fully benefit from the single market. However, specific policy action at EU level could generate economic and social added value, including through a more simplified and coordinated framework for their activity, especially across national boundaries. If the sector accounts for 5.0 per cent of the EU economy (€765 billion), and measures adopted at EU level were to promote it only by 2.0 per cent of that total, that would boost the sector by €15.3 billion per year.

More detailed analysis of potential benefit

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. A European Added Value Assessment undertaken by the European Added Value Unit of EPRS for the European Parliament's Legal Affairs Committee (JURI) in 2017⁶⁶⁴ argues that an EU framework would allow social and solidarity-based enterprises to access to a larger market, reduce transaction and enforcement costs, and increase both their visibility and consumer confidence in them.

In order to address the current lack of harmonisation, four policy options were considered: (i) maintaining the status quo; (ii) a minimum harmonisation approach; (iii) the creation of an EU certification / label system; and (iv) the establishment of a new supranational legal form. Based on a qualitative cost-benefit analysis and a comparative qualitative assessment of policy options, it is suggested that the EU could adopt a certification/label system that would give social and solidarity-based enterprises the best balance between legal certainty and flexibility. In addition, it would allow social and solidarity-based enterprises to distinguish themselves from other businesses, without having to register in each member state to have their status recognised, while allowing them to choose the legal form under which they prefer to conduct their business.

⁶⁶³ Market inSights 2014, Europe, International Cooperative and Mutual Insurance Federation and Association of Mutual Insurers and Insurance Cooperatives in Europe, June 2016.

⁶⁶⁴ Social Economy, EP Policy Department A, 2016; E Thirion, [Statute for social and solidarity-based enterprises: European Added Value Assessment](#), EPRS, December 2017.

Regarding mutual societies more specifically, numerous studies and expert groups have concluded that there is a great divergence between the regulatory regimes applicable to mutual societies in the EU. The absence of a clear and uniform regime puts obstacles in the way of the recognition and functioning of those enterprises at EU level. An EU approach to mutual societies could benefit both citizens and businesses⁶⁶⁵. It would bring visibility, promote social values, engage citizens in economic life, facilitate the economic growth of mutual societies and the development of the single market, reduce regulatory duplication and foster economies of scale, and promote and support the economic sustainability and resilience of the sector. At a regulatory level, an EU regulation would also provide more certainty and coherence for citizens and companies, as well as for national legal systems. Therefore, in addition to facilitating cross-border activity in the sector, the statute would provide a clear and uniform regime for the sector, promote competition, widen choice for consumers, and increase market diversification.

European Parliament position

The European Parliament adopted a resolution on a Statute for social and solidarity-based enterprises in July 2018.⁶⁶⁶ This acknowledges the diversity and innovative character of the existing legal forms of social enterprises. It 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. These criteria could include the necessity for a private law entity independent of authorities, focussed on general interest or public utility, with a socially useful purpose and at least partial constraint on profit distribution, a democratic governance and decision-making model.

Regarding mutual societies, the European Parliament has been engaged on the issue since 1993, constantly mentioning the need for a European Statute for Mutual Societies. In its resolution of March 2013,⁶⁶⁷ the Parliament included detailed recommendations and considered it regrettable that the European Commission, having withdrawn its proposal for a statute for a European mutual society in 2005, had not put forward any new proposals.

Commission and Council responses so far

Regarding social and solidarity-based enterprises, the European Commission formally responded to the European Parliament resolution in November 2018.⁶⁶⁸ In its response, the Commission underlines the need to give more visibility to social economy and social enterprises. The views are shared between the European Commission and the European that social economy enterprises and social enterprises, in particular, make a substantial contribution to both economic growth and social cohesion in the European Union. However, the main recommendation of the Parliament promoting

⁶⁶⁵ B Ballester, [A Statute for European Mutual Societies: European Added Value Assessment](#), EPRS, January 2013.

⁶⁶⁶ European Parliament resolution of 5 July 2018 with recommendations to the Commission on a Statute for social and solidarity-based enterprises ([2016/2237\(INL\)](#)). Rapporteur: Jiří Maštálka (GUE/NGL, Czech Republic), JURI Committee.

⁶⁶⁷ European Parliament resolution of 14 March 2013 on the Statute for a European mutual society ([2012/2039\(INI\)](#)). Rapporteur: Luigi Berlinguer (S&D), JURI Committee.

⁶⁶⁸ 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](#).

the creation of a European label, is not directly taken into account, but will be further examined by the Commission based on the findings of an updated report mapping 'eco-systems' in Europe.

On the possibility of introducing specific legal forms for mutual societies and foundations, the Commission released two proposals, respectively in 2006 and in 2012. Both have been withdrawn, as they did not receive sufficient support, especially from within the Council.

In 1992, the European Commission submitted a proposal for a Council regulation on a statute for a European mutual society. After numerous exchanges with the European Parliament and standstill in the Council, in 2003, the Commission launched a consultation on mutuals; however, in 2006, it withdrew the 1992 proposal from the Commission agenda. After repeated requests from the Parliament and following the public consultation, the Commission finally launched an impact assessment study in 2013. However, the results were neither presented to the European Parliament nor made public. In 2015, Commissioner Bieńkowska stated that any impact assessment is an internal document and that there was no obligation to make it publicly available.⁶⁶⁹

Similarly, in 2016, Commissioner Bieńkowska stated that 'Based on the results of a consultation held in 2013, the Commission decided not to propose a European mutual statute, as there appeared to be insufficient support and no proven added value for such legislation at a European level.⁶⁷⁰ Since no initiative was taken by the Commission in this area, preparatory work and impact evaluations remain internal documents that have not been published'.

The various Commission replies do not include any reference to the arguments specifically put forward in the Parliament's 2013 European Added Value Assessment⁶⁷¹ or in other studies, including the one commissioned by the Commission itself in 2012.

⁶⁶⁹ [Answer](#) given by Ms Bieńkowska on behalf of the Commission to the written question [E-007633/2015](#) on 5 October 2015.

⁶⁷⁰ [Answer](#) given by Ms Bieńkowska on behalf of the Commission to the written question [E-004660-16](#) on 25 July 2016.

⁶⁷¹ B Ballester, [A Statute for European Mutual Societies: European Added Value Assessment](#), EPRS, January 2013.

CITIZENS' EUROPE

30. Free movement of economically-active EU citizens Potential efficiency gain: €53 billion per year

Key proposition

The free movement of EU citizens is a fundamental right enshrined in the Treaties. Citizens have the right to look for a job in another EU country, live in that country and access its labour market. They have to pay taxes and contribute to social security, but enjoy the same rights as nationals.⁶⁷² The share of EU citizens of working age (20-64) residing in another EU Member States has increased from 2007 to 2017 (2.5% to 3.8 %). Still, this level of mobility is relatively low, compared for example with the United States⁶⁷³ another integrated continental economy, usually more than 10% of citizens moves between states each year.⁶⁷⁴ It suggests there is still potential for significantly greater mobility in the EU, which could generate up to additional €53 billion after a full phasing-in.

More detailed analysis of potential benefits

Free movement is not only influenced by the differences in wages and GDP, but also by distance, unemployment rates, educational levels, traditional links, common/similar languages, or the established community⁶⁷⁵ and remaining obstacles⁶⁷⁶ in the destination countries. The free movement of workers may have an impact on, among other things, employment, education level, remittances, wages and productivity, population structure and public finance.

1. Employment: The employment rate of mobile EU citizens has increased over time and it is, at the time of writing, higher than that of the entire active EU population: 76.1%, compared to the total EU employment rate of 72.1%.⁶⁷⁷ Since 2010,⁶⁷⁸ total employment in EU-28 has increased by 12.3 million

⁶⁷² After each of the most recent enlargements, the right to work was temporarily restricted up to seven years, and only granted 'stepwise' to new Member States. For more information on the [transitional arrangements](#) for new Member States, see European Commission website.

⁶⁷³ However, one must keep three main differences in mind: the United States is one country, which has one common language and has one public employment service. The EU 28 has 24 different official languages and 28 different public employment services.

⁶⁷⁴ World Bank, [Internal mobility: The United States](#), in Golden Growth 2012. In 2010, 10% of Americans moved to a different state, in one single year. The largest flows of labour were between neighbouring federal states.

⁶⁷⁵ European Commission, [Labour mobility and labour market adjustment in the EU](#), December 2014 p. 14.

⁶⁷⁶ European Parliament, [Obstacles to the right of free movement and residence for EU citizens and their families](#), 2016.

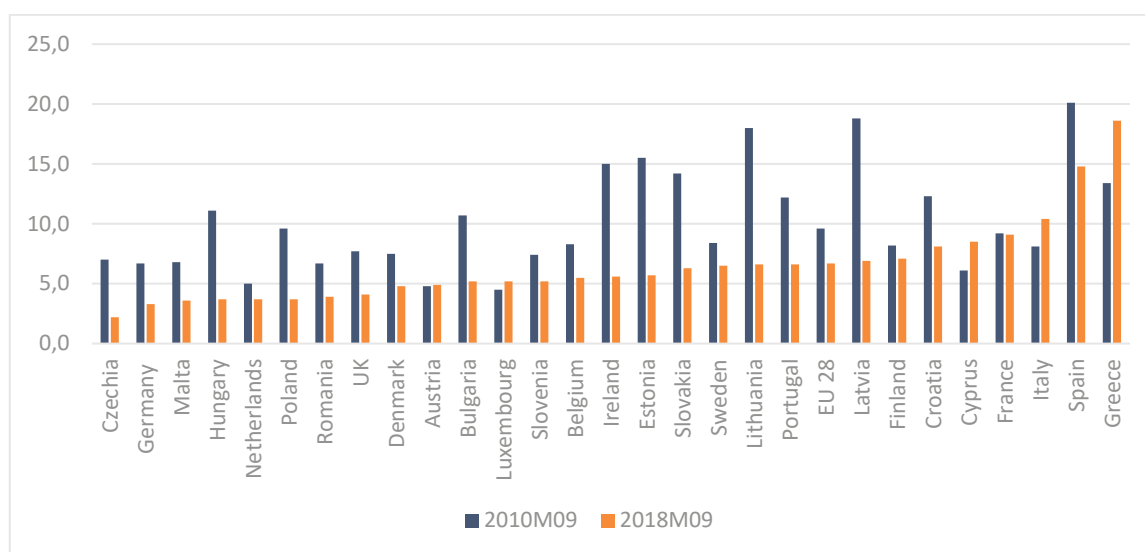
⁶⁷⁷ Eurostat statistics explained, [EU citizens living in another Member State - statistical overview](#), April 2018.

⁶⁷⁸ [Three forms of intra-EU labour mobility can be identified](#): long-term labour mobility (working and residing in another Member State); cross-border mobility (living in one Member State and working in another Member State); and the posting of workers.

and the share of EU-28 movers in this increase was 3 million or around 25%. Total employment increased in nearly all the main sending and destination countries, with the exception of Romania and Croatia. Employment rates increased in all these countries.

2. Unemployment: From September 2010 to September 2018, the unemployment rate decreased from 9.6% to 6.7% in the EU-28. Eurostat estimates that 6.3 million fewer men and women were unemployed in 2018, compared with 2010. The biggest falls in unemployment rates were reported for the Czech Republic (-69%), Estonia, Latvia and Lithuania (-63%), Hungary (-67%), Ireland (-63%), Poland (-61%), Slovakia (-56%), Bulgaria (-51%), Germany (-51%), and the United Kingdom (-47%). Both in the main sending countries, and in the main destination countries, the decrease of unemployment was well above the European average of -30%.

Figure 13: Unemployment rates in the EU- 28 (2010-18)



Source: Eurostat and author's own calculations.

3. Education: People with tertiary-level education are more mobile than the rest of the population; 32.4% of all mobile EU citizens have tertiary education.⁶⁷⁹ It appears that recent EU-28 movers are even better qualified and have a medium or high level of education (each 40%).⁶⁸⁰

4. Workers' remittances: Almost €2 in every €3 remitted across borders remains within the EU-28,⁶⁸¹ so inflows in personal remittances predominantly go to and come from EU Member States. Dependency rates on international remittances are measured by the share of inflows in personal remittances as a percentage of the country's GDP. In 2017, the highest dependency rates on remittances in the EU-28 were observed in Latvia (4.1 % of GDP) and Croatia (4.5 % of GDP).⁶⁸²

4. Wages and labour productivity: The incentives for greater labour mobility in Europe are high. In particular, when looking at gross hourly dispersion ratios, Germany and UK, for instance, have an

⁶⁷⁹ Eurostat, [4% of EU citizens of working age live in another EU Member State](#), 28 May 2018.

⁶⁸⁰ European Commission, [2017 annual report on intra-EU labour mobility](#), Second edition September 2018.

⁶⁸¹ Eurostat, [Personal remittances statistics, Statistics explained, November 2018](#), planned update November 2019.

⁶⁸² Even higher in Kosovo (15.3 % of GDP), Albania (10.0 %), Montenegro (10.7 %), and Serbia (8.6 %).

average gross hourly salary of €15.7 and €14.8 respectively, which are well ahead of countries such as Slovenia (€7.3), the Czech Republic (€4.6), Slovakia (€4.4), Poland (€4.3), Hungary (€3.6), and especially Romania (€2.0) and Bulgaria (€1.7).⁶⁸³ The wage differential becomes even more evident when looking at the lowest and highest income quintiles. In Bulgaria, Hungary and Romania the highest quintile of their population still earns less than the lowest quintile in the United Kingdom, France or Austria.⁶⁸⁴ Labour productivity also varies across in the EU. For example in 2017, the compensation per employee in UK and Germany was around €42,000, and even higher in Austria, €45,500. On the other end of the spectrum, there were Bulgaria (€8,600), and Romania (€10,500).

Based on this analysis, it can be estimated that the EU added value - in effect boost to collective GDP - so far achieved by free movement of economically active citizens is in the order of some €106 billion in 2017 (see details below).

Table 18: GDP gain so far achieved from free movement in 2017

Compensation per employee in main destination countries	€42,700
EU movers' wage level at 85% of nationals	€36,295
Compensation per employee in main sending countries	€12,700
Difference of compensation	€23,595
EU movers (without cross-border and posted workers)	9,000,000
EU movers to main destination countries (share of all EU 28 movers around 50%)	4,500,000
Difference in compensation multiplied by EU movers in main destination countries	€106,177,500.000

Source of data: Eurostat, European Commission and author's own calculations 2019.

5. Population structure and fiscal impact: From the fiscal point of view, the population structure of EU-28 movers is quite positive compared to that of nationals. The share of the active population among EU-28 movers is 15 percentage points higher than that of nationals from the host countries.⁶⁸⁵ The estimates are that EU-28 movers use childcare and school facilities to a lesser extent than citizens of countries to which they move. A 2013 study by Dustmann/Frattini in the UK comes to the conclusion that the net contribution of EU-28 movers is positive: 'Recent immigrants, i.e. those who arrived since 2000, are less likely to both receiving benefits and living in social housing than natives. Furthermore, recent immigrants, both those from EEA and non-EEA countries have made a positive net contribution to the UK fiscal system despite the UK's running a budget deficit over most of the 2000s. We also show that, if the marginal cost of providing fixed public goods to immigrants is (close to) zero, then immigration, by sharing their provision costs among a larger pool of people, allows substantial implicit savings to the native population. Overall, therefore, our analysis draws a positive picture of fiscal effects immigration has had on the UK'.⁶⁸⁶ That is not to say that public

⁶⁸³ Eurostat, Median hourly earnings, all employees, 2014.

⁶⁸⁴ M Dauderstädt, C Keltek, [Inequality in Europe: Relatively stable, absolutely alarming](#), Berlin, April 2017.

⁶⁸⁵ European Commission, [2017 annual report on intra-EU labour mobility](#), Second edition September 2018.

⁶⁸⁶ C. Dustmann and T. Frattini, [The Fiscal Effects of Immigration to the UK](#), Centre for Research and Analysis of Migration, London, November 2013.

policy could not further facilitate free movement of economically active citizens. A 2018 European Court of Auditors' (ECA) special report⁶⁸⁷ argued that while the Commission provides EU workers with useful information on their (social) rights⁶⁸⁸, there are still significant opportunities to improve the awareness. In addition, the mutual recognition of professional qualifications is still incomplete.

European Commission and Council responses so far

Social security coordination law has been a fundamental pillar of the free movement of persons since the start of the European integration process. The Labour Mobility Package (2016)⁶⁸⁹ aimed to support free movement of workers, by reviewing the Posting of Workers Directive, by improving the European Network of Employment Services (EURES), by improving recognition of professional qualifications in general, and by ensuring automatic recognition of university degrees and diplomas, in particular. The proposal for a European Labour Authority (ELA)⁶⁹⁰ goes in the same direction.

In January 2014, the European Commission submitted a proposal to better reflect new mobility patterns, technological changes and recruitment channels and to develop EURES into a true European placement and recruitment tool. The proposal entered into force in April 2016.⁶⁹¹ In June 2018, the revised Directive on the Posting of Workers was adopted⁶⁹². Member States will adopt and publish, by 30 July 2020, the laws, regulations and administrative provisions necessary to comply with this directive. In June 2018, the Council agreed its general negotiating position on the coordination of social security systems (883/2004 and 987/2009).⁶⁹³ Based on that, the Council presidency will start negotiations with the European Parliament.

Estimated benefit of any Commission action so far

In the future, posted workers can benefit from the same rules as local workers from day one, and the overall amount of remuneration received by a posted worker must meet the level of remuneration laid down in the host Member State, following the principle of the 'same pay for the same work at the same workplace'.⁶⁹⁴

EURES provides support services to job-seekers and employers. Recent changes brought in by Regulation (EU) 2016/589 aim at creating a platform including a wider spectrum of institutions. By September 2017, there were around 340,000 CVs and 5.26 million registered job vacancies, an increase of 90,000 CVs and 1.61 million posts compared to September 2016.⁶⁹⁵

⁶⁸⁷ European Court of Auditors, [Free Movement of Workers – the fundamental freedom](#), February 2018.

⁶⁸⁸ [Your Europe, working abroad](#).

⁶⁸⁹ European Parliament, [Legislative Train Schedule, Labour mobility package](#), 20 October 2018.

⁶⁹⁰ European Commission proposal for establishing a European Labour Authority, [COM \(2018\)131](#), March 2018.

⁶⁹¹ Regulation (EU) [2016/589 of the European Parliament and of the Council of 13 April 2016](#) on a European network of employment services (EURES).

⁶⁹² Directive [2018/957 concerning the posting of workers in the framework of the provision of services](#), June 2018.

⁶⁹³ Council, [General approach agreed on coordination of social security systems](#), June 2018.

⁶⁹⁴ M Kiss, [Revising the Posting of Workers Directive](#), EPRS, May 2018.

⁶⁹⁵ European Commission, [2017 annual report on intra-EU labour mobility](#), January 2018.

Looking forward

EURES can become a true European placement and recruitment tool. A better information of EU 28 movers on their (social) rights⁶⁹⁶, would facilitate the mobility and finding decent work. As far as the quality of work is concerned a timely recognition of professional skills and diplomas could reduce the phenomenon of over-qualification on the one and skills shortages on the other side.

Starting from the GDP gain of €106 billion in 2017 achieved only from the free movement to main destination countries, if trends continue at their current rate, one may reasonably assume an increase of free movement in the next 10 years, which would bring total number involved to around 12 million or 5.4% of the employed working age population. The increase in EU GDP, compared to 2017, over the next 10 years would be worth around €53 billion per year (in constant prices), which comes on top of the GDP gain so far achieved. The amount would be significantly higher, if one took cross-border workers, posted workers, remittances and the impact on public revenues into account.

⁶⁹⁶ Your Europe, working abroad, November 2018.

31. Creativity and cultural diversity

Potential efficiency gain: €0.5 billion per year

Key proposition

Culture is one of Europe's greatest strengths. 80% of Europeans think that diversity of European culture is setting Europe apart and giving it its particular value.⁶⁹⁷ Besides, it is widely recognised that creative industries⁶⁹⁸ are a driver of innovation and a catalyst for economic transformation in Europe.⁶⁹⁹ Today, the Cultural and creative sectors (CCS)⁷⁰⁰ generate approximately €509 billion in GDP, representing 5.3% of the EU's total, and employ more than 12 million full-time jobs, equivalent to 7.5% of Europe's workforce. However, CCS face a number of challenges such as increased competition from global players; the impact by digitisation; the fragmentation of the market stemming largely from Europe's cultural and linguistic diversity; the limited circulation of works; and market concentration⁷⁰¹. Highly relevant issues CCS face are barriers to access to finance resulting in funding gaps.⁷⁰² Most of the challenges of the CCS have not yet been analysed in terms of potential efficiency gain, though an area where funding gaps have been identified is debt finance and equity. It is estimated that introducing new and, further developing existing mechanisms, such as the Cultural and Creative Sectors Guarantee Facility (CCS GF)⁷⁰³, could reduce these gaps and generate a potential efficiency gain up to €988 million per year.

More detailed analysis

CCS are the third-largest employers in Europe⁷⁰⁴. This market is highly attractive for young people and has a strategic role to play in European growth⁷⁰⁵. A 2014 study⁷⁰⁶ reports that in 2011, the core creative industries in the 27 countries of the European Union generated €558 billion in GDP, (or

⁶⁹⁷ [Special Eurobarometer 466 Cultural Heritage](#), European Commission, 2017.

⁶⁹⁸ Intended as: those industries that are based on cultural values, cultural diversity, individual and/or collective creativity, skills and talent with the potential to generate innovation, wealth and jobs through the creation of social and economic value, in particular from intellectual property, Report on a coherent EU policy for cultural and creative industries, (2016/2072(INI)), European Parliament, 2016.

⁶⁹⁹ [Culture statistics - frequency and obstacles in participation](#), Eurostat, September 2017.

⁷⁰⁰ Mid-term evaluation of the Creative Europe programme (2014-2020), [COM\(2018\)248](#), April 2018.

⁷⁰¹ For a more detailed analysis of CCS challenges see Proposal for a establishing the Creative Europe programme (2021 to 2027), [COM\(2018\)366](#), May 2018.

⁷⁰² IDEA, [Survey on access to finance for cultural and creative sectors](#), 2013.

⁷⁰³ [CCS GF](#) was launched in 2016 as part of the Cross Sectoral Strand of Creative Europe 2014 - 2020.

⁷⁰⁴ [Creating growth. Measuring cultural creative markets in the EU](#), E&Y, December 2014.

⁷⁰⁵ Ibid.

⁷⁰⁶ [The economic contribution of the creative industries to the EU GDP and employment](#), Tera Consultants, September 2014.

approximately 4.4 per cent). Another 2014 study⁷⁰⁷ argues that CCS have been extremely resilient vis-à-vis the recent economic downturn. A 2018 article⁷⁰⁸ looks at the direct and indirect impacts of CCS and it reaches the conclusions that in addition to the positive contribution to production, income and wages, there is also a positive effect on overall growth.

Existing European funding instruments are essential, but they address the potential of the CCS only marginally, e.g. the budget of Creative Europe MEDIA 2014 - 2020 (equivalent of €108 million annually) represents only 0.1% of the value of production by the European audiovisual sector (€134 billion in 2015).⁷⁰⁹ This is why, access to other sources of funding is one of the biggest challenges CCS face. A 2013 evaluation of the financial gap⁷¹⁰ shows, barriers to access to finance are manifold: (i) specific characteristics of the CCS (e.g. strong copyright, creative talent, content dominates commercial orientation, and market fragmentation); (ii) finance providers seem to be more risk-averse towards CCS and communication lacks; and (iii) a deficit of understanding and awareness on financiers' and CCS seem to exist.

At that time, the financing gap for European CCS SMEs was estimated to be at €8 - €13 billion over 2014-2020.⁷¹¹ The European Commission requested an update of the 2013 study on the financial gap.⁷¹² This evaluation of new financial instruments identified an annual funding gap for debt finance in CCS of €837 million - €2.07 billion and for equity of €399 - €648 million.⁷¹³

Keeping in mind the 2013 analysis on the financing gap and the development of the CCS GF, the figures seem robust enough to estimate potential efficiency gains. If the funding gap for CCS had been reduced through the existing CCS GF by 15-20%,⁷¹⁴ and taking account of how it has developed up to March 2018⁷¹⁵, it is assumed that by introducing enhanced and more developed funding instruments - giving easier access to equity and co-financing, with 'business angels' and/or crowd-funding - the financing and equity gap could be closed up to 50%. Taken together, the potential efficiency gain could amount up to €988 million per year (€726 million for debt finance and €262 million for equity).⁷¹⁶ Working on a more modest assumption that the gap were closed by a quarter, the relevant figure would be €494 million per year.

⁷⁰⁷ [Creating growth, Measuring cultural creative markets in the EU](#), E&Y, December 2014.

⁷⁰⁸ Boix-Domènech R. and Rausell-Köster P., [The Economic Impact of the Creative Industry in the European Union](#), 2018.

⁷⁰⁹ [Creative Europe MEDIA Monitoring Report 2017](#), European Commission, 2018.

⁷¹⁰ IDEA, [Survey on access to finance for cultural and creative sectors](#), 2013.

⁷¹¹ [Ibid.](#)

⁷¹² [Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors](#). Final Report, SQW, April 2019.

⁷¹³ The calculations are on a conservative basis and should be treated indicatively.

⁷¹⁴ Mid-term evaluation Creative Europe (2014-2020), [SWD/2018/159](#) final, European Commission, 2018.

⁷¹⁵ CCS GF agreements had a maximum portfolio volume of €440m, facilitating loans to 320 enterprises. [Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors](#). Final Report, SQW, April 2019.

⁷¹⁶ For the calculation, the average of the ranges of €837 million - €2.07 billion and for equity of €399 - €648 million were used.

European Parliament position

The Parliament has repeatedly stressed the importance of CCS⁷¹⁷ not only for the economy and job creation but also for promoting and preserving cultural diversity. For instance, the CCS are a key factor to trigger innovation spill-overs in many other sectors, from manufacturing to education. The Parliament noted that CCS in the EU employ 2.5 times more people than automotive manufacturers and five times more than the chemical industry. In 2018, the Parliament underlined that, despite the EU added value of cultural investment, Creative Europe represents 0.15% of the overall EU budget. It called on the Commission to report on the implementation of the CCS GF, suggested greater use of micro-financing, as 95 % CCS SMEs are micro-enterprises, and stressed the need to ensure that banks attach a higher value to copyright and intangible assets.⁷¹⁸

European Commission and Council responses so far

The Commission shares the Parliament's view as to the economic, cultural and social impact of CCS. It also considers that a coordinated and coherent approach is necessary in order to further boost the competitiveness of CCS and to continue strengthening their potential in terms of creating quality jobs and growth⁷¹⁹. In that context, the Commission seeks to pursue a wide range of innovation initiatives through different EU programmes, including Creative Europe, Horizon 2020, COSME and InvestEU.

Estimated benefit of any Commission action so far

Creative Europe channelled €544 million from 2014 to 2016 in funding to 2,580 entities.⁷²⁰ It generated an estimated 3,000 jobs over that period. Moreover, for the CCS GF from an initial budget of €121 million, over €700 million in loans were expected to be passed on to SMEs and cultural operators across Europe. The programme not only supports the creation, promotion and circulation of cultural goods and access to cultural services as well as the competitiveness of Europe's CCS but has also a strong societal impact because it promotes cultural and linguistic diversity, artistic and creative freedom.

Another 2018 Commission document⁷²¹ argues that Creative Europe has contributed to boosting investment and job creation and ultimately to deepening the internal market through greater circulation of creative content (for instance, 400 films circulated per year), though better results could be achieved. Unfortunately, to date there is no more systematic assessment of the cost of non-Europe in relation to CCS.

⁷¹⁷ Resolution on a coherent EU policy for cultural and creative industries ([2016/2072\(INI\)](#)), European Parliament, 2016.

⁷¹⁸ Resolution on a new European agenda for culture [2018/2091\(INI\)](#), European Parliament, 2018..

⁷¹⁹ Commission follow-up to the EP non-legislative resolution of 13 December 2016 on the need for a coherent policy for cultural and creative industries, [SP\(2017\)243](#).

⁷²⁰ [Mid-term evaluation of the Creative Europe programme \(2014-2020\)](#), COM(2018)248, April 2018.

⁷²¹ Impact Assessment accompanying the proposal for a Regulation establishing the Creative Europe programme, [SWD\(2018\)290](#), May 2018.

Looking forward

In May 2018, the European Commission put forward a proposal for 'A new European Culture, Rights and Values Programme', which will have three strands, namely Empowering People, Media and Culture paired with a cross-strand support, which will provide for synergies between the different strands of the programme⁷²². For the 2021-2027⁷²³ period, the programme will have a budget of €1.85 billion, divided as follow: €1081 billion for MEDIA, €609 billion for Culture and €609 billion for the Cross-sectorial support. It also needs to be seen whether the integration of the CCS GF into InvestEU⁷²⁴ as foreseen in the MFF 2021 - 2027, would really achieve the objectives and respect the uniqueness of the CCS and of European cultural diversity.

⁷²² For more information about the programme proposal see European Commission [web page](#).

⁷²³ European Commission, [Investing in Europe, Creative Europe 2021-2027](#), May 2018.

⁷²⁴ Proposal for a regulation establishing the InvestEU Programme [COM\(2018\)439, European Commission](#), June 2018.

32. Cross-border voluntary activity

Potential efficiency gain: €0.06 billion per year

Key proposition

Volunteering is defined as an activity conducted of a person's own free will, primarily within a non-governmental organisation, for a non-profit cause. It offers many benefits, both for volunteers and the sectors and local communities in which they help.⁷²⁵ A series of barriers or constraints exist which limit the incidence of cross-border volunteering, especially among the young, and have been estimated by the European Added Value Unit of EPRS as costing around €65 million in GDP foregone.

Across the EU, around 30% of young people (15-30 years) have been involved in voluntary activities during the last 12 months, although fewer than one in ten (8%) young people (15-30 years) have ever volunteered abroad. The percentage of young volunteers has more than tripled since 2011, when the participation rate was around 2%⁷²⁶ and there is still potential, to promote cross-border volunteering, especially among the young. The EU supports voluntary activity by multiple means, including the European Voluntary Service. In the future, the new European Solidarity Corps will make more funding available for individuals. The European Commission hopes that should the obstacles to cross-border voluntary activity be removed at EU level, 50,000 participants per year could participate in the programme, which in economic terms could boost the economy by €0.8 billion.

More detailed analysis of potential benefit

In 2018 Eurobarometer⁷²⁷ reports European programmes and initiatives such as Erasmus+ and the European Solidarity Corps make young people to feel more European. When asked in which areas they think the EU should take action to express a common solidarity, young people pointed to education and training, employment, welfare and social assistance and/or the reception and integration of third-country nationals.⁷²⁸ Indeed, political relevance seems to go hand-in-hand with young people's interest in contributing to Europe.⁷²⁹ One of the main problems identified is the fact that not all the young have the same access to transnational volunteering and confront difficulties in participating, especially those from less privileged backgrounds. The lack of awareness or support, and the regulatory and financial burdens involved, limit their access significantly.⁷³⁰

⁷²⁵ European Commission, [European Voluntary Service](#), 2016.

⁷²⁶ Flash Eurobarometer [319, Youth on the Move](#), European Union, May 2011.

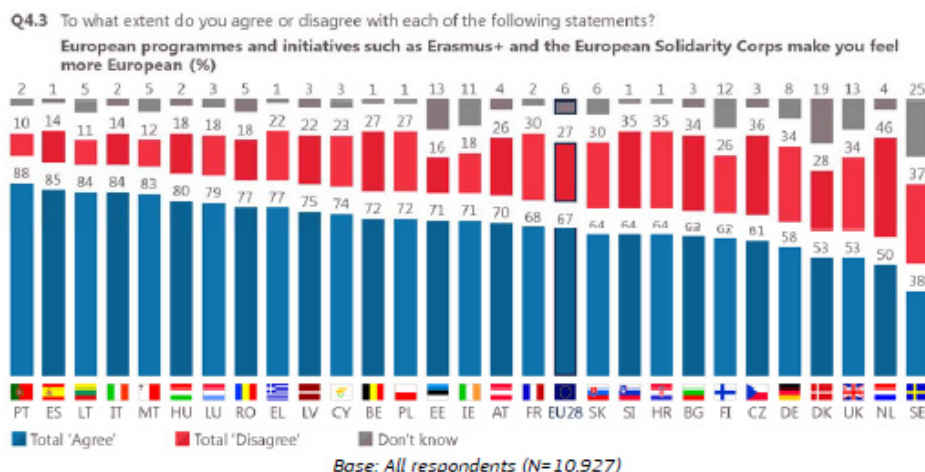
⁷²⁷ Flash Eurobarometer [455, European Youth](#), European Union, January 2018.

⁷²⁸ Flash Eurobarometer 455, European Youth, European Union, January 2018.

⁷²⁹ European Commission, [Situation of young people in the European Union](#), SWD (2018)169 final, PART 5/7, May 2018.

⁷³⁰ European Commission, [Impact of Transnational Volunteering through the European Voluntary Service](#), April 2017.

Figure 14: European attitudes towards Erasmus + and European Solidarity Corps



Source: Flash Eurobarometer [455, European Youth](#), European Union, January 2018.

A Cost of Non-Europe Report⁷³¹ in 2015, prepared by the European Added Value Unit of EPRS for the Parliament’s Committee on Culture and Education (CULT), argued that a range of barriers hinder cross-border volunteering. These include the lack of legal recognition across borders, barring access to unemployment benefits and social security and the fact that skills acquired during volunteering are not consistently recognised.

Based on an evaluation of previous European programmes, it was estimated that 7,000 Europeans were volunteering in another EU country generating economic value of between €88 million and €176 million per year. If obstacles were to be removed and more and longer funding were available, with a multiplier effect, this dividend could be considerably increased. Since then, the European Commission has come forward with a specific programme to increase the number of volunteers, and this action at EU level could free up potential for 50,000 participants per year. In economic terms, this could be worth €1 billion. Taking the cost of the programme (€190 million per year) into account, that will lead to a net efficiency gain of €810 million per year.

European Parliament position

In its 2013 resolution⁷³², the European Parliament underlined that making access to volunteering easier was essential for promoting volunteering among all age groups. The Parliament asked the European Commission, inter alia, to set up a European volunteering development fund, in order to ensure that appropriate support infrastructure be put in place, as well as to further investigate the feasibility of an EU statute for voluntary organisations. In a 2016 resolution⁷³³, the Parliament reiterated its call for a European framework for volunteering actions, which should identify rights and responsibilities and facilitate mobility and recognition of skills.

⁷³¹ M Del Monte and T Zandstra, [Cross-Border Volunteering](#), Cost of Non-Europe Report, EPRS, July 2015.

⁷³² European Parliament resolution 10 December 2013 [on volunteering and voluntary activity in Europe](#) (2013/2064(INI)).

⁷³³ European Parliament resolution 27 October 2016 [on European Voluntary Service and the promotion of volunteering in Europe](#) (2016/2872(RSP)).

Since September 2018, the new European Solidarity Corps - proposed by the European Commission after advocacy by the European Parliament - has a legal framework. The Parliament voted⁷³⁴ that the Corps should be made more accessible for young people with fewer opportunities. The Commission and the Member States will have to put in place special measures for them. An overall budget of €375.6 million for 2018-2020 was approved, 90% of which is allocated to volunteering and 10% of which goes to the occupational strand of the programme.

Commission and Council responses so far

As of September 2018⁷³⁵ and since then, 72,000 young people have registered and about 7,000 of them are involved in solidarity activities. For the coming 2021-2027 budgetary period, the Commission proposes funding of €1.26 billion overall⁷³⁶.

Estimated benefit in Europe so far

Looking back at the efficiency gains already achieved, one can argue that since 2011⁷³⁷ volunteering has been worth €6.5 billion to the European economy.

Table 19: Estimate of added value already generated in the area of cross-border volunteering

2,630,000	More young volunteers volunteering in another EU MS
155	Hours/average
407,650,000	Hours in total
€16	Wage per hour
€6,522,400,000	Worth of volunteering (replacement approach)
254,781	Full time equivalent

Source: Author's own calculation, based on Flash Eurobarometer 319 and 455

⁷³⁴ European Parliament [final vote 11 September 2018 on the European Solidarity Corps](#).

⁷³⁵ Commission press release 10 August 2018, [Commission opens new call for project proposals](#) and [Factsheet 2018](#).

⁷³⁶ Commission proposal [for establishing the European Solidarity Corps](#), Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the European Solidarity Corps programme and repealing [European Solidarity Corps Regulation] and Regulation (EU) No 375/2014, COM (2018)440, June 2018.

⁷³⁷ Since 2011 the share of volunteering (2%) abroad has more than tripled till 2017 (8%), which corresponds to 5.2 million young people, 50% in Europe 50% in another part of the world. Weighted with hours spent and an average wage of €16, volunteering in Europe is worth €6.5 billion, representing a full time equivalent of more than 250.000 people.

33. Protection of children, family and property relations

Potential efficiency gain: €0.6 billion per year

Key proposition

The number of international couples and international families is continuously increasing. Individuals increasingly exercise their rights to free movement within the EU. According to a 2013 Cost of Non-Europe Report, the current gaps and inconsistencies in the European Union legal framework addressing the protection of children, family and property relations in cross-border situations generate annual costs of € 619,4 million.⁷³⁸ The costs are driven mainly by the divergences in the Member State rules, in interpretation and application of EU rules, and in lack of mutual recognition of a specific legal status or administrative decision. Accordingly, to reduce the costs, the European Parliament has called for actions related to the cross-border adoption of children,⁷³⁹ representation in case of incapacity,⁷⁴⁰ recognition of civil status and property rights,⁷⁴¹ and reimbursement of damages from traffic accidents.⁷⁴²

More detailed analysis of potential benefit

The national laws of Member States regulate relations between private parties, while the European Union is called to take action when relationships between private persons have cross-border implications⁷⁴³. There are estimated 230 000 children born to international couples, 300 000 international marriages, 140 000 international divorces and up to 588 000 successions with cross-border element in the European Union every year.⁷⁴⁴ The 2013 Cost of Non-Europe Report, drawn up by the European Added Value Unit of EPRS for the Parliament's Legal Affairs Committee (JURI), identified ten main gaps in the area of private international law (PIL) related to the protection of children, family and property relations and quantified the correspondent costs (see table below).⁷⁴⁵ Additional gaps in the PIL have been assessed in relation to property rights connected to the

⁷³⁸ B Ballester, [European Code on Private International Law: Cost of Non-Europe Report](#), EPRS, June 2013.

⁷³⁹ Protecting the best interest of the child (across borders) in Europe [2016/2665\(RSP\)](#) and Cross-border aspects of adoptions, [2015/2086\(INL\)](#).

⁷⁴⁰ Protection of vulnerable adults [2015/2085 \(INL\)](#).

⁷⁴¹ Cross-border restitution claims of works of art and cultural goods looted in armed conflicts and wars, [2017/2023\(INI\)](#).

⁷⁴² Limitation periods for traffic accidents, [2015/2087 \(INL\)](#).

⁷⁴³ Article 81.1 of the Treaty on the Functioning of the European Union.

⁷⁴⁴ European Commission, [Impact Assessment](#), Accompanying the Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1206/2001 of 28 May 2001 on cooperation between the courts of the Member States in the taking of evidence in civil or commercial matters, SWD(2018) 285, May 2018.

⁷⁴⁵ The costs were calculated by first estimating the volume of economic activity per sector based on the data available; second, by assuming a small percentage of problematic cases; and finally by calculating the cost per problematic case for each of the missing links identified.

limitation periods of traffic accidents⁷⁴⁶ and cross-border restitution claims of looted works of art and cultural goods.⁷⁴⁷ The costs for individuals linked to the lack of harmonised rules in those areas are substantial.

Table 20: Cost of gaps in the European private international law related to protection of children, family and property relations in cross-border situations (€ million per year)

Issue	Main cost drivers	€ m
Legal capacity	Differences in the legal status increase the risks of cross-border transactions, including delay costs to business of unrecovered consumer debt, uncertainty costs and opportunity costs to businesses.	7.5
Incapacity ⁷⁴⁸	Differences in the legal status increase the risk and costs of cross-border transactions. Businesses risk to enter contracts with persons of no capacity that cannot be or will be not honoured. This entails legal uncertainty and litigation costs.	16.8
Names and forenames	Differences in Member-State (MS) rules on the recognition of foreign names negatively impact the free movement rights as incoherencies, lack of mutual recognition of names and restrictions on the given names to children create administrative costs, e.g. checking documents or receiving civil status documents or costs related to change of name as well as delay costs	2.0
Recognition of de facto unions	Divergences in MS rules and lack of mutual recognition increase uncertainty risks related to the exercise of free movement rights including issues related to property rights for individuals in these relationships when moving from one MS to another.	8.7
Recognition of same-sex marriages	Divergences in MS rules and lack of mutual recognition increase uncertainty risks related to the exercise of free movement rights including issues related to tax, social security and property matters. This situation created undue administration, uncertainty and delay costs.	4.2
Parent-child relationships	Divergences in MS rules relating to the parental responsibility of fathers of children born outside marriage create uncertainty risks related to the exercise of free movement rights, legal costs related to litigation to settle paternity issues and administrative costs.	19.3
Adoption decisions ⁷⁴⁹	There is no legal protection or guarantee under EU law that domestic adoptions lawfully carried out in one EU MS will be recognised in another. Thus, there is no guarantee – neither for the child, nor the adopter – that the status of adoption and the legal consequences thereof will be recognised if the family exercises its right to free movement within the EU.	1.6
Maintenance of de facto unions	The EU law does not explicitly cover maintenance agreements between parties who are not under a legal obligation to pay maintenance, as for example, in de facto unions. This creates a problem for settling child	13.1

⁷⁴⁶ C Salm, [Limitation periods for road traffic accidents](#), European Added Value Assessment, EPRS, July 2016.

⁷⁴⁷ C Salm, [Cross-border restitution claims of looted works of art and cultural goods](#), Study, EPRS, November 2017.

⁷⁴⁸ Legal issues and costs related to the incapacity and representation have been assessed in the C Salm, [Protection of Vulnerable Adults](#), European Added Value Assessment, EPRS, September 2016.

⁷⁴⁹ T Evas, [Cross-border recognition of adoptions](#), European Added Value Assessment, EPRS, November 2016.

Issue	Main cost drivers	€ m
	maintenance issues in cross-border situations. The main costs are related to legal uncertainty and litigation.	
Gifts and trusts	Divergences among EU MS relating to regulation of gifts, donations and trusts can create obstacles and negatively impact free movement rights. Affected individuals incur undue costs, delays and administrative costs.	5.6
Movable and immovable property	There are no rules regarding conflict of law applicable to real property. This may cause problems related to the retention of the title and ownership which may be lost when movable property is moved across borders. The main costs are uncertainty and litigation costs.	5.6
Total:		84.4

Source: Author's own assessment.

Table 21: Cost of gaps in relation to property rights in other sectors (€ million per year)

Issue	Main cost drivers	€ m
Limitation period of traffic accidents	Rules on limitation periods in cases of cross-border road traffic accidents differ widely across EU Member States. The existing legal uncertainty due to differing rules on limitation periods can lead to situations where victims of cross-border traffic accidents might be prevented from gaining proper access to justice, lose their right to compensation, and to bear additional costs.	300
Issue	Main cost drivers	€ m
Looted works of art and cultural objects	The cross-border nature of looted art creates legal challenges for restitution claims. International and European legal requirements are fragmented and do not provide an effective default regime for restitution claims. The main drivers of uncertainty and litigation costs are lack of harmonised definition of the term cultural property/objective; the fragmentation of anti-seizure legislation and unclear relation between national anti-seizure statutes and the EU Directive 2014/60 as well as the differences in substantive law and choice of law rules across the EU Member State	235
Total		535

Source: Author's own assessment.

Across this diverse set of twelve policy areas, European added value can be primarily generated through the enhancement of judicial cooperation in civil matters, mutual recognition mechanisms and simplification of procedural rules.

European Parliament position

Cross-border mobility within the EU should not negatively affect protection of children, family and property relations. However, due to the current gaps in PIL, as discussed above, in certain situations, mobility creates negative externalities for children, family and property rights. To address the existing problems of PIL, the European Parliament has, in the current legislative term (2014-19),

adopted six resolutions related to the children, family and property matters, which are summarised in the table below.

Table 22: Summary of European Parliament positions on aspects of PIL

European Parliament resolutions and initiatives	Main issues covered
Protection of vulnerable adults ⁷⁵⁰	European Parliament called on the European Commission to put in place a set of legal rules designed to improve cooperation among the Member States and the automatic recognition and enforcement of decisions on the protection of vulnerable adults and mandates in anticipation of incapacity.
Protecting the best interest of the child (across borders) in Europe ⁷⁵¹	Oral debate discussing various elements related to the protection of children, including revision of Brussels IIa Regulation. ⁷⁵²
Cross-border aspects of adoptions ⁷⁵³	EP called on the European Commission to submit a proposal for a Regulation on the cross-border recognition of national adoption orders, which should cover the automatic recognition of adoption orders, the rules of jurisdiction, grounds for refusal and creation of a European Certificate of Adoption.
Limitation periods for traffic accidents ⁷⁵⁴	EP called on the European Commission to submit a proposal for an act on limitation periods in respect of personal injury and damage to property in cross-border road traffic accidents. The proposed Directive, shall establish a special limitation regime for cross-border cases that would safeguard effective access to justice and facilitate the proper functioning of the internal market, eliminating obstacles to the free movement.
Cross-border restitution claims of works of art and cultural goods looted in armed conflicts and wars ⁷⁵⁵	EP called on the Commission and Member States to adopt a number of measures to set up a comprehensive regulatory framework with the focus on private law, establish reliable statistics, enhance due diligence obligation, cooperate with third countries and consider establishing a specific alternative dispute resolution mechanism. Parliament also supported the idea that cross-border restitution procedures.

⁷⁵⁰ European Parliament resolution of 1 June 2017 with recommendations to the Commission on the protection of vulnerable adults ([2015/2085\(INL\)](#)).

⁷⁵¹ Protecting the best interest of the child (across borders) in Europe, [2016/2665\(RSP\)](#).

⁷⁵² [Oral debate](#), discussion and replies also provided by the Council and European Commission.

⁷⁵³ European Parliament resolution of 2 February 2017 with recommendations to the Commission on cross border aspects of adoptions ([2015/2086\(INL\)](#)).

⁷⁵⁴ European Parliament resolution of 4 July 2017 with recommendations to the Commission on limitation periods for traffic accidents ([2015/2087\(INL\)](#)).

⁷⁵⁵ European Parliament resolution of 17 January 2019 on cross-border restitution claims of works of art and cultural goods looted in armed conflicts and wars ([2017/2023\(INI\)](#)).

<p>Resolution on safeguarding the best interests of the child across the EU on the basis of petitions addressed to the European Parliament⁷⁵⁶</p>	<p>EP stated that the large number of petitions received on child-related cases indicates that there is a major problem with the implementation of the Brussels IIa Regulation. It considered that all child protection systems should have transnational and cross-border mechanisms in place which take into account the specificities of cross-border conflicts.</p>
<p>Extension of the scope of the Brussels IIa Regulation to include registered partnerships, 2018/2551(RSP)⁷⁵⁷</p>	<p>EP oral debate discussing the need to ensure that children from the registered partnerships are protected and within the scope of the Brussels IIa recast Regulation.⁷⁵⁸</p>

Source: Author's own assessment.

All EP initiatives aim to facilitate cooperation in civil and commercial matters among Member States and to help individuals to protect their family and property related rights also in the cross-border situations. In practice, this means taking action to reduce delay and uncertainty costs for persons and business and administrative costs for the public administration.

European Commission and Council responses so far

In 2016, the European Commission has adopted a Decision on matters of matrimonial property regimes and the property consequences of registered partnerships⁷⁵⁹. The Commission also put forward a proposal for the recast of Brussels IIa,⁷⁶⁰ which is currently under consideration in the Council.

The measures to protect matrimonial property and property of registered partnerships in cross-border situations is an important legislative step that potentially could significantly decrease uncertainty and litigation costs of affecting individuals. However, at the time of writing, there is no reliable data to estimate the benefits achieved so far.

⁷⁵⁶ European Parliament resolution of 28 April 2016 on safeguarding the best interests of the child across the EU on the basis of petitions addressed to the European Parliament ([2016/2575\(RSP\)](#)).

⁷⁵⁷ Extension of the scope of the Brussels IIa Regulation to include registered partnerships, [2018/2551\(RSP\)](#).

⁷⁵⁸ [Oral debate](#), with replies by European Commission.

⁷⁵⁹ [Council Decision \(EU\) 2016/954 of 9 June 2016](#) authorising enhanced cooperation in the area of jurisdiction, applicable law and the recognition and enforcement of decisions on the property regimes of international couples, covering both matters of matrimonial property regimes and the property consequences of registered partnerships, OJ L 159, 16.6.2016. Supported by the implementing regulations [Council Regulation \(EU\) 2016/1103 of 24 June 2016](#) implementing enhanced cooperation in the area of jurisdiction, applicable law and the recognition and enforcement of decisions in matters of matrimonial property regimes, OJ L 183, 8.7.2016 and [Council Regulation \(EU\) 2016/1104 of 24 June 2016 implementing enhanced cooperation in the area of jurisdiction, applicable law and the recognition and enforcement of decisions in matters of the property consequences of registered partnerships](#), OJ L 183, 8.7.2016.

⁷⁶⁰ Proposal for a Council Regulation on jurisdiction, the recognition and enforcement of decisions in matrimonial matters and the matters of parental responsibility, and on international child abduction (recast), [COM\(2016\) 411 final](#).

34. Establishment and mobility of companies

Potential efficiency gain: €0.26 billion per year

Key proposition

European company law is an important cornerstone of the single market.⁷⁶¹ It facilitates freedom of establishment,⁷⁶² reduces operational burdens on the companies, enhances their competitiveness and promotes transparency. According to the Eurostat data the 17 million limited-liability companies within the EU generate an annual turn-over of around €4.9 trillion.⁷⁶³ Thus, the removal of restrictions on cross-border mobility of companies is important for the greater market integration.⁷⁶⁴ It allows companies to make important strategic decisions on business operations, explore new opportunities, attract investment and ultimately drive economic growth. The EU has taken a number of legislative measures to facilitate mobility of companies.⁷⁶⁵ Nevertheless, European companies wishing to move to another Member State still face significant obstacles, costs and legal uncertainties.⁷⁶⁶ The improvement of EU legal framework related to mergers, divisions, conversions and agency of companies has the potential to generate an efficiency gain of €264 million per year.⁷⁶⁷

More detailed analysis of potential benefit

Mergers, divisions or conversions are tools for cross-border reorganisations allowing companies to adapt to the changing internal market conditions and to benefit from new market opportunities.⁷⁶⁸ According to a 2018 study the four main reasons for companies to exercise cross-border mobility are: realisation of business opportunities, productivity gains, favourable business environment and, tax regulation.⁷⁶⁹ However, the practical realisation of company mobility is not without some

⁷⁶¹ European Commission, Action Plan: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies, [COM\(2012\)0740](#), December 2012.

⁷⁶² Article 49 Treaty on the Functioning of the European Union (TFEU).

⁷⁶³ Eurostat, 2014 and 2016 data, [Structural Business Statistics](#), Value added by NACE Rev. 2 [tin00150]

⁷⁶⁴ European Commission, [The Study on the Application of the Cross-Border Mergers Directive](#), February 2016; Ernst and Young, [Assessment and quantification of drivers, problems and impacts related to cross-border transfers of registered offices and cross-border divisions of companies](#), February 2018.

⁷⁶⁵ [Directive \(EU\) 2017/1132](#), relating to certain aspects of company law (codification).

⁷⁶⁶ European Parliament, [Cross-border mergers and divisions, transfers of seat: Is there a need to legislate?](#), IPOL, 2016.

⁷⁶⁷ This estimate is based on the 2013 Cost of Non-Europe Report, [European Code on Private International Law](#), and data of the Commission Staff Working Document, Impact Assessment accompanying the proposal for amending Directive 2017/1132, [SWD\(2018\)141](#), April 2018.

⁷⁶⁸ See, for example, 2016 IPOL study mentioned above and the Ernst and Young [Study on the Cross-border Operations](#), February 2018.

⁷⁶⁹ Ernst and Young [Study on the Cross-border Operations](#), February 2018.

difficulties.⁷⁷⁰ The efficiency gain can be achieved through the modernisation of mergers framework and the introduction of EU harmonised rules on divisions and conversions. The EU law does not yet regulate conversions or transfer of company seats. However, the Court of Justice of the European Union (CJEU), most recently in *Polbud* case, found that freedom of establishment encompasses the transfer of company seat from one Member State to another Member State, provided that all legal conditions of the Member State where company wish to transfer to are satisfied.⁷⁷¹ The right of an agent to bind a principal against third parties is also not regulated at the EU level. The divergent Member-State rules generate administrative and legal costs for companies operating in different Member States.

The current situation, defined by a high degree of legal uncertainty, induces administrative, operational and delay costs for the companies and negatively impacts company's creditors, employees and shareholders.⁷⁷² The costs and uncertainty related to exercise of mobility rights affect SMEs disproportionately.⁷⁷³ The table below summarises the estimated economic costs related to the gaps in the cross-border mobility of companies

Table 23: Estimated costs of gaps in European private international law related to cross-border mobility of companies (€ million per year)

Issue	Main cost drivers	€m per year
Cross-border conversion ⁷⁷⁴	Despite some case law provisions by the CJEU, there are important divergences in Member-State (MS) rules on the transfer of a company's seat from one MS to another. These differences on the applicable law create excessive administrative burdens and associated costs.	44
Cross-border merger ⁷⁷⁵	Despite the undeniably positive impact of the application of the current Directive's procedures, there are persistent differences between MS laws and limited options concerning simplified procedures for mergers.	192

⁷⁷⁰ The European Commission concludes "company law is not sufficiently adapted to cross-border mobility in the EU", Proposal for a Directive of the European Parliament and of the Council amending Directive 2017/1132 as regards cross-border conversions, mergers and divisions, [COM\(2018\) 241](#), April 2018.

⁷⁷¹ [C-106/16 \(Polbud\)](#) see also [C-210/06 \(Cartesio\)](#) and [C-378/10 \(VALE Építési\)](#).

⁷⁷² Ernst and Young, [Study on the Cross-border Operations](#), February 2018.

⁷⁷³ 99% of limited liability companies are small and medium enterprises (SMEs). The SMEs generate more than half of the total added value representing a significant contribution to the EU economy. [The European Economic and Social Committee Opinion](#) (INT/ 841, October 2018) states, "SMEs are in particular negatively impacted since they often lack resources to perform cross-border procedures through costly and complicated alternative methods."

⁷⁷⁴ The estimate considers direct costs, i.e. reduction of operational burden and indirect costs, deterrent multiplies, i.e. dissuasive impact on businesses wishing to trade cross-border. Direct costs are quantified by multiplying the cost saving per conversion with the expected number of conversion for 2019. Based on 2018 Commission's [Impact Assessment](#) data the cost per conversion is currently €30,000 of which 53% could be saved in case of a EU common procedural framework.

⁷⁷⁵ The methodology and data sources as above. The cost per merger is currently estimated at €90,000.

Issue	Main cost drivers	€m per year
Agency ⁷⁷⁶	The lack of European private international law provisions on agency in combination with wide discrepancies in national rules create important legal, administrative in cases where no applicable law has been chosen between the contracting parties and there is a doubt casted over the capacity of the agent to bind the principal in a cross-border case.	14
Divisions	The divergence between or lack of national rules in combination with the absence of an EU legislative framework have led to a very restricted use of cross-border divisions at high administrative and legal cost.	14
Total:		264

Source: B Ballester, European Code on Private International Law, Cost of Non-Europe Report, EPRS, June 2013.

European Parliament position

In 2017, the European Parliament adopted a resolution on cross-border mergers and divisions,⁷⁷⁷ which called on the Commission to propose new rules on cross-border mergers and divisions in the objectives boosting internal market and fostering workers' rights. The Parliament has underlined that future legislative proposals on the mobility of undertakings should include provisions concerning maximum harmonisation, particularly regarding: procedural standards, assets and liabilities and accounting issues; the rights of minority shareholders; the establishment of minimum standards of information, consultation and codetermination of workers to improve their protection, in particular against social dumping. In April 2019, the Parliament is scheduled to vote on the European Commission Company Law Package.⁷⁷⁸

European Commission and Council responses so far

In April 2018 the European Commission put forward a Company Law Package.⁷⁷⁹ It includes two proposals to amend Directive (EU) 2017/1132 relating to certain aspects of company law. One proposal focusses on the measures related to the modernisation of the EU framework on the cross-border conversions, mergers and divisions of companies and the other proposal focuses on the use of digital tools and processes in the company law⁷⁸⁰. This latter proposal puts forward a new framework for cross border divisions and conversions and suggests modifications related to the mergers.⁷⁸¹ The Company Law Package is now under consideration by the co-legislators, European

⁷⁷⁶ For more details about the methodology see B Ballester, [European Code on Private International Law](#), Cost of Non-Europe Report, EPRS, June 2013.

⁷⁷⁷ European Parliament resolution of 13 June 2017 on cross-border mergers and divisions [2016/2065\(INI\)](#).

⁷⁷⁸ [2018/0114\(COD\)](#) Cross-border conversions, mergers and divisions.

⁷⁷⁹ Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions, [COM\(2018\) 241](#), April 2018.

⁷⁸⁰ Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law, [COM\(2018\) 239](#), April 2018.

⁷⁸¹ For overview and up-to-the date information see e.g. [EP Legislative Train](#).

Parliament and Council. The European Commission has not taken any legislative initiative to address the lack of European private international law provisions on agency.

Estimated benefit of any Commission action so far

The application of a common procedural framework on mergers, despite the existing gaps and inconsistencies, has already significantly increased the volume of cross-border activity. The European Commission's impact assessment⁷⁸² accompanying the proposal for amending Directive 2017/1132 stated that for the period right after the introduction of the procedure (2008-12), mergers increased by 173%. The rate of increase accelerated during the period 2013-2017, going from 1,227 mergers for the entire EU to 1,163 mergers for just nine Member States.

⁷⁸² Commission Staff Working Document, Impact Assessment accompanying the proposal for amending Directive 2017/1132, [SWD\(2018\)141](#), April 2018.

35. Legal cooperation and litigation in civil and commercial matters

Potential efficiency gain: €4 billion per year

Key proposition

The number of people and companies involved in cross-border transactions within the EU is ever increasing. However, enforcing rights in another MS can still be very challenging. The differences in civil procedural rules among Member States create difficulties and costs for the parties involved and can be a source of mistrust among judiciaries when it comes to recognising or enforcing foreign judgments. Legislative action to introduce EU common minimum standards for civil procedure could reduce annual costs for citizens and businesses by as much as €258 to 773 million per annum.⁷⁸³ Further efficiency gains could be achieved in the area of commercial litigation by focussing on the enhancement of procedural efficiency, among other things, by taking actions to reduce the length of procedure. A European Added Value Assessment (EAVA), drafted by the European Added Value Unit of EPRS in 2018 for the European Parliament's Committee on Legal Affairs (JURI), suggests that the EU action to expedite settlement of commercial disputes could increase the efficiency of the EU economy by between €3.7 and €5.7 billion annually.⁷⁸⁴

More detailed analysis of potential benefit

In the area of civil procedure, the European added value can be created through reduction of fragmentation, simplification and filling gaps in the current EU procedural rules.⁷⁸⁵ The compilation and consolidation of the current EU law instruments related to civil procedure could reduce costs related to civil litigation by €258 million per year.⁷⁸⁶ The more ambitious initiative that would introduce a binding EU law instrument containing minimum standards of civil procedure applicable to all stages of such procedures could potentially reduce the costs up to €773 million per year. A middle way that would focus first on the comprehensive review of the current system and then fill the gaps in the specific aspects or stages of civil procedure could potentially reduce costs by up to €515 million per year.

In the area of commercial litigation, European added value could be created through increase in direct contribution of litigation service revenues to the EU economy (€1.6 to 2.7 billion) and through

⁷⁸³ The divergence in cost reduction estimates depend on the policy options and the extent of harmonisation of procedural rules that is currently under debate at policy level. For details see [Common minimum standards of civil procedure](#), EPRS, June 2016.

⁷⁸⁴ T Evas, [Expedited Settlement of Commercial Disputes](#), European Added Value Assessment, EPRS December 2018.

⁷⁸⁵ Current EU procedural rules incoherent and incomplete because they do not apply to all civil law disputes and they are limited to specific types of procedure. The main costs related to the fragmented EU rules on civil procedure are costs to the operation and conduct of business; administrative and legal costs; social costs, reduced mobility of citizens and business and incoherence costs.

⁷⁸⁶ Common Minimum Standards of Civil Procedure, [Annex 1](#), EPRS, June 2016.

reduction of opportunity costs to business associated with length of judicial proceedings (€2.1 to 3.0 billion).⁷⁸⁷ The reduction of time necessary to settle commercial dispute would reduce risks related to uncertainty, minimise the opportunity cost for business, and free funds for investment. Enhanced and simplified procedural rules would also benefit the national judicial systems of Member States through enhanced output efficiency. Taken together, measures to enhance procedural efficiency would facilitate mutual trust in the judicial systems of Member States, enhance the overall competitiveness of the EU litigation market, and strengthen the EU economy.

Table 24: Added value of expedited settlement of commercial disputes (in € billion)

	Direct impacts	Indirect impacts	Total
EAV generated as a result of opportunity costs reduction	0.9 - 1.3	1.2 - 1.7	2.1 - 3.0
EAV generated as a result of additional litigation business in the EU-27	0.7 - 1.1	0.9 - 1.6	1.6 - 2.7
Total European added value	1.6 - 2.4	2.1 - 3.3	3.7 - 5.7

Source: T Evas, [Expedited Settlement of Commercial Disputes](#), European Added Value Assessment, EPRS, December 2018.

European Parliament position

In 2017, the European Parliament adopted a resolution calling for the European Commission to adopt a binding EU law instrument containing minimum standards of civil procedure applicable to all stages of civil proceedings.⁷⁸⁸ The draft directive, annexed to the resolution, provides a comprehensive set of rules and principles related to the common minimum standards of civil procedure, including rules and principles related to fair and effective outcomes, efficiency of proceedings, access to court and justice and fairness of proceedings. In 2018, in relation to the commercial litigation, the Parliament started discussion on the amendment of Rome I Regulation⁷⁸⁹ on law applicable to the contractual obligations and for a specific procedural order in respect of cross-border commercial disputes. This specific 'European Expedited Civil Procedure' would be optional and it would provide European business with a fast option to settle commercial disputes. This European procedure could cover rules on time limits, evidence and appeals.⁷⁹⁰

⁷⁸⁷ Ibid, footnote 2.

⁷⁸⁸ European Parliament Resolution of 4 July 2017 on [Common Minimum Standards of Civil Procedure](#) in the European Union, 2015/2084(INL).

⁷⁸⁹ Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 [on the law applicable to contractual obligations](#) (Rome I).

⁷⁹⁰ European Parliament resolution of 13 December 2018 with recommendations to the Commission on expedited settlement of commercial disputes ([2018/2079\(INL\)](#)).

European Commission and Council responses so far

The European Commission has not followed the call of the European Parliament to adopt common minimum standards of civil procedure.⁷⁹¹ However, in 2018 the Commission carried out two impact assessments on service of documents⁷⁹² and on taking of evidence⁷⁹³ that cover elements of the civil procedural rules. The Parliament's proposal on expedited settlement of commercial disputes is relatively new and therefore the Commission has not yet had the opportunity to respond.

The Commission has proposed a number of measures in the area of judicial cooperation in civil and commercial matters.⁷⁹⁴ The 2018 Commission Work Programme included the Revision of the Regulation on service of documents⁷⁹⁵ and regulation on taking of evidence.⁷⁹⁶ Although these measures indirectly benefit procedural efficiency in civil and commercial matters, they do not address the main costs drivers, including fragmentation, incoherence and delay costs.

⁷⁹¹ [Follow up to the European Parliament resolution of 4 July 2017 with recommendations to the Commission on common minimum standards of civil procedure in the European Union](#), SP(2017)539.

⁷⁹² Commission Staff Working Document Impact Assessment Accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 1393/2007 of the European Parliament and of the Council on the service in the Member States of judicial and extrajudicial documents in civil or commercial matters, [SWD\(2018\)287](#), May 2018.

⁷⁹³ Commission Staff Working Document Impact Assessment Accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1206/2001 of 28 May 2001 on cooperation between the courts of the Member States in the taking of evidence in civil or commercial matters, [SWD/2018/285 final](#).

⁷⁹⁴ e.g. Regulation (EU) 2015/2421 of the European Parliament and of the Council of 16 December 2015 amending Regulation (EC) No 861/2007 establishing a European Small Claims Procedure and Regulation (EC) No 1896/2006 creating a European order for payment procedure.

⁷⁹⁵ Proposal for a amending Regulation (EC) No 1393/2007 of the European Parliament and of the Council on the service in the Member States of judicial and extrajudicial documents in civil or commercial matters, [COM\(2018\)379](#), May 2018.

⁷⁹⁶ Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1206/2001 on cooperation between the courts of the Member States in the taking of evidence in civil or commercial matters, [COM\(2018\)378](#), May 2018.

36. EU law on administrative procedure

Potential efficiency gain: €0.02 billion per year

Key proposition

Every citizen has a legally-enforceable right to good administration in his or her relations with the EU institutions, bodies and agencies.⁷⁹⁷ This EU fundamental right covers a series of procedural guarantees, as for example, the right to be heard, the right to have access to one's file, and the administration's obligation to provide a reasoned explanation for its decisions. EU administrative law is highly fragmented,⁷⁹⁸ generating uncertainty, cost and delay.⁷⁹⁹ A single, general 'law of administrative procedure' at EU level would contribute to a more efficient Union administration and potentially bring about cost savings, as clear and consistent standards for the interaction of the EU institutions with the general public should reduce burdens and save time and money for citizens, as well as reducing the volume of litigation, improving resource efficiency, and helping rationalise IT systems and e-Government services.

A public consultation⁸⁰⁰ conducted by EPRS for the Parliament's Legal Affairs Committee (JURI) showed that 76 per cent of respondents supported additional measures at EU level to codify the notion of EU administrative procedure.⁸⁰¹ The impact assessment conducted by EPRS in 2018 suggests, that in addition to substantially improving the right to good administration, the EU law on administrative procedure would also reduce transaction costs and waiting-time, thereby generating at least €20.3 million cost savings for member of the public.⁸⁰²

More detailed analysis of potential benefit

An EU law on administrative procedure would contribute to a more efficient EU administration and potentially bring about cost savings in the ways set out in the table below.⁸⁰³

⁷⁹⁷ Article 41, EU Charter of Fundamental Rights. The clearly defined, developed and enforced procedural rights, together with an open, efficient and independent EU administration are essential elements of democracy and the rule of law.

⁷⁹⁸ See e.g. European Parliament [Workshop on EU Administrative Law: State of Play and Future Prospects](#), European Parliament, 2011.

⁷⁹⁹ See e.g. the ReNEUAL project and M Nogaj, [Law of Administrative Procedure of the European Union: European Added Value Assessment](#), DG IPOL, European Parliament, November 2012.

⁸⁰⁰ T Evas, [EU law for an open independent and efficient European administration: Summary report of the public consultation, European Parliament](#), EPRS, July 2018.

⁸⁰¹ The two main reasons why respondents would like the EU to take action were to improve efficiency and to improve the transparency of the EU administration. In response to the question on how the EU should best reinforce the functioning of the EU administration, 82 % of respondents were in favour of adopting a new law.

⁸⁰² For detailed analysis, see European Parliament, [Possible action at EU level for an open, efficient and independent EU administration, Impact Assessment](#), July 2018.

⁸⁰³ Two policy options are considered: first presupposes that currently non-binding European Ombudsman code becomes legal binding and second that EU adopts a new EU administrative procedure law.

Table 25: Assessment of main monetised cost savings that could be generated by a binding EU law on administrative procedure

	European Ombudsman Code becomes a legally binding	Adopting a new EU Administrative procedure law
Total savings for citizens ⁸⁰⁴	€ 4,160,685	€ 4,680,771
Total savings for businesses	€ 13,842,280	€ 15,482,550
Reduced burdens from inspections ⁸⁰⁵		€ 110,500

Source: Based on the data from EP Impact Assessment.

The monetised cost-saving is only a small sub-set of benefits that can be generated as a result of harmonised approach to EU administrative procedure. The adoption of EU administrative law would also contribute to non-monetised benefits, including, greater accessibility of the EU administration, enhanced transparency of the EU administration, enhanced legal certainty, increased protection of citizens' rights and greater trust in EU institutions, agencies, bodies and offices.

In the e-government field, the European Commission has noted separately that the potential gains stemming from the rationalisation of fragmented IT systems for communication with the general public would be significant, offering savings of more than 2.0 million euro over four years.

European Parliament position

In 2013, the European Parliament called on the European Commission to submit, on the basis of Article 298 TFEU, a proposal for a regulation on a European law on administrative procedure to guarantee the right to good administration - that is open, efficient and independent - within the Union's institutions, bodies, offices and agencies.

The regulation would codify the fundamental principles of good administration and regulate the procedure to be followed by the Union's administration when handling individual cases to which a natural or legal person is a party, as well as other situations where an individual has direct or personal contact with the Union's administration. and it would include a universal set of principles and lay down a procedure applicable as a *de minimis* rule where no *lex specialis* exists.⁸⁰⁶

In June 2016, the Parliament adopted another resolution for an open, efficient and independent European Union administration.⁸⁰⁷ It underlined the lack of legislative follow-up by the European Commission to its 2013 resolution and asked the Commission to come forward with a legislative proposal to be included in its work programme for 2017. In 2018, the Parliament held a public

⁸⁰⁴ This includes quantification of costs related to familiarisation with the information obligation, gathering and compiling information, processing the required information and data, filling in forms and sending information to competent authorities. For methodology and detailed quantification, see EP Impact Assessment.

⁸⁰⁵ This includes quantification of reduction of costs related to the audit by public authorities, corrections to be made as a result of the audit and procuring additional info in case of problems, *ibid* EP Impact Assessment.

⁸⁰⁶ The regulation would include a universal set of principles and lay down a procedure applicable as a *de minimis* rule (i.e. that standards should be not lower than stipulated in EU legislation) where no *lex specialis* exists (i.e. no more specific legislation, e.g. legislation applicable to a special sector or a special administrative procedure).

⁸⁰⁷ EP Resolution of 9 June 2016 [for an open, efficient and independent European Union administration, 2016/2610\(RSP\)](#).

consultation on EU administrative law.⁸⁰⁸ The results of the consultation suggest that the majority of respondents are in favour of a new legally binding EU legislative instrument setting out minimum standards of administrative procedure.⁸⁰⁹

European Commission and Council responses so far

The European Commission has repeatedly stressed the importance of the right to good administration in the European Union. However, it has yet to follow this up with a legislative proposal.⁸¹⁰ In a broader context, increasing the effectiveness of EU public administration is one of the aims of the Commission's e-Government action plan 2016-2020, albeit with a focus on the technical side of communication between citizens and the EU.⁸¹¹

⁸⁰⁸ European Parliament, [Public Consultation on EU Administrative law](#), 2017.

⁸⁰⁹ T Evas, [EU law for an open independent and efficient European administration: Summary report of the public consultation, European Parliament](#), EPRS, July 2018.

⁸¹⁰ The [European Commission response](#) to the 2016 resolution indicates that the European Commission does not intend to come up with a proposal on a law on EU administrative procedure, October 2016.

⁸¹¹ See the Commission's European [eGovernment action plan 2016-2020](#).

JUSTICE AND HOME AFFAIRS: MIGRATION AND BORDERS

37. Legal migration

Cost of Non-Europe: €22 billion per year

Key proposition

The EU aims at building a comprehensive immigration policy in which legally residing Third-Country Nationals (TCNs) are treated fairly and in a non-discriminatory manner. Secondary legislation has been adopted covering different categories of TCNs and various stages of the migration process. However, a Cost of Non-Europe Report on legal migration, produced by the European Added Value Unit of EPRS for the European Parliament's Civil Liberties, Justice and Home Affairs Committee (LIBE) in March 2019,⁸¹² identifies a number of gaps and barriers. These result from the lack of incorporation and implementation of international and EU human rights and labour standards, and the sectoral approach taken in the EU legal framework, not covering all TCNs and in part leaving parallel national schemes in place. The differential treatment among TCNs and further barriers result in differences in their employment rate, over-qualification, lower job quality, lower earnings and poorer long-term integration outcomes. At societal level, these problems can undermine the EU's ability to attract workers, and especially to address shortages in particular sectors or occupations in the EU labour market, as well as the effects of demographic change (an ageing population), and to boost innovation and growth. These deficiencies all negatively impact GDP growth. Further EU action in this area could address these gaps by better implementing and enforcing existing standards, the gradual extension of EU legislation towards other sectors, or revisiting the idea of adopting a Binding Immigration Code covering all TCNs. Depending on the policy option pursued, some €21.75 billion in individual and collective economic benefits could be achieved each year.

More detailed analysis of potential benefit

The Cost of Non-Europe Report identifies a number of obstacles TCNs face including as regards equal treatment, entry and re-entry conditions, work authorisation, residence status, intra-EU mobility, social security coordination, family reunification and the recognition of qualifications.⁸¹³ Beyond giving rise to discrimination, these obstacles result in income losses at individual level and lost tax revenue at societal (aggregate EU) level. The greatest impacts are due to unequal treatment with regard to employment and remuneration, barriers imposed on family migrants and the poor recognition of qualifications.

⁸¹² W van Ballegooij, E Thirion, The Cost of non-Europe in the area of legal migration, EPRS, March 2019.

⁸¹³ Ibid, chapter 2.2.

Fragmented national policies in the legal migration area also undermine the EU's ability to attract workers. The positive impacts of migration on the destination economies are especially found in the areas of demographic development, labour markets, and innovation and growth. Overall, many studies analyse the positive impacts of migration on GDP, as a measure of overall output of destination countries. It is, however, very difficult to estimate a monetised benefit of the EU attracting further TCNs. This is due to the many factors which one has to take into account, especially when making longer-term predictions. In accordance with Article 79 (5) TFEU, Member States retain the competence to determine the volumes of TCN admissions from third countries to their territory to seek work, whether employed or self-employed. However, this does not altogether exclude EU action.⁸¹⁴

Table 26: Summary of monetised individual and economic impacts - status quo

Gap/barrier	Lost annual income, net (individual impact)	
	€31.2 million	Lost annual tax revenue at aggregate EU level (economic impact)
Recognition of qualifications	€3.2-5.3 billion	EUR €8.5 million
Re-entry and circular migration	No estimate made	€1.4-2.3 billion
Secure residence	Est 100,000 people affected; no estimate made	
Work authorisation	€1.1-2.3 billion	
Family reunification	€6.9-8.7 billion	€445-891 million
Social security	Est. 100,000 people affected; no estimate made	€2.6-3.2 billion
Equal treatment	€21 billion	

Source: W van Ballegooij, E Thirion, The Cost of Non-Europe in the area of legal migration, Chapter 3.

A number of inter-related and increasingly ambitious options for enhancing action and cooperation at EU level in the area of legal migration, addressing the gaps and barriers identified include: i) better enforcement of the current acquis; ii) a gradual extension of the current sectoral directives; iii) adopting a non-Binding Immigration Code; and iv) adopting a binding Immigration Code. As illustrated by the table below, implementing these options could result in up to €21.75 billion in economic benefits, notably due to action to address the gaps and barriers in the area of equal treatment and family reunification.

⁸¹⁴ Ibid, chapter 3.2.

Table 27: Summary of estimated benefits of policy options

	OPTION 1: Better enforcement	OPTION 2: Gradual Extension	OPTION 3: Non-binding Immigration Code	OPTION 4: Binding Immigration Code
Intra-EU labour mobility	€7.8 million individual benefits and €2.125 million economic benefits	€15.6 million individual benefits and €4.25 million economic benefits	€15.6 million individual benefits and €4.25 million economic benefits	€23.4 million individual benefits and €6.375 million economic benefits
Recognition of qualifications	€1.6 - 2.65 billion individual benefits and €0.7 - 1.15 billion economic benefits	€0.8 - 1.325 billion individual benefit and €0.35 - 0.575 billion economic benefits	€0.8 - 1.325 billion individual benefits and €0.35 - 0.575 billion economic benefits	€1.6 - 2.65 billion individual benefits and €0.7 - 1.15 billion economic benefits
Work authorisation	€0.55 - 1.15 billion individual benefits and €222.5 - 445.5 million economic benefits	€0.55 - 1.15 billion individual benefits and €222.5 - 445.5 million economic benefits	€0.275 - 0.575 billion individual benefits and €111.25 - 222.75 million economic benefits	€0.825 - 1.725 billion individual benefits and €333.75 - 668.25 million economic benefits
Family reunification	€1.725 - 2.175 billion individual benefits and €0.65 - 0.8 billion economic benefits	€3.45 - 4.35 billion individual benefits and €1.3 - 1.6 billion economic benefits	€1.725 - 2.175 billion individual benefits and €0.65 - 0.8 billion economic benefits	€5.175 - 6.525 billion individual benefits and €1.95 - 2.4 billion economic benefits
Equal treatment*	€5.25 billion individual benefits and €2 billion economic benefits	€10.5 billion individual benefits and €4 billion economic benefits	€10.5 billion individual benefits and €4 billion economic benefits	€15.75 billion individual benefits and €6 billion economic benefits

Source: W van Ballegoij, E Thirion, The Cost of Non-Europe in the area of legal migration, Chapter 4.

European Parliament position

In its 2016 resolution on the situation in the Mediterranean and the need for a holistic EU approach to migration, the European Parliament highlighted the need for a comprehensive labour migration policy, and for better integration of migrants, in order to meet the Union's goals for smart, sustainable and inclusive growth and to fill gaps identified in the Union's labour market.⁸¹⁵

⁸¹⁵ European Parliament resolution of 12 April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration, [P8_TA\(2016\)0102](#), paragraphs 121 and 123.

European Commission and Council responses so far

In 2001, the European Commission submitted a proposal⁸¹⁶ covering conditions of entry and residence for all third-country nationals for the purpose of employment, which was not supported in the Council. Subsequently, the EU has adopted several 'sectorial' directives relating to third-country nationals' admission to and residence in an EU Member State. The directives cover different categories of third-country nationals (personal scope) and regulate different stages of the migration process.⁸¹⁷ The 2015 European Agenda on Migration the Commission's announced a Regulatory Fitness and Performance (REFIT) initiative⁸¹⁸ on the EU legal migration *acquis*, to identify 'gaps and inconsistencies' and reflect on ways to simplify and streamline the existing EU framework.⁸¹⁹ The REFIT exercise was officially launched at the beginning of 2017. The Commission will publish its results in the first half of 2019.⁸²⁰

In its REFIT review, the Commission highlights that the EUs 'attractiveness' for TCNs lies in equal treatment provisions, intra-EU mobility and simplified and transparent procedures. It underlines the high degree of fragmentation and complexity of the current legal migration *acquis*. Furthermore, the 'minimum harmonisation' in and among the adopted directives, has left a too wide margin of manoeuvre to Member States during the domestic transposition and implementation phase.

⁸¹⁶ [Proposal for a Council Directive on the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employed economic activities, COM\(2001\)386](#), November 2001.

⁸¹⁷ For details see W van Ballegooij, E Thirion, *The Cost of non-Europe in the area of legal migration*, EPRS, March 2019, chapter 2.1.2.

⁸¹⁸ European Commission Staff Working Document (2015), *Regulatory Fitness and Performance Programme (REFIT) - State of Play and Outlook - REFIT Scoreboard*, [SWD\(2015\)110](#), annexed to *Better Regulation for Better Results - An EU agenda*, Communication, [COM\(2015\)215](#). See also European Commission (2015), *Better Regulation Guidelines*, Chapter on "Evaluations", p. 50-66, [SWD \(2017\) 350](#).

⁸¹⁹ European Commission (2015), *A European Agenda on Migration*, [COM\(2015\) 240](#), Brussels, May 2015, p. 14.

⁸²⁰ European Commission, DG HOME (2017) *Legal Migration Fitness Check: Consultation Strategy*, version as of February 2017.

38. Asylum policy

Cost of Non-Europe: €22.5 billion per year

Key proposition

According to international and EU law, EU Member States have committed to offering protection to those who have to leave their home country to seek safety from persecution or serious harm. However, there are significant structural weaknesses and shortcomings in the design and implementation of the Common European Asylum System (CEAS) and related measures. Beyond the tragic loss of 8,000 lives in the Mediterranean in 2016-2017 alone, a Cost of Non-Europe Report in the area of asylum, drafted by the European Added Value Unit of EPRS for the parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE), in October 2018,⁸²¹ estimates the cost of the status quo at approximately €49 billion per year. The report identifies seven policy options for the EU to tackle the identified gaps and barriers, with the potential to bring many benefits, including better compliance with international and EU norms and values, lower levels of irregular migration to the EU and costs of border security and surveillance, increased asylum process effectiveness and efficiency, faster socio-economic integration of asylum-seekers, increased employment and tax revenues, and reinforced protection of human rights in countries of return. Once the costs are considered, the net benefit of adopting such policy options would be at least €22.5 billion per year.

More detailed analysis of potential benefit

The Cost of Non-Europe Report maps gaps and barriers in the CEAS and related measures along the stages of the asylum journey from the pre-arrival phase, to the arrival, application and post application phase. The gaps identified arise either from shortcomings in the implementation of EU legislation at national level, or from gaps in current EU legislation or policies. They include, among others, a lack of legal pathways to the EU for the purpose of applying for international protection, the lack of sustainable sharing of responsibility for asylum applicants across the EU, inadequate reception conditions, and limited services aimed at facilitating refugees' social and economic integration⁸²². Non-compliance with fundamental rights is a concern throughout all stages of the asylum process.

The Cost of Non-Europe Report draws a distinction between impacts at the individual level, due to an inadequate protection of fundamental rights and freedoms, and economic impacts upon Member States and the EU. The cost of the *status quo* is estimated at approximately €49 billion per year (out of which the estimated cost of lives lost is around €12 billion). This figure includes costs incurred due to irregular migration, lack of accountability in external action, inefficiencies in asylum procedures, poor living conditions and health, and reduced employment prospects that lead to lower generation of tax revenue.

⁸²¹ W van Ballegooij, C Navarra, [The Cost of Non-Europe in Asylum Policy](#), EPRS, October 2018.

⁸²² Ibid, section 2.2.

Table 28: Summary of the impacts of the gaps/barriers in asylum policy and their estimated costs

Impact	Description	Estimated annual costs
Impacts on irregular migration	Costs related to control of irregular migration and cost of human trafficking	€19.7-33.2 billion
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
Impacts on employment and integration	Costs of limited labour market integration of refugees and tax loss due to shadow economy	€2.1-2.7 billion
Impacts on living and health conditions of asylum-seekers	'Value of life losses', costs related to detention and poor reception facilities, healthcare costs	€11.8-17.7 billion
Impacts on the efficiency of procedures	Costs of inefficiencies in Dublin transfers, at the application stage and in case of returns	€2.5-4.9 billion
Total		€37.8-60.2 billion

Source: W van Ballegooij, C Navarra, [The Cost of Non-Europe in Asylum Policy](#), EPRS, October 2018.

The report also identifies seven policy options the EU could adopt to tackle the identified gaps and barriers: introducing EU legislation on humanitarian visas, further expanding the mandate of the European Asylum Support Office, improving implementation and monitoring of the CEAS, taking individual preferences into account when identifying the Member State responsible for examining an asylum application, fostering access to employment and integration, ensuring human rights and financial accountability in external funding and returns to third countries, and EU accession to the European Convention on Human Rights.

The report's conclusions argue that the identified policy options would bring about many benefits for EU Member States, including better compliance with international and EU norms and values, lower levels of irregular migration to the EU and costs of border security and surveillance, increased effectiveness and efficiency in the asylum process, faster socio-economic integration of asylum-seekers, increased employment and tax revenues, and reinforced protection of human rights in countries of return.

European Parliament position

In its resolution of 12 April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration, the European Parliament advocated substantial reform of the Dublin Regulation and a centralised EU asylum system.⁸²³ In a resolution adopted on 11 December 2018, the Parliament requested the Commission to submit, by 31 March 2019, a proposal for a regulation

⁸²³ Resolution of 12 April 2016 on the [situation in the Mediterranean and the need for a holistic EU approach to migration](#), European Parliament, P8_TA-PROV (2016)0102.

establishing a European Humanitarian Visa following the recommendations set out in the annex to that resolution.⁸²⁴

Commission and Council responses so far

In May 2016, the Commission adopted the first package of proposals to CEAS reform which includes the following initiatives: a proposal to reform the Dublin system,⁸²⁵ a proposal to amend Eurodac,⁸²⁶ and a proposal to establish an EU Asylum Agency and replace EASO⁸²⁷. In July 2016, the Commission put forward a second package of proposals which includes a proposal to replace the Asylum Procedures Directive,⁸²⁸ a proposal to replace the Qualification Directive,⁸²⁹ and proposed targeted modifications of the Reception Conditions Directive.⁸³⁰ At the time of writing, most of these proposals are still being discussed between the European Parliament and the Council, with the attempt to achieve a fairer distribution of asylum applications through a reform of the Dublin system being the most controversial point. Furthermore, in September 2018, the Commission proposed to reinforce the EU's agency for asylum to equip it with the necessary staff, tools and financial means to support Member States.⁸³¹ At the same time, the Commission also proposed a targeted review of the Return Directive.⁸³²

⁸²⁴ European Parliament resolution of 11 December 2018 with [recommendations to the Commission on Humanitarian Visas](#) (2018/2271(INL)), P8_TA(2018)0494; W. van Ballegooij, Cecilia Navarra, [Humanitarian visas, European Added Value Assessment accompanying the European Parliament's legislative own-initiative report \(rapporteur Juan Fernando López Aguilar\)](#), EPRS, October 2018.

⁸²⁵ [Revision of the Dublin Regulation](#), Legislative train schedule, European Parliament, July 2018.

⁸²⁶ [Recast Eurodac Regulation](#), Legislative train schedule, European Parliament, July 2018.

⁸²⁷ [Strengthening the European Asylum Support Office](#), Legislative train schedule, European Parliament, July 2018.

⁸²⁸ [Reform of the Asylum Procedures Directive](#), Legislative train schedule, European Parliament, July 2018.

⁸²⁹ [Reform of the Qualifications Directive](#), Legislative train schedule, European Parliament, July 2018.

⁸³⁰ [Reform of the Receptions Conditions Directive](#), Legislative train schedule, European Parliament, July 2018.

⁸³¹ Amended proposal for a regulation of the European Parliament and of the Council on the European Union Agency for Asylum and repealing Regulation (EU) No 439/2010, [COM\(2018\) 633](#), September 2018.

⁸³² Proposal for a directive of the European Parliament and of the Council on common standards and procedures in Member States for returning illegally staying third-country nationals (recast), [COM\(2018\) 634](#), September 2018.

39. Border control and visa policy

Cost of Non-Europe: €10 billion per year

Key proposition

The unexpectedly high number of migrants arriving at the EU's external borders between 2015 and 2016 exposed structural deficiencies in the EU's current external border management policies, notably in terms of checking migrants and asylum seekers. These deficiencies, together with concerns relating to internal security, led several Schengen states to temporarily reintroduce internal borders. In addition to economic loss from closing internal borders - a 'cost of non-Schengen' - this situation has had a negative impact on the migrants, receiving societies, their residents, and trust in the EU system as such.⁸³³ At the same time, cumbersome visa requirements have deterred travel to the EU resulting in a loss in economic opportunities. A Cost of Non-Europe Report in the area of border control and visa policy, produced by the European Added Value Unit of EPRS for the Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE) in April 2019,⁸³⁴ estimates the cost of the status quo at approximately €27.5 billion per year. The report identifies a number of policy options for the EU to tackle identified gaps and barriers. Once the costs are considered, the net benefit of adopting these policy options would be at least €10 billion per year (€4 billion for border control and €6 billion for visa policy).

More detailed analysis of potential benefit

The Parliament's Cost of Non-Europe Report argues that the problems experienced may be traced back to the lack of a centralised 'command and control' over resources needed at external borders, insufficiently developed border surveillance standards, incomplete, complex and fragmented information management systems, and the partial absence of operational cooperation and readmission agreements with third countries. In the area of visa policy, the outstanding gaps concern non-standardised visa-issuing procedures and conditions, limited consular cooperation and the lack of a common approach to long-term Schengen visas. In terms of barriers, the time-consuming process of applying for a visa, lack of clear and consistent information, amount of paperwork that needs to be filled out, and at times differential treatment by consular staff, are pointed out.

The report draws a distinction between the impacts which this situation has at the individual level, due to an inadequate protection of fundamental rights and freedoms, and the economic impacts upon Member States and the EU. The study argues that while the EU legal framework largely complies with EU and international fundamental rights standards, its implementation and enforcement among Member States is inconsistent. Migrants suffer in the hands of smugglers or lose their lives (costs €4 billion annually, which can reach as high as 6.8 billion in times of increased

⁸³³ [The Cost of Non-Schengen: Impact of border controls within the Single Market](#), EPRS and Policy Departments A and C, April 2016; W van Ballegooij, [The Cost of Non-Schengen: Civil Liberties, Justice and Home Affairs aspects](#), EPRS, September 2016.

⁸³⁴ W van Ballegooij, [The Cost of Non-Europe in the area of border control and visa policy](#), EPRS, April 2019.

migratory pressure). The lack of cooperation in external border management results in emergency costs for Member States and the EU estimated at €980 million per year.

Table 29: Summary of identified costs of gaps in border management

	Type of impact	Cost components	Lower estimate	Higher estimate
Personal impacts	Smuggling of migrants	Financial costs to migrants	Average level: €300 million to € 1 billion	'Crisis' level: €500 million to €2.5 billion
	Deaths at sea (excluding asylum seekers)	Value of statistical life calculation	2017: €4 billion	2016: €6.8 billion
	Fundamental rights	Infringements of the rights to dignity, non-refoulement liberty, privacy, data protection, asylum, effective remedy		
Economic impacts	Border management funding costs	Costs related to control of irregular migration	-	Emergency costs €980 million
	Economic impact of re-imposition of Schengen borders	Delays for individuals and businesses, Border infrastructure and officers	Two year suspension 5 Member States: €386 million	Complete reintroduction border controls: €14 billion
	Returns	Average cost of returns	€344 million	€391 million
	Detention costs	Detention costs per day	€340 million	€408 million
	Costs of organised crime	Cost of Trafficking in Human Beings and profits	Sum of costs lower bound estimate: €4.6 billion	Sum of costs higher bound estimate: €7.1 billion
Total			€10.3 billion	€31.2 billion

Source: W van Ballegooij, The Cost of Non-Europe in the area of border control and visa policy, EPRS, April 2019.

A greater number of irregular migrants not eligible for asylum results in increased costs for their detention and return. The related fiscal costs can reach €680 million per year, in addition to the negative physical and psychological impacts that detention has on migrants. Gaps in EU border management policies may also have an indirect economic impact on costs of organised crime, especially trafficking in human beings (estimated to be around €6 billion per year).

In the area of visa policy, application conditions and sub-optimal application processes resulted in lost travel by third-country nationals and related missed economic opportunities of between €5.3 and 8.2 billion per year, for a five-year period between 2012-2016, well as missed opportunities in relation to cultural and scientific exchange⁸³⁵.

Finally, the report identifies a number of policy options the EU could adopt to tackle the identified gaps and barriers. In the area of border control, those options are: i) further expanding the European Border and Coast Guard (EBCG) mandate and giving the agency more executive powers to manage technical and human resources in times of crises, along with harmonisation of surveillance standards, improved information management and stronger protection of fundamental rights (expected benefits €4 billion per year due to a 15% reduction in the costs of the current gaps and barriers in border management, a lifting of internal border controls and no need for emergency funding); and ii) establishing an integrated EU border police force that integrates all national border guards services (between €170 million-5 billion with potentially higher long term benefits of a 20% reduction of the costs of the current gaps and barriers, but significant political and operational costs on the short term). In the area of visa policy, those options are: i) visa processing in priority locations and digital visas (net annual benefits of between €3 and 8 billion) ii) harmonising the use of External Service Providers in visa processing; and iii) the introduction of longer-term Schengen visas (net benefits of at least €1 billion). These policy options have the cumulative net benefit of €6 billion per year, due to a rise in tourism, investment and job creation.⁸³⁶

European Parliament position

In its resolution in April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration, as well as its 2018 annual resolution on the functioning of the Schengen area,⁸³⁷ the European Parliament has highlighted that the Schengen Area is one of the major achievements of European integration and condemned the reintroduction of border controls by certain Member States.⁸³⁸ At the same time, it stressed the need for effective management of external borders, with high common standards applied by all Member States at the external borders and an effective exchange of information between them.⁸³⁹

European Commission and Council responses so far

Both the refugee crisis and recent terrorist attacks in Europe have led to a further 'Europeanisation' of external border management, including the creation of the EBCG, and the introduction of mandatory checks of EU citizens entering or exiting the Schengen Area, alongside the further

⁸³⁵ W van Ballegooij, *The Cost of Non-Europe in the area of border control and visa policy*, EPRS, February 2019; Annex I, Research paper on the cost of non-Europe in the area of border control and visa policy, Blomeyer, 2019, Annex 11 Estimates of lost travellers and revenues.

⁸³⁶ W van Ballegooij, *The Cost of Non-Europe in the area of border control and visa policy*, EPRS, April 2019.

⁸³⁷ European Parliament resolution of 30 May 2018 on the annual report on the functioning of the Schengen area, [P8_TA-PROV\(2018\)0228](#), paragraph 10.

⁸³⁸ European Parliament resolution of 12 April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration, [P8_TA-PROV\(2016\)0102](#), paragraph 80.

⁸³⁹ *Ibid*, paragraph 74.

development of the Schengen Information System (SIS), the Visa Code and Visa Information System (VIS). Furthermore, the Entry-Exit System (EES) will record the time and place of entry and the length of authorised stay, whilst the European Travel Information and Authorisation System (ETIAS) will determine the eligibility of all visa-exempt third-country nationals to enter the Schengen Area, and whether such travel poses a security or migration risk.⁸⁴⁰ In addition, in March 2016, the European Council and Turkey reached an agreement aimed at reducing irregular migration via Turkey to Europe.⁸⁴¹

Estimated benefit of any Commission action so far

In March 2016, the European Commission submitted a communication entitled 'Back to Schengen – A Roadmap',⁸⁴² which includes concrete steps to bring order back into the management of the EU's external and internal borders. Despite progress made, as of December 2018, six Schengen States still maintain internal border controls.⁸⁴³ Even with its new mandate, the EBCG has struggled to satisfy requests for assistance from Member States. A Commission proposal of September 2018 aims to fix this and other shortcomings, including through the recruitment of a standing corps of 10,000 border guards.⁸⁴⁴ This proposal was not accompanied by an impact assessment. The European Parliament adopted its amendments and mandate for negotiations in December 2018.⁸⁴⁵ The extent to which the provisions of the Visa Code have contributed to preserving security of the external borders is difficult to evaluate, since the full deployment of the VIS was completed relatively recently.⁸⁴⁶

⁸⁴⁰ A Radjenovic, [Protection of EU external borders](#), EPRS, December 2018.

⁸⁴¹ European Council, EU-Turkey Statement, Press release, 144/16, 18 March 2016.

⁸⁴² [European Commission, Communication 'Back to Schengen – A Roadmap', COM\(2016\)120, March 2016.](#)

⁸⁴³ European Commission website, [Temporary reintroduction of border controls.](#)

⁸⁴⁴ European Commission, [Proposal for a Regulation of the European Parliament and the Council on the European Border and Coast Guard](#), COM(2018) 631.

⁸⁴⁵ EPRS, Legislative train schedule, [European Border and Coast Guard.](#)

⁸⁴⁶ A. Scherrer, [Revision of the Visa Code \(Regulation 810/2009\) and Visa Information System \(Regulation 767/2008\)](#), EPRS, March 2018.

40. Citizenship by investment and residency by investment schemes

Cost of Non-Europe: under assessment

Key Proposition

Citizenship by investment (CBI) or residency by investment (RBI) schemes allow access to citizenship or residency to non-EU nationals in exchange for specified investments in accordance with a clearly delineated process. Thus, for a defined price, individuals can acquire the rights of an EU citizenship or residency, including mobility within the EU together with access to favourable tax regimes. The necessary investments can be very low and purely of passive nature, mostly in the real estate sector.

In the last few years, these schemes have triggered debate and controversy on whether the benefits outweigh the costs. Risks of such system include the devaluation of EU citizenship and the potential for corruption, money laundering and tax evasion. Such arrangements can positively influence the economy through new investment, but, they increase external vulnerabilities and could increase the risks of financial instability. They can also have a social effect, as an inflationary situation could arise, especially in housing, which mostly affects low-level income sections of the population. Finally, politically they can cause distrust between Member States and erode the trust in the EU institutions. Specific EU action in this field - such as the introduction of fiscal buffers, the improvement of due diligence procedures, increased transparency, and a clear governance and accountability framework - could bring clear benefits to the EU. The economic benefit of such reforms is being assessed.

More detailed analysis of potential benefits

The limited availability of data makes it hard to determine the quantitative benefits and costs of CBI/RBI schemes. Nonetheless, different impacts have been suggested by a 2018 study by the European Added Value Unit of EPRS for the European Parliament's Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3)⁸⁴⁷. At the economic level, Member States enjoy the benefits of new investment, including tax revenue and job creation⁸⁴⁸. From the available data, the direct flow of investment has been estimated at around €9.2 billion since 2008.⁸⁴⁹ Yet large investment inflows can adversely affect the financial stability of small states and make them more

⁸⁴⁷ A Scherrer, E Thirion, [Citizenship by Investment \(CBI\) and Residency by Investment \(RBI\) schemes in the EU - State of play, issues and impacts](#), EPRS, October 2018.

⁸⁴⁸ Knobel A., Heitmüller F., [Citizenship and Residency by Investment Schemes: Potential to avoid the Common Reporting Standard for Automatic Exchange of Information](#), March 2018.

⁸⁴⁹ A Scherrer, E Thirion, October 2018, p. 37.

vulnerable to external shocks. Furthermore, the real-estate sector of the Member States in question could face higher demand pressures, leading to an increase in property prices⁸⁵⁰.

Table 30: Economic impact of CBI/RBI schemes

Indicator	Quantitative impact at EU level	Qualitative impact at MS level?
Macroeconomic	€9.2 billion of direct inflow	Increase in external vulnerabilities Risks of financial instability Amplified volatility
Tax revenues	Slight increase but uncertain spill over effects	
Housing prices	Rise in housing prices	Speculative effects

Source: A Scherrer, E Thirion, [Citizenship by Investment \(CBI\) and Residency by Investment \(RBI\) schemes in the EU - State of play, issues and impacts](#), EPRS, October 2018.

Table 31: Potential benefits of EU action in respect of CBI and RBI schemes

Action	Potential benefits
Fiscal buffers	Macro-economic resilience
Improved due diligence procedures	Integrity of the single market
Increased transparency	Decrease in corruption, money laundering and tax evasion
Clear governance and accountability framework	Evidence-based policies

Source: A Scherrer, E Thirion, [Citizenship by Investment \(CBI\) and Residency by Investment \(RBI\) schemes in the EU - State of play, issues and impacts](#), EPRS, October 2018.

Social impacts include the difficulty for low-level income sections of the population to have access to housing as property prices increase. As housing represents an important share of a household costs, this could also become a greater burden to a family's budget. Furthermore, the criminality checks of the schemes are sometimes questionable and can lead to a threat to security and justice affecting all EU Member States. This in turn can lead to a negative impact on citizens' freedom of movement, as the visa-free travel agreements between the EU countries mainly rely on the assumption that other members' citizens are safe to admit⁸⁵¹. In addition, the schemes are also perceived as discriminatory towards those who are following a more traditional path towards residency and citizenship.

⁸⁵⁰ Sumption M., Hooper K., [Selling visas and citizenship: policy questions from the global boom in investor immigration](#), Migration Policy Institute, October 2014.

⁸⁵¹ Sumption M., Hooper K., [Selling visas and citizenship: policy questions from the global boom in investor immigration](#), Migration Policy Institute, October 2014, p.17.

Politically, these schemes can negatively affect the population's trust in its institutions, especially due to the scandals and allegations sometimes associated with them⁸⁵². Mutual trust between Member States can also be affected by a lack of transparency in the administration of the schemes. The perception and integrity of European citizenship can also be eroded, as the economic logic of markets replaces the political foundation of citizenship, by turning the latter into a kind of commodity⁸⁵³. Finally, the lack of available data on these schemes constitutes an important obstacle for the design and conduct of long-term sustainable policies.

In the light of the important impacts affecting the EU and its Member States, there is potential for the EU to take action in this field. As underlined by the IMF⁸⁵⁴, the introduction of fiscal buffers would help to mitigate the negative macro-economic impacts and decrease the external vulnerabilities of the schemes. The European Commission could integrate, as part of its European Semester, specific recommendations on prudential regulation related to the pace of inflows to the private sector. Fiscal buffers would include measures on budgetary support and saving accumulation, savings drawdown for stabilisation, exceptional spending or large public investments. Moreover, existing due-diligence standards enshrined in EU law could be more rigorously applied in the Member States that offer the CBI/RBI schemes. The Commission could also evaluate the efficiency and effectiveness of the Member States' due diligence procedures. Concerning increased transparency, as highlighted by a 2017 Irish report on its own RBI scheme, it would be desirable for such schemes to be formally evaluated on an annual basis⁸⁵⁵.

Better data collection is not only critical to forecast vulnerabilities induced by the system, but it would also strengthen their reputation and sustainability over time⁸⁵⁶. In this case, the Commission could provide some guidance on the transparency standards and give a clear sign on how private firms should operate in the sector of CBI/RBI schemes. A structured exchange of information between Member States would be also helpful.

European Parliament position

The European Parliament strongly supports the idea of stronger EU action regarding CBI/RBI schemes. It has called on the European Commission to assess the various citizenship schemes and to issue recommendations in order to prevent such schemes from undermining the values that the EU has been built upon. It also called for the Commission to draft guidelines for the access to EU citizenship via national schemes. After the 'Maltese citizenship for sale' affair broke out in January 2014, the Parliament adopted a resolution condemning Member States' citizenship for sale programmes⁸⁵⁷. Concerning the economic impacts of the schemes, the Parliament pointed out in a

⁸⁵² Such as in the case of the murder of journalist Daphne Caruana Galizia, who was investigating, amongst other things, Malta's CBI schemes.

⁸⁵³ Mavelli L., [Citizenship for sale and the neoliberal political economy of belonging](#), *International Studies Quarterly*, 2018.

⁸⁵⁴ Xin X., El-Ashram A. and Gold J., [Too Much of a Good Thing? Prudent Management of Inflows under Economic Citizenship Programs](#), IMF Working Paper, 2015.

⁸⁵⁵ Irish Government Economic & Evaluation Service, [Interim evaluation of the IIP](#), 2017.

⁸⁵⁶ Xin X., El-Ashram A. and Gold J., [Too Much of a Good Thing? Prudent Management of Inflows under Economic Citizenship Programs](#), IMF Working Paper, 2015.

⁸⁵⁷ European Parliament resolution of 14 January 2014 on [EU citizenship for sale](#) (2013/2995(RSP)).

2015 resolution that harmful tax competition, lack of transparency, arbitrary discrimination, distortions of competition, and an uneven playing field within and outside the internal market, could not only erode tax systems, but also have wider social and political effects.⁸⁵⁸

European Commission and Council responses so far

At the request of the European Parliament, the European Commission published in January 2019 a report on Investor Citizenship and Residence Schemes in the EU.⁸⁵⁹ It underlines that investor citizenship and residence schemes pose risks for the Member States and the Union as a whole, including in terms of security, money laundering, corruption, circumvention of EU rules and tax evasion. It proposes that the Commission monitor the steps taken by Member States to ensure transparency and good governance in the implementation of the schemes, with a view to addressing, in particular risks of infiltration of non-EU organised crime groups in the economy, money laundering, corruption and tax evasion. In addition, in its EU citizenship report of 2017, the Commission highlighted the principle of sincere cooperation between Member States. It also emphasised how each has a specific responsibility when granting or removing national citizenship, as this implies granting or removing EU citizenship and all the rights that go with it.⁸⁶⁰ The Council also invited all Member States to act in accordance to the principle of sincere cooperation.⁸⁶¹

The Commission has expressed doubts on whether the CBI/RBI schemes are in accordance with the genuine link criteria provided by international law⁸⁶². Directive 2018/843/EU, amending Directive 2015/841/EU, aims to ensure that investments are subject to due diligence and anti-money laundering checks before a visa is granted in order to mitigate the risks associated with a lack of scrutiny over funds held in financial institutions overseas. However, this provision does not necessarily improve the oversight and scrutiny regarding how these checks are executed⁸⁶³. The Council's directive on automatic exchange of financial account information is a response to the risk of undermining tax transparency, but significant loopholes remain where CBI/RBI schemes can circumvent the automatic exchange of information regime⁸⁶⁴.

⁸⁵⁸ European Parliament [resolution](#) of 25 November 2015 on tax rulings and other measures similar in nature or effect (2015/2066(INI)).

⁸⁵⁹ Investor Citizenship and Residence Schemes in the European Union, European Commission, January 2019, [COM \(2019\) 12](#).

⁸⁶⁰ [EU citizenship report](#) 2017, European Commission, January 2017, p.12.

⁸⁶¹ Council [conclusions on the EU Citizenship Report 2017](#), adoption 11 May 2017.

⁸⁶² Reding V., '[Citizenship must not be up for sale](#)', European Commission, Speech/14/18, 15 January 2014.

⁸⁶³ [Directive 2018/843/EU of the European Parliament and of the Council of 30 May 2018](#).

⁸⁶⁴ [Council Directive 2014/107/EU of 9 December 2014](#).

JUSTICE AND HOME AFFAIRS: SECURITY AND FUNDAMENTAL RIGHTS

41. Combatting violence against women Cost of Non-Europe: €23 billion per year

Key proposition

Between a quarter and one-third of all women in Europe have experienced physical and/or sexual violence at some point since the age of 15.⁸⁶⁵ ⁸⁶⁶ Violence - including rape, stalking, and domestic violence - represents a clear violation of human rights and damages personal human dignity, gender equality and self-respect. There is also convincing evidence that the gender pay gap is associated with women facing a higher risk of assault by an intimate partner.⁸⁶⁷ There are no legally binding instruments specifically addressing women victims of violence at EU level. Instead, protection against this type of violence is scattered through several legal instruments. One such instrument is the 2012 Victims' Rights Directive⁸⁶⁸. While the latter recognises the needs of gender-based violence victims, it does not fully ensure adequate protection, prevention, prosecution and response. Significant differences exist across Member States in the definition and criminalisation of different types of violence against women. As a result, prevention, protection and assistance vary across the EU.⁸⁶⁹ The Council of Europe Convention on preventing and combatting violence against women and domestic violence ('Istanbul Convention'), which came into force in 2014, is the first legally binding international instrument on such a matter at international level.⁸⁷⁰ The EU signed it in June 2017⁸⁷¹ and is in the process of joining the Convention.⁸⁷² Once ratified, the Istanbul

⁸⁶⁵ [Explanatory Report to the Council of Europe Convention on preventing and combating violence against women](#), para. 2.

⁸⁶⁶ [Violence against women: an EU-wide survey](#). Main results report, Fundamental Rights Agency, 2014.

⁸⁶⁷ Gender Stat: [Sexual Violence, Work and Financial Precarity](#), International Centre for Research on Women, 2016.

⁸⁶⁸ [Directive 2012/29/EU of the European Parliament and of the Council of 25 October 2012 establishing minimum standards on the rights, support and protection of victims of crime, and replacing Council Framework Decision 2001/220/JHA](#).

⁸⁶⁹ European Parliament, Resolution of 30 May 2018 on the implementation of Directive 2012/29/EU establishing minimum standards on the rights, support and protection of victims of crime, 2016/2328(INI).

⁸⁷⁰ [Council of Europe Convention on preventing and combating violence against women and domestic violence](#), 12 April, 2011.

⁸⁷¹ Council of Europe Newsroom (2017), [EU signs Council of Europe convention to stop violence against women](#).

⁸⁷² [Council Decision \(EU\) 2017/866](#) of 11 May 2017 on the signing, on behalf of the European Union, of the Council of Europe Convention on preventing and combating violence against women and domestic violence with regard to asylum and non-refoulement, OJ L 131, 20 May 2017; [Council Decision \(EU\) 2017/865](#) of 11 May 2017 on the signing, on behalf of the European Union, of the Council of Europe Convention on preventing and combating violence against

Convention will be binding on both the EU and its Member States, insofar as EU competences are concerned.⁸⁷³

Research conducted by the European Added Value Unit of EPRS for the European Parliament's Committee on Women's Rights and Gender Equality (FEMM), suggests that further action in this field, in addition to being desirable in its own right, could have positive economic effects, reducing a range of avoidable physical, psychological and judicial costs, and boosting the European economy by some €23 billion a year.

More detailed analysis of potential benefit

Estimated costs related to violence against women in the EU were presented in a 2014 study conducted for the European Institute for Gender Equality.⁸⁷⁴ These costs were based on a figure estimated for the UK and extrapolated to the EU Member States based on their population size. The most immediate individual impacts of violence against women are physical injuries and possible changes in a person's residence. Physical and emotional impairment represents the greatest cost component, amounting to €134 billion. This estimate was calculated on the basis of the average loss of healthy life years from the injury, multiplied by the value of a healthy life-year in monetary terms. Personal costs, due to the costs of re-housing and civil legal expenses, were estimated to be €7 billion. Violent incidents may have long-term impacts on individuals, in terms of emotional well-being and mental health issues, such as risk of depression. These lead to additional costs of about €2 billion for specialised services, such as social care and advice by civil organisations and NGOs. The study found out that children of these women, particularly minors, may suffer psychological damage and incur other costs.

The individual impacts described above are associated with societal costs, ranging from additional costs incurred by the civil and criminal justice systems to greater social assistance costs and lower productivity of women due to health problems and lost working days. Lost earnings due to injury translated to an estimated reduction in economic output of €30 billion. Health service costs related to the treatment of physical and mental problems stemming from gender-based violence were estimated at €14 billion. Social services costs comprise primarily housing assistance services for people who need to move because of gender-based violence. When reported to the authorities, violence against women also implies costs for criminal and civil justice proceedings (€32 and €2 billion respectively). Overall, the cost of gender-based violence against women in the EU has been estimated at €225.8 billion in 2012 (EIGE, 2014), or €231 billion in 2016 terms. It is difficult to assess what would be the impact of an improved EU policy framework. If it were to reduce violence by 10 %, the direct economic costs alone could be reduced by €23 billion per year.

women and domestic violence with regard to matters related to judicial cooperation in criminal matters, OJ L 131, 20 May 2017.

⁸⁷³ See Legislative Train Schedule, [EU accession to the Council of Europe Convention on preventing and combating violence against women \('Istanbul Convention'\)](#), EPRS, European Parliament.

⁸⁷⁴ [Estimating the costs of gender-based violence in the European Union: Report](#), European Institute for Gender Equality, 2014.

A 2013 European Added Value Assessment produced by the European Added Value Unit of EPRS⁸⁷⁵ for the European Parliament's Committee on Women's Rights and Gender Equality (FEMM), came to similar conclusions. It argued that the annual cost to the EU of gender-based violence against women, in terms of resilience on public services, loss of productivity, pain and suffering, may be estimated at €226 billion in 2011 (or 1.8% of EU GDP).

Table 32: Summary of economic impacts of violence against women in the EU

Category	Type of impact	Quantitative estimates* per year
Individual	Personal costs	€7 billion
	Increased expenditure on specialised services	€2 billion
	Physical and emotional impairment	€134 billion
Society	GDP loss	€30 billion
	Increase in health services	€14 billion
	Increased use of the criminal justice system	€32 billion
	Increased use of the civil justice system	€2 billion
	Increased expenditure on social services and welfare programmes	€9 billion
Total cost		€231 billion

Source: Cost of Non-Europe Report in the area of Equality and the Fight against Racism and Xenophobia⁸⁷⁶. Cost estimates are annual figures and reflect 2016 price levels, unless otherwise specified.

European Parliament position

In a 2014 resolution, following a legislative own-initiative report accompanied by the above-mentioned European Added Value Assessment,⁸⁷⁷ the Parliament asked the European Commission to submit a proposal for a legal act establishing measures to promote and support Member States' action to prevent violence against women and girls. In March 2017, Parliament adopted a further resolution,⁸⁷⁸ once again urging the Commission to present a comprehensive European strategy for preventing and combatting gender-based violence as soon as possible, including a binding legislative act, and to set up a European monitoring centre on gender violence. In its 2014 resolution, the Parliament also called for EU accession to the Istanbul Convention. This accession procedure is

⁸⁷⁵ M Nogaj, [European Added Value Assessment – Combatting violence against women](#), EPRS, November 2013.

⁸⁷⁶ W van Ballegooij, J.Moxom, [The Cost of Non-Europe in the area of Equality and the Fight against Racism and Xenophobia](#), EPRS, March 2018.

⁸⁷⁷ M Nogaj, [European Added Value Assessment – Combatting violence against women](#), EPRS, November 2013.

⁸⁷⁸ European Parliament, [Resolution of 14 March 2017 on equality between women and men in the European Union in 2014-2015](#), (2016/2249 (INI)).

currently ongoing, although the Council has not yet formally requested the Parliament's consent.⁸⁷⁹ In September 2017, the Parliament, by an overwhelming majority, adopted a resolution calling for the conclusion of the Convention by the European Union.⁸⁸⁰

European Commission and Council responses so far

In its 2010-2015 strategy for gender equality, the European Commission stressed that gender-based violence was one of the key problems to address in order to achieve genuine gender equality, and listed the adoption of an EU-wide strategy to combat violence against women as a priority action. The Council also supported this proposal in its conclusions in March 2010 and December 2012. However, the Commission was unwilling to propose a specific legal instrument, considering the protection of victims of gender violence already to be effectively covered by other legal measures adopted at EU level, notably the Victims' Rights Directive^{881 882} and the European Protection Order.⁸⁸³ As of December 2018, the Istanbul Convention had been signed by all EU Member States, and ratified by 20.⁸⁸⁴

Estimated benefit of any Commission action so far

A European Implementation Assessment of the Victims' Rights Directive, drafted by the Ex-Post Evaluation Unit of EPRS, concludes that victims of sexual and/or domestic violence already received special attention in many Member States before adoption of the directive. At the same time, however, although crime rates have generally fallen in the Member States, reports of gender-based violence, such as rape, have increased and this trend is continuing.⁸⁸⁵

⁸⁷⁹ [R Schreeves, M Prpic, Violence against women in the EU, State of play, EPRS, European Parliament, November 2018.](#)

⁸⁸⁰ European Parliament [resolution of 12 September 2017](#) on the proposal for a Council decision on the conclusion, by the European Union, of the Council of Europe Convention on preventing and combating violence against women and domestic violence; [2016/0063\(NLE\)](#).

⁸⁸¹ Directive 2012/29/EU of the European Parliament and of the Council of 25 October 2012 establishing minimum standards on the rights, support and protection of victims of crime, OJ L 315, 14.11.2012, p. 57–73.

⁸⁸² [Follow up to the European Parliament resolution with recommendations to the Commission on combating violence against women](#), adopted by the Commission on 28 May 2014, SP(2014)447.

⁸⁸³ Directive 2011/99/EU of the European Parliament and of the Council of 13 December 2011 on the European protection order, OJ L 338, 21.12.2011, p. 2–18.

⁸⁸⁴ BE, DK, DE, EE, EL, ES, FR, HR, IT, CY, LU, MT, NL, AT, PL, PT, RO, SI, FI, SE.

⁸⁸⁵ [The Victims' rights directive, European Implementation Assessment](#), EPRS, December 2017.

42. Equal treatment and non-discrimination

Cost of Non-Europe: €0.5 billion per year

Key Proposition

The notions of equal treatment and non-discrimination are fundamental to the values of the European Union and indeed to democratic society. They are reflected in the Treaties and the Charter of Fundamental Rights, as well as in EU secondary legislation. However, as discussed in a Cost of Non-Europe Report produced by the European Added Value Unit of EPRS for the Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE) in 2018,⁸⁸⁶ one in five people within the EU still experience discrimination each year. Beyond discrimination and violence against women⁸⁸⁷, racial discrimination 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.

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. The above-mentioned Cost of Non-Europe Report argues that further EU action to tackle the identified gaps and barriers could save Member States up to €527 million a year.⁸⁸⁸

More detailed analysis of potential benefits

The Cost of Non-Europe Report identifies a number of gaps and barriers in EU action and cooperation. International standards aimed at further empowering disabled people have not yet been fully incorporated. In EU legislation, individuals who are discriminated against on the basis of their religion and belief, sexual orientation, disability and age are only protected within employment. Sexual orientation and gender identity are also not explicitly covered by EU legislation defining hate crimes. This legislation is furthermore insufficiently equipped to tackle online hatred. In addition, there is a lack of correct implementation of EU legislation and a need for training and data collection, which could offer a better picture of the situation on the ground. A lack of awareness of rights and obligations among the general public and access to justice for victims, compound these difficulties.⁸⁸⁹

The report details the impact of these shortcomings in terms of denial of individual rights and material and immaterial damage, including educational achievement, health status, earnings, housing conditions and pension entitlements. At societal level, tax revenue, overall economic

⁸⁸⁶ W van Ballegooij with J Moxom, [Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report](#), EPRS, March 2018.

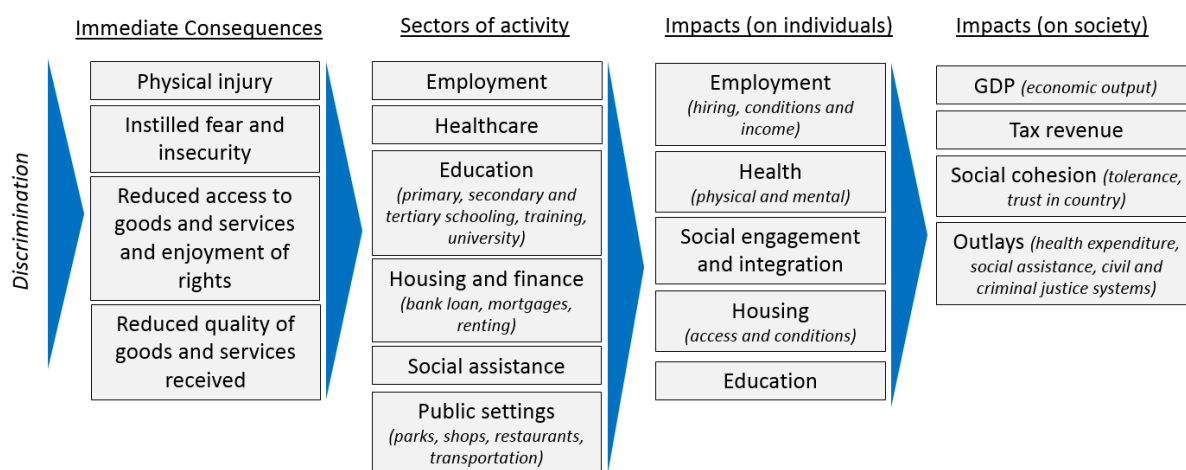
⁸⁸⁷ See sections 26 and 41 above.

⁸⁸⁸ W van Ballegooij with J Moxom, [Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report](#), EPRS, March 2018, chapter 3, table 12.

⁸⁸⁹ *Ibid*, chapter 1.

performance and social cohesion are affected⁸⁹⁰. For certain dimensions - such as race and ethnicity, religion or belief, sexual orientation and age - robust quantification of the impacts has proved difficult, due to the lack of systematic data. Nevertheless, discrimination based on these grounds clearly exists and qualitatively and quantitatively affects people's daily lives. Based on the identified gaps and barriers, a conceptual framework for the impacts of discrimination has been defined. This latter presents four possible impact channels, that were subsequently monetised into i) lost earnings for individuals, and ii) lost GDP for the society as a whole.

Figure 15: Impact channels for discrimination



Source: W van Ballegooij with J Moxom, Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report, EPRS, March 2018, Chapter 2.

The report also assesses the added value of a number of options for action at EU level that could help closing the identified gaps, notably:

- The EU Accession to the European Convention on Human Rights⁸⁹¹;
- The introduction of an EU specific mechanism for monitoring democracy, the rule of law and fundamental rights⁸⁹²;

⁸⁹⁰ Impacts for specific grounds might also apply to others, and this is certainly the case for discrimination on multiple grounds.

⁸⁹¹ In accordance with article 6(2) Treaty on European Union.

⁸⁹² [European Parliament resolution of 25 October 2016 with recommendations to the Commission on the establishment of an EU mechanism on democracy, the rule of law and fundamental rights](#) (2015/2254(INL)); W van Ballegooij and T Evas, [An EU mechanism on democracy, the rule of law and fundamental rights: European Added Value Assessment accompanying the Parliament's Legislative Initiative Report](#), EPRS, April 2016; Annex I, [The establishment of an EU mechanism on democracy the rule of law and fundamental rights](#)' by L. Pech, E. Wennerström, V. Leigh, A. Markowska, L. De Keyser, A. Gómez Rojo and H. Spanikova; Annex II, [Assessing the need and possibilities for the establishment of an EU scoreboard on democracy, the rule of law and fundamental rights](#)' by P. Bárd, S. Carrera, E. Guild and D. Kochenov, with a thematic contribution by W. Marneffe.

- Improved implementation and enforcement of EU equality legislation. If such action would reduce discrimination by 5%, it would generate an estimated annual net benefit of €424 million in terms of additional GDP;⁸⁹³
- Adopting EU legislation to extend protections against discrimination based on religion and belief, sexual orientation, disability and age. Assuming that EU action would result in a 5% improvement in educational achievement and health status of the individuals concerned this action would generate an estimated annual net benefit of €55 million in terms of GDP;⁸⁹⁴
- Amending the EU hate crime legislation to extending the protection to LGTBT people. Assuming that EU action would deter physical assault by 50% and improve the mental health of the individuals concerned this option could generate an estimated annual net benefit €48 million in terms of GDP⁸⁹⁵.

European Parliament position

The European Parliament has, in a legislative initiative resolution, called for the conclusion of an EU Pact for Democracy, the Rule of Law and Fundamental Rights (DRF).⁸⁹⁶ In 2009, the Parliament adopted its position on a Commission proposal⁸⁹⁷ for a 'horizontal' anti-discrimination directive extending protections against discrimination based on religion and belief, sexual orientation, disability and age beyond the labour market,⁸⁹⁸ and has since called on the Council to adopt its position on the proposal as well.⁸⁹⁹ The Parliament has called for the Framework Decision on combating certain forms and expressions of racism and xenophobia by means of criminal law to be properly transposed and for Member States to extend national legislation to protect victims on the basis of their sexual orientation and gender identity.⁹⁰⁰

European Commission and Council responses so far

The adoption of the proposal for a horizontal anti-discrimination directive was one of the priorities of the Juncker Commission. However, as unanimity is required in the Council, at the time of writing, the proposal remains blocked. In 2016, the Commission launched a High Level Group on combating

⁸⁹³ W van Ballegooij with J. Moxom, [Equality and the Fight against Racism and Xenophobia: Cost of Non-Europe Report](#), EPRS, March 2018, Annex I, p. 117-119.

⁸⁹⁴ Ibid p. 119-122.

⁸⁹⁵ Ibid p. 122-127.

⁸⁹⁶ Supra n. 7.

⁸⁹⁷ European Commission, 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](#), July 2008.

⁸⁹⁸ 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).

⁸⁹⁹ European Parliament resolution of 1 March 2018 on the situation of fundamental rights in the EU in 2016, [\(2017/2125/\(INI\)\)](#), paragraph 50.

⁹⁰⁰ European Parliament resolution of 13 December 2016 on the situation of fundamental rights in the European Union in 2015, [\(2016/2009/\(INI\)\)](#), paragraph 59.

racism, xenophobia and other forms of intolerance, to step up cooperation and coordination and to better prevent and combat hate crime and hate speech on the ground. One of the outcomes of the High Level Group is a code of conduct on countering illegal hate speech online.⁹⁰¹

Estimated benefit of any Commission action so far

Overall, EU equality legislation has been transposed mostly correctly and Member States have gained experience in its application. However, the relevant measures concern minimum harmonisation, allowing differences in Member States approaches to antidiscrimination policy to continue. In addition, at times, unduly wide interpretation of exception clauses remains.⁹⁰² The Framework Decision on Racism and Xenophobia has not transposed fully and/or correctly by all EU Member States. At the same time, when implementing the Framework Decision, some Member States have extended the protection granted to victims of discrimination based on other grounds, such as sexual orientation or gender identity.⁹⁰³ In 2014, the Ex-Ante Impact Assessment Unit of EPRS produced a complementary impact assessment on the Commission's proposal for a horizontal anti-discrimination directive.⁹⁰⁴ It concluded that most of the costs related to equal treatment measures would be very low, though a range of costs related to accessing goods and services could be significant. However, Member States would have scope to implement the proposal in a way that allows them to limit costs.

⁹⁰¹ [Code of conduct on countering illegal hate speech online](#).

⁹⁰² Joint Report on the application of Council Directive 2000/43/EC of 29 June 2000 implementing the principle of equal treatment between persons irrespective of racial or ethnic origin ('Racial Equality Directive') and of Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation ('Employment Equality Directive'), COM (2014) 2; J. Tymowski, [The employment equality directive, European implementation assessment](#), EPRS, February, 2016; European Parliament resolution of 15 September 2016 on application of Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation ('Employment Equality Directive'), [P8_TA\(2016\)0360](#).

⁹⁰³ Report on the implementation of Council Framework Decision 2008/913/JHA on combating certain forms and expressions of racism and xenophobia by means of criminal law, [COM \(2014\) 027](#), January 2014.

⁹⁰⁴ [Implementing the Principle of Equal Treatment between Persons: Complementary Impact Assessment of the Proposed Horizontal Directive](#), EPRS, January 2014.

43. Fighting organised crime, corruption and cyber-crime

Cost of Non-Europe: € 82.5 billion per year

Key proposition

Organised crime and corruption should be tackled together, as the two operate in a mutually-reinforcing way. Organised crime groups attempt to regulate and control the production and distribution of a given commodity or service unlawfully. In so doing, their aim is to bend the rules in their favour by corrupting officials. Corruption undermines the rule of law, which in turn provides more opportunities for organised criminals to expand their control over the legal economy and politics or even to take over governance tasks in regions and communities. Organised crime groups (OCGs) are as varied as the markets they service and the activities they engage in - such as counterfeiting and trafficking in human beings, drugs, arms or wildlife. OCGs might be based in one Member State, but they often branch out into other Member States or conduct ancillary activities there. With the development of modern technologies, OCGs have expanded their activities to cyber-crime,⁹⁰⁵ notably online payment fraud and extortion using malicious software. Fighting organised crime and corruption is a shared competence of the EU and its Member States⁹⁰⁶. The lack of implementation of international and EU norms poses one of the main barriers to the effectiveness of this fight. Based on a number of quantifiable building-blocks, a Cost of Non-Europe Report,⁹⁰⁷ written by the European Added Value Unit of EPRS for the European Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE) in 2016, has estimated that the cost in the field of organised crime and corruption is at least €82 billion annually.

More detailed analysis of potential benefits

Given their illicit nature and the need to interpret the available criminal justice data within a broader setting, the impact of organised crime and corruption is hard to measure. Within this context, it is difficult to estimate with a sufficient degree of certainty an overall cost of non-Europe in this policy field. However, the EPRS Cost of Non-Europe Report builds on existing estimates of the size of illicit markets representing a value of around €110 billion.⁹⁰⁸ Cyber-crime is estimated to reach around a value of €100 billion annually.⁹⁰⁹ The report also points to the significant social and political costs of

⁹⁰⁵ Cybercrime defined as a 'criminal act committed on line by using electronic communications network and information systems', for more information see European Commission page on [cybercrime](#).

⁹⁰⁶ As per Article 83 of the Treaty on the Functioning of the European Union (TFEU).

⁹⁰⁷ W van Ballegooij and T Zandstra, [Cost of Non-Europe Report on Organised Crime and Corruption](#), EPRS, March 2016.

⁹⁰⁸ Illicit market includes illicit drugs, counterfeiting, illegal gambling, extortion racketeering, usury, fraud, and organised property crime as defined in: Ernesto U. Savona and Michele Riccardi, [From illegal markets to legitimate business: the portfolio of organised crime in Final Report of Project OCP - Organised Crime Portfolio \(2015\)](#), p. 9.

⁹⁰⁹ This estimate is based on the [McAfee & Center for Strategic and International Studies, 'Net Losses: Estimating the Global Cost of Cybercrime'](#), 2014, and the latest [Eurostat data on the GDP values](#) of Member States. Benefiting from the representative variety of Member States for which the McAfee study provide estimations, we calculated the

organised crime and corruption.⁹¹⁰ The European Commission has estimated that corruption would cost the European economy €120 billion per year.⁹¹¹ However, the Commission's estimates only include lost tax revenues and investment and does not take account of the indirect effects of corruption. The Cost of Non-Europe Report, based on data from a number of indexes measuring national levels of corruption, estimated the cost of corruption in the Member States under three different scenarios: not reaching the corruption level of the seven best performing Member States ('magnificent seven' scenario); not reaching the EU average corruption level ('catch me if you can' scenario); and not reaching the level of the best performing country within a corresponding group (four in total), in which Member States with similar institutional characteristics and levels of corruption are divided into (the goodfellas' scenario).

The Cost of Non-Europe Report considers the 'goodfellas' scenario to be the most feasible one, as it takes into account the difference in corruption levels between Member States.⁹¹² The various cost estimates are summarised in the table below.

Table 33: Summary of the estimated cost of corruption, illicit markets, and cyber-crime in the European Union

Corruption	<i>'Magnificent seven'</i> scenario	€870 billion - €990 billion
	<i>'Catch me if you can'</i> scenario	€179 billion - €256 billion
	<i>'Goodfellas'</i> scenario	€218 billion - €282 billion
Illicit markets		€110 billion
Cybercrime		€100 billion

Source: W van Ballegooij and T Zandstra, The Cost of Non-Europe Report on [Organised Crime and Corruption](#), EPRS, March 2016.

The Cost of Non-Europe Report also identifies the main barriers in the European fight against organised crime and corruption and proposes a number of solutions, including improvements to address limitations of various monitoring mechanisms and possibly integrating them in a broader rule of law monitoring framework resulting in cost savings of €70 billion annually,⁹¹³ EU accession to GRECO⁹¹⁴ to improve the monitoring of EU institutions, further approximation of definitions of and sanctions for (serious and) organised crime and corruption, measures providing protection to whistle-blowers, the establishment of a European Public Prosecutor's Office (EPPO) resulting in savings to the EU-Budget amounting to €200 million annually,⁹¹⁵ an EU Security and Justice policy

average cybercrime losses as a percentage of GDP for the Member States that are not mentioned in the study (0.6%). To find the final value, we multiplied the different percentages by the GDP value of countries for 2017.

⁹¹⁰ W van Ballegooij and T Zandstra, The Cost of Non-Europe report [on Organised Crime and Corruption](#), EPRS, March 2016, p. 6, 7.

⁹¹¹ [EU Anti-Corruption Report](#), COM (2014) 38 p.3, footnote 3.

⁹¹² W van Ballegooij and T Zandstra, *ibid*, Annex II, p. 40-46.

⁹¹³ *Ibid*, p 109. The cost savings are based on estimation of the potential gains in terms of GDP from expanding a CVM-like mechanism to five other Member States (Croatia, Greece, Italy, Latvia and Lithuania) with the highest level of corruption within the European Union according to the International Country Risk Guide Corruption Index.

⁹¹⁴ Council of Europe, [Group of states against Corruption](#).

⁹¹⁵ W van Ballegooij and T Zandstra, *ibid*, Annex II, p. 110-112. If all Member States established a European Public Prosecutor's Office around 200 million euros of the EU budget could be recuperated per year. It is based on a predicted increase in prosecution and conviction rates.

cycle, building on and improving the current EU policy cycle on serious and organised crime, the improvement and further development of police and judicial cooperation at operational level, the implementation of a full EU-wide e-procurement system, reducing the cost of corruption risk in public procurement by €920 million each year,⁹¹⁶ and making sure that crime does not pay by properly implementing and further improving EU measures on the tracing, freezing and confiscation of criminal proceeds. Based on the building-blocks which could be quantified, the cost of non-Europe in the field of organised crime and corruption can be at least €71 billion annually.⁹¹⁷

Assuming EU action and cooperation would result in a reduction of the size of the illicit markets by 10% another €10 billion might be added to this figure. As mentioned in the section in this Mapping exercise on cyber-security, it is difficult to capture the impact of cyber-attacks to the economy and hence the added value of the work of EU agencies (Europol's Cybercrime centre⁹¹⁸, Eurojust and the European Union Agency for Network and Information Security (ENISA)) and EU legislation harmonising criminal law and facilitating judicial cooperation in reducing cyber-crime. However, the impact assessments accompanying Commission proposals on (i) the use of electronic evidence in criminal matters⁹¹⁹ and (ii) the fraud and counterfeiting of non-cash means of payment⁹²⁰ estimate a potential economic benefit of €481 million, due to reduction of administrative costs, crime (including fraud) and the related profits for OCGs.

European Parliament position

The European Parliament has called for the correct implementation of existing EU and international instruments in the fight against organised crime and corruption and EU accession to GRECO. It has strongly supported the establishment of the EPPO and called for a revision of the framework decision on organised crime⁹²¹, the environmental crime directive⁹²², measures on witness and whistle-blowers protection, the mutual recognition of freezing and confiscation orders, further measures on suspects' rights, enhanced police and judicial cooperation as well as measures aimed

⁹¹⁶ W van Ballegooij and T Zandstra, *ibid*, p. 115. The implementation of a full e-procurement system could reduce the costs of corruption risk in public procurement by around 924 million euros annually which corresponds to a reduction of almost 20% of the current costs.

⁹¹⁷ W van Ballegooij and T Zandstra, *ibid*, p. 8-9.

⁹¹⁸ Europol, European Cybercrime Centre.

⁹¹⁹ The estimation is based on an annual adjustment of the preferred option of the Impact Assessment accompanying the proposal for a regulation on European Production and Preservation Orders for electronic evidence in criminal matters on the appointment of legal representatives for the purpose of gathering evidence in criminal proceedings, [SWD\(2018\) 118](#), April 2018.

⁹²⁰ The estimate is based on the preferred option of the Impact Assessment accompanying the proposal for a Directive on combating fraud and counterfeiting of non-cash means of payment, [SWD\(2017\) 298](#), September 2017.

⁹²¹ Council Framework [Decision 2008/841/JHA](#) of 24 October 2008 on the fight against organised crime, OJ L 300, 11.11.2008, p. 42–45.

⁹²² [Directive 2008/99/EC](#) of the European Parliament and of the Council of 19 November 2008 on the protection of the environment through criminal law, OJ L 328, 6.12.2008, p. 28–37.

at preventing organised criminals from infiltrating in the legal economy, including through e-procurement.⁹²³

European Commission and Council responses so far

The Commission's European Agenda on Security prioritises the fight on terrorism, organised crime and cyber-crime, for the period 2015-2020.⁹²⁴ Following the refugee crisis, the Council's EU policy cycle for organised and serious international crime for the period 2018-2021⁹²⁵ further prioritises organised criminal activities related to irregular migration.⁹²⁶ The Commission has confirmed that EU accession to GRECO remains one of the priorities for EU cooperation, but in the meantime, it discontinued the EU anti-corruption report.⁹²⁷ 22 Member States have so far decided to set up or join the EPPO under enhanced cooperation.⁹²⁸ The Commission presented a proposal on whistleblower protection in April 2018.⁹²⁹ A Regulation for the mutual recognition of asset freezing and confiscation orders was approved by the Parliament on 4 October 2018.⁹³⁰ Finally, the Commission has initiated an action plan to start a review of the EU policy and legislative framework on environmental crime.⁹³¹

While the EPPO regulation entered in force in November 2017, the office will take up its functions only in 2020, meaning that it cannot be confirmed yet whether the estimated €200 million in annual benefits have been achieved.

⁹²³ European Parliament, [Resolution of 25 October 2016 on the fight against corruption and follow-up of the CRIM resolution \(2015/2110\(INI\)\)](#), para 4, 8, 10, 18, 21, 26, 30, 51.

⁹²⁴ European Commission, [Communication on *The European Agenda on Security*](#), COM(2015) 185.

⁹²⁵ Council Conclusions on the continuation of the EU Policy Cycle for organised and serious international crime for the period 2018-2021, Council doc. 7093/17, March 2017.

⁹²⁶ Council conclusions on setting the EU's priorities for the fight against organised and serious international crime between 2018 and 2021, [Council doc. 8654/17](#), May 2017.

⁹²⁷ [Parliamentary Questions on the EU Anti-Corruption Report \(14 July 2017\)](#).

⁹²⁸ Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO'), [OJ 2017 L 283 of 2017-10-31, p. 1-71](#).

⁹²⁹ Proposal for a Directive of the European Parliament and of the Council on the protection of persons reporting on breaches of Union law, [COM \(2018\)218](#), April 2018.

⁹³⁰ European Parliament legislative resolution of 4 October 2018 on the proposal for a regulation of the European Parliament and of the Council [on the mutual recognition of freezing and confiscation orders](#), P8_TA(2018)0380.

⁹³¹ EU actions to improve environmental compliance and governance, [COM \(2018\)10](#), January 2018.

44. Coordinated action against terrorism

Cost of Non-Europe: €16 billion per year

Key proposition

In the wake of recent attacks in Europe, Eurobarometer surveys show that the public considers terrorism to be one of the most important issues facing the EU at the moment.⁹³² The Union fights terrorism through supporting various national measures and exchanges, including those preventing radicalisation and recruitment, measures addressing terrorist financing and regulating the possession and acquisition of weapons and explosives, as well as instruments aimed at strengthening security at the Union's external borders. Moreover, the EU supports operational cooperation between national law enforcement authorities, as well as harmonising terrorism-related provisions in criminal law and procedure. This includes active cooperation with third countries and international organisations. Nevertheless, a 2018 Cost of Non-Europe Report on the fight against terrorism produced by the European Added Value Unit of EPRS for the European Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE), has estimated the costs of terrorist activity within the EU at approximately €15.9 billion per year⁹³³ The report identifies a number of gaps in EU counter-terrorism policy and assesses the costs and benefits of policy options that could help close those gaps. Moreover, it points out that fundamental rights are not effectively protected.

More detailed analysis

The Cost of Non-Europe Report argues that further EU action in the area of counter-terrorism is imperative since, besides the impact on victims and their families, terrorism has a negative effect on the well-being of the population as a whole, affecting people's life satisfaction, happiness, health and trust within communities and in national political institutions. It argues that between 2004 and 2016, terrorism has cost the EU about €185 billion in lost GDP and around €5.6 billion in lost lives, injuries and damages to infrastructure. Terrorism also harms trade, foreign direct investment, tourism (where the consequences are immediate, but often short-lived) and transport. Conversely, the defence sector has benefited from increased investments. Moreover, in recent years, the EU counter-terrorism budget has risen significantly, as illustrated by the €4 billion in commitments and €3 billion in payments towards the Commission's Security and Citizenship Programme in 2016.⁹³⁴ Finally, certain measures and practices under the guise of the fight against terrorism have had a disproportionate impact on suspects and wider groups within the society: not only have they violated fundamental rights, but they were also counter-productive. Examples include the rendition, unlawful detention and torture of terrorism suspects in secret locations, anti-radicalisation

⁹³² European Commission, [Standard Eurobarometer 89](#), Spring 2018, p. 25.

⁹³³ W van Ballegooij and P Bakowski, [The cost of non-Europe in the fight against terrorism](#), EPRS, May 2018.

⁹³⁴ The new Commission MFF 2021-2027 [proposals](#) sees significant increases in security and defence spending. Internal Security Fund (ISF) to be more than doubled, from €1 billion to €2.5 billion.

programmes conflating the Muslim faith with violent extremism, as well as blanket mass surveillance by intelligence services.⁹³⁵

Table 34: Impacts of terrorism and counter-terrorism measures

Impact	Type	Cost in € million	Sources
Terrorism	<i>Human</i>	2004-2016: 4,721.7 2013-2016: 2,557.7	Institute for Economics and Peace (IEP), Global Terrorism Database (GTD)
	<i>Physical capital</i>	2004-2016: 897.6 2013-2016: 103.0	Institute for Economics and Peace (IEP), Global Terrorism Database (GTD)
	<i>Psychological</i>	Lower life satisfaction Lower happiness Lower interpersonal trust Lower trust in national political institutions	World Values Survey (WVS), European Social Survey (ESS)
	<i>Economic</i>	2004-2016: 179,811.9 2013-2016: 87,800.4	Penn World Tables (PWT)
Counter-terrorism	<i>Public expenditures</i>	2015: 8,720.9	Eurostat government expenditure by function (COFOG)
	<i>Fundamental rights</i>	Violation of fundamental rights, notably the prohibition of torture, liberty, fair trial, the rights to privacy and data protection, and non-discrimination	European Court of Human Rights, Court of Justice of the European Union, national courts, Fundamental Rights Agency, NGO reports

Source: W van Ballegooij and P Bakowski, [The Cost of Non-Europe in the fight against terrorism](#), EPRS, May 2018, Chapter 2.

The report argues that significant benefits could be achieved by the EU and its Member States by addressing the gaps and barriers described above, inter alia by developing an evidence-based EU criminal policy cycle involving the European Parliament and national parliaments. In this context, EU institutions should conduct proper ex-ante assessments and ex-post evaluations of counterterrorism measures in line with their better regulation obligations; monitoring the effectiveness and fundamental rights compliance of counter-radicalisation programmes; and fostering a European law enforcement culture in which relevant information is shared and analysed, judicial cooperation tools are properly used, and seeking the support of EU agencies becomes a natural thing to do. This also requires adequate training and funding at national level.⁹³⁶

⁹³⁵ W van Ballegooij and P Bakowski, [The cost of non-Europe in the fight against terrorism](#), EPRS, May 2018, Chapter 2.

⁹³⁶ Ibid, Chapter 3.

European Parliament position

The European Parliament has adopted several resolutions addressing the effectiveness and fundamental rights gaps in EU counter-terrorism policy, within the wider context of the European Agenda on Security⁹³⁷, or addressing specific aspects, such as the prevention of radicalisation and recruitment by terrorist organisations.⁹³⁸ The Parliament has insisted on a comprehensive evaluation of the EU's counter-terrorism policy.⁹³⁹ In 2017, it set up a Special Committee on Terrorism, whose recommendations were adopted in plenary in December 2018. The Parliament called inter alia for the establishment of an EU centre of excellence for preventing radicalisation and improved intelligence, police and judicial cooperation, including through EU agencies.⁹⁴⁰

European Commission and Council responses so far

The 2015 European Agenda of Security⁹⁴¹ identifies terrorism as one of three priority areas for EU security, together with organised crime and cyber-crime. In recent years, the EU has strengthened its support for national measures and exchanges on best practice to combat radicalisation and recruitment, mainly through the Radicalisation Awareness Network (RAN)⁹⁴², updated measures addressing terrorist financing, such as the EU anti-money laundering (AML) directives⁹⁴³, and regulating the possession and acquisition of weapons,⁹⁴⁴ as well as instruments aimed at strengthening police and judicial cooperation,⁹⁴⁵ and security at the Union's external borders.

Estimated benefit of any Commission action so far

The transposition, implementation and enforcement of EU measures in the fight against terrorism has so far not been comprehensively evaluated, notably as regards their relevance, coherence,

⁹³⁷ [The European Agenda on Security](#), COM(2015) 185, April 2015.

⁹³⁸ European Parliament resolution of 14 December 2011 on the EU Counter-Terrorism Policy: main achievements and future challenges, [P7_TA\(2011\)0577](#); European Parliament resolution of 11 February 2015 on anti-terrorism measures, [P8_TA\(2015\)0032](#); European Parliament resolution of 9 July 2015 on the European Agenda on Security, [P8_TA\(2015\)0269](#); European Parliament resolution of 25 November 2015 on the prevention of radicalisation and recruitment of European citizens by terrorist organisations, [P8_TA\(2015\)0410](#).

⁹³⁹ [P8_TA\(2015\)0032](#), paragraph 23.

⁹⁴⁰ European Parliament resolution of 12 December 2018 on findings and recommendations of the Special Committee on Terrorism (2018/2044(INI)), [P8_TA-PROV\(2018\)0512](#).

⁹⁴¹ [The European Agenda on Security](#), COM(2015) 185, April 2015.

⁹⁴² Website of [the RAN](#), Directorate General for Migration and Home Affairs, European Commission.

⁹⁴³ Directive [\(EU\) 2018/843](#) of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, OJ L 156, 19.6.2018, p. 43–74.

⁹⁴⁴ Directive [\(EU\) 2017/853](#) of the European Parliament and of the Council of 17 May 2017 amending Council Directive 91/477/EEC on control of the acquisition and possession of weapons, OJ L 137, 24.5.2017, p. 22–39.

⁹⁴⁵ Directive [\(EU\) 2017/541](#) of the European Parliament and of the Council of 15 March 2017 on combating terrorism, OJ L 88, 31.3.2017, p. 6–21; Directive [\(EU\) 2016/681](#) of the European Parliament and of the Council of 27 April 2016 on the use of passenger name record (PNR) data for the prevention, detection, investigation and prosecution of terrorist offences and serious crime, OJ L 119, 4.5.2016, p. 132–149.

effectiveness, efficiency and compliance with fundamental rights. The Commission did, however, conduct a detailed assessment of EU security policy,⁹⁴⁶ where the EU was deemed to have made considerable progress in facilitating cooperation between national authorities competent to prevent, investigate and prosecute terrorist offences.⁹⁴⁷

⁹⁴⁶ Comprehensive Assessment of EU Security Policy, [Part 1](#) and [Part 2](#), SWD(2017)278, July 2017.

⁹⁴⁷ Ibid, part 1, p. 34.

45. Procedural rights and detention conditions

Cost of Non-Europe: €0.2 billion per year

Key proposition

Notwithstanding significant action and cooperation at EU level, the rights and detention conditions of those suspected of committing a crime and serving a sentence in the Member States often fail to live up to international and EU standards. EU legislation on suspects' rights is limited to setting common minimum standards. Even so, there are already indications of shortcomings concerning key rights to a fair trial, such as the right to interpretation, translation, information and legal assistance during questioning by the police. Moreover, certain areas have not been comprehensively addressed, such as pre-trial detention (PTD), contributing to prison over-crowding in a number of EU Member States. Divergent levels of protection can also create discrimination between EU citizens. This impacts on the individuals concerned and their families, as well as on society more generally. A Cost of Non-Europe Report in the area of procedural rights and detention conditions,⁹⁴⁸ produced by the European Added Value Unit of EPRS for the European Parliament's Committee on Civil Liberties, Justice and Home Affairs (LIBE) in 2017, has estimated the cost to the European economy of excessive application of pre-trial detention measures at €162 million annually, and found that disproportionate use of the European Arrest Warrant adds another €43 million per year, leading to a total loss of €205 million per year.⁹⁴⁹

More detailed analysis of potential benefit

The Cost of Non-Europe Report highlights the gaps and barriers in EU action and cooperation that may contribute to individuals suffering inappropriate treatment at all stages of criminal proceedings (questioning, prosecution and sentencing). This could lead to increased legal costs, detrimental effects on employment, education, and private and family life, as well as impacts on an individual's mental and psychological health. Detention may also expose individuals, especially those in vulnerable groups, to mal-treatment and violence. Over-crowded prisons have a detrimental effect on the physical and mental health of prisoners, as well as increasing suicide rates. They can also undermine their rehabilitation prospects, including attempts to prevent radicalisation in the fight against terrorism. The report furthermore estimates that pre-trial detention has an overall economic cost of approximately €1.6 billion per year for EU Member States. The total cost includes the cost

⁹⁴⁸ W van Ballegooij, [The cost of non-Europe in the area of procedural rights and detention conditions](#), EPRS, December 2017.

⁹⁴⁹ M Del Monte, [Revising the European Arrest Warrant, European Added Value Assessment accompanying the European Parliament legislative own-initiative report](#), EPRS, March 2014; Annex I: A. Weyembergh with the assistance of I. Armada and C. Brière, [Critical assessment of the existing European Arrest Warrant framework decision](#); Annex II: A. Doobay, [Assessing the need for intervention at EU level to revise the European Arrest Warrant Framework Decision](#).

related to running pre-trial facilities (including prisons) and compensation⁹⁵⁰ paid to individuals acquitted, as well as individual costs related to average income and property loss⁹⁵¹.

As detailed in the table below, depending on the scenario, this amount could be reduced by either €162 million per year (reduction of average length of time spent in detention and level of individuals in PTD at any given point in time to the EU average), or €707 million per year (number of individuals held in PTD reduced in each Member State by the average proportion of people on trial who are acquitted in a given country).⁹⁵² In 2014, the European Parliament called for the revision of the European Arrest Warrant⁹⁵³. The accompanying European Added Value Assessment (EAVA)⁹⁵⁴, also drafted by EPRS, estimated that the enforcement costs of non-executed European Arrest Warrants was around €215 million for the period between 2005 and 2009,⁹⁵⁵ or approximately €43 million per year. The study identified options for action and cooperation at EU level that could address the identified gaps and barriers⁹⁵⁶. It also argued that in addition to cost saving for Member States, further action and cooperation at EU level would lead to better compliance with EU values and rights, would meet the expectations of EU citizenship, and would improve mutual trust between judicial authorities.

European Parliament position

The European Parliament has three main demands in this area: a dedicated EU monitoring report and policy cycle on democracy, the rule of law and fundamental rights;⁹⁵⁷ a review of the Framework

⁹⁵⁰ There is a great variation amongst Member States in what should be taken into consideration when calculating the compensation (lost wage or also moral damages etc). Daily compensation rates also differ case by case and across Member States (€89 in Finland and €16 in Bulgaria).

⁹⁵¹ Direct economic costs in terms of lost working days are calculated using data from Eurostat on net labour earning and the average employment rate, (approximately 37% of those detained) provided by a 2016 study. It is estimated that the average monthly earning loss varies between €62 in Bulgaria and €713 in Lux per detainee and month, depending on the Member State.

⁹⁵² W van Ballegooij, [The cost of non-Europe in the area of procedural rights and detention conditions](#), EPRS, European Parliament, December 2017.

⁹⁵³ European Parliament resolution of 27 February 2014 with recommendations to the Commission on the review of the European Arrest Warrant ([2013/2109\(INL\)](#)).

⁹⁵⁴ Supra n. 1.

⁹⁵⁵ For the latest information on the number of EAWs issued and executed, see the [European Judicial Network](#).

⁹⁵⁶ Amongst others: improving compliance with international obligations; monitoring democracy and the rule of law within the Union; ensuring the proper implementation of EU legislation; evaluating existing EU, as well as taking further common action, notably as regards pre-trial detention and detention conditions.

⁹⁵⁷ European Parliament resolution of 25 October 2016 with recommendations to the Commission on the establishment of an EU mechanism on democracy, the rule of law and fundamental rights (2015/2254(INL)), [P8_TA\(2016\)0409](#); W van Ballegooij and T Evas, [An EU mechanism on democracy, the rule of law and fundamental rights: European Added Value Assessment accompanying the Parliament's Legislative Initiative Report](#), EPRS, April 2016; Annex I, [The establishment of an EU mechanism on democracy the rule of law and fundamental rights](#) by L. Pech, E. Wennerström, V. Leigh, A. Markowska, L.De Keyser, A. Gómez Rojo and H. Spanikova,; Annex II, [Assessing the need and possibilities for the establishment of an EU scoreboard on democracy, the rule of law and fundamental rights](#) by P. Bárd, S. Carrera, E. Guild and D. Kochenov, with a thematic contribution by W. Marneffe.

Decision on the European Arrest Warrant;⁹⁵⁸ and ensuring that pre-trial detention is only used as a last resort, including through EU minimum standards.⁹⁵⁹

Table 35: Total cost of pre-trial detention (PTD) across EU Member States under different scenarios

Member State	Number of pre-trial detainees (2015)	Average number of PTD days	Total cost (€ million)	SC1 (above average to average)	SC2 (rate of acquittal)
Austria	1 848	68	€17.6	€17.6	€13.3
Belgium	3 314	80	€42.3	€40.0	€38.5
Bulgaria	690	165	€7.3	€7.3	€7.1
Croatia	719	165	€2.0	€1.9	€1.6
Cyprus	97	165	€0.7	€0.7	€0.7
Czech Republic	2 185	150	€17.0	€17.0	€16.0
Denmark	930	55	€11.1	€10.4	€9.7
Estonia	605	120	€3.3	€3.3	€3.3
Finland	640	120	€15.0	€14.9	€14.8
France	17 030	116	€216.1	€203.8	€208.5
Germany	13 713	120	€245.2	€242.1	€222.9
Greece	2 557	365	€37.2	€19.1	€33.9
Hungary	4 400	364	€49.4	€25.8	€47.7
Ireland	575	60	€7.3	€7.3	€6.3
Italy	17 169	180	€489.3	€35.7	€444.8
Latvia	1 376	365	€13.5	€6.6	€13.3
Lithuania	942	120	€2.6	€2.6	€2.5
Luxembourg	283	150	€9.9	€7.7	€9.0
Malta	89	165	€0.6	€0.6	€0.5
Netherlands	4 215	120	€140.9	€109.3	€124.8
Poland	500	165	€2.4	€2.4	€2.2
Portugal	2 330	365	€47.1	€25.8	€36.5
Romania	2 588	270	€16.1	€6.2	€15.7
Slovakia	1 363	213	€13.2	€3.0	€12.5
Slovenia	231	120	€1.9	€1.9	€1.8
Spain	8 636	180	€120.0	€10.0	€99.9
Sweden	1 542	30	€19.9	€18.6	€18.1

⁹⁵⁸ European Parliament resolution of 27 February 2014 with recommendations to the Commission on the review of the European Arrest Warrant (2013/2109(INL)), [P7_TA\(2014\)0174](#).

⁹⁵⁹ European Parliament resolution of 13 December 2016 on the situation of fundamental rights in the European Union in 2015, [P8_TA-PROV\(2016\)0485](#), paragraph 43; European Parliament resolution of 5 October 2017 on prison systems and conditions, [P8_TA-PROV\(2017\)0385](#), para. 3.

United Kingdom	10 724	60	€98.6	€98.6	€79.7
Total			€1 647.6	€940.6	€1 485.8
Savings				€707.2	€161.8

Source: W van Ballegooij, *The cost of non-Europe in the area of procedural rights and detention conditions*, EPRS, December 2017, Chapter 2.

European Commission and Council responses so far

The European Commission response⁹⁶⁰ to the European Parliament's legislative initiative on the European Arrest Warrant argued that proposing legislative change would be premature in light of the ability of the Commission to start infringement procedures for incorrect implementation of all mutual-recognition measures after December 2014.⁹⁶¹ It also preferred to use soft tools to ensure proper implementation of the FD EAW, such as the 'Handbook on how to issue and execute a European Arrest Warrant'.⁹⁶² In its reply, the Commission also referred to the development of other mutual recognition instruments 'that both complement the European Arrest Warrant system and in some instances provide useful and less intrusive alternatives to it' and the on-going work on 'common minimum standards of procedural rights for suspects and accused persons across the European Union'. In its 2011 Green Paper on detention conditions⁹⁶³, the Commission underlined the great variation in the length of PTD between Member States, which can harm judicial cooperation and undermine fundamental rights. It raised the question whether EU legislation on the matter, covering maximum PTD periods and the regular review of such detention, could be envisaged. However, among Member States, the appetite for binding measures has not been high to date. The Commission has therefore concentrated its efforts on the proper implementation of the mutual recognition and procedural rights measures.

The transposition and implementation of the first suspects' rights directives on interpretation and translation, the right to information, and access to a lawyer, appear to have been inadequate to date.⁹⁶⁴ The transposition deadline of the second package of measures, including on legal aid, will not expire before May 2019.

⁹⁶⁰ SP (2014) 447.

⁹⁶¹ Consolidated version of the Treaty on European Union – PROTOCOLS – Protocol (No 36) on transitional provisions, OJ 115, 09 May 2008, p. 322-326, article 10.

⁹⁶² Commission notice of 28 September 2017, (2017) 6389 final.

⁹⁶³ Green Paper on the application of EU criminal justice legislation in the field of detention [COM \(2011\) 327](#), June 2011.

⁹⁶⁴ W van Ballegooij, [The cost of non-Europe in the area of Procedural rights and detention conditions](#), EPRS, December 2017, p. 24, 25.

46. Data protection

Cost of Non-Europe: €3 billion per year

Key proposition

Data protection is a fundamental right enshrined in Article 8 of the Charter of Fundamental Rights of the European Union.⁹⁶⁵ In terms of secondary legislation, an important milestone was reached when the 'Data Protection Package', consisting of a General Data Protection Regulation (GDPR), covering the public and private sector⁹⁶⁶, and the Data Protection Law Enforcement Directive, covering police and judicial cooperation, was adopted in 2016.⁹⁶⁷ The GDPR aims to protect all EU citizens and residents' data protection rights in an increasingly data-driven world, while creating a clearer and more consistent framework for businesses. The 'law enforcement' directive aims to protect the right to data protection whenever personal data is used by law enforcement authorities. In addition to updating data protection standards, there are other issues to be addressed, in terms of compliance costs with regards to electronic communications. A reform of the e-Privacy directive could tackle those costs, in line with GDPR objectives⁹⁶⁸. It is estimated that common action at EU level can save an additional €3.25 billion per year.

More detailed analysis of potential benefits

More than 90 per cent of European citizens say they want the same data protection rights across the EU, regardless of where their data is processed.⁹⁶⁹ On average, 61 per cent of Europeans are concerned about their online activities being recorded to provide tailored advertising. Two-thirds of Europeans are also concerned that their data will be used to target them with political messages online, which could interfere with and manipulate European elections.⁹⁷⁰ For these and many other reasons, the GDPR Regulation includes several provisions, such as on the 'right to be forgotten', the requirement of clear and affirmative consent (Article 7) for processing personal data by the person concerned (data subject), and the right to transfer personal data to another service provider (Article 20). Furthermore, data subjects have the right to know when their personal data has been hacked

⁹⁶⁵ Charter of Fundamental Rights of the European Union, [OJ C 326](#), 26.10.2012, p. 391–407, Article 8. In accordance with this article, everyone has the right to the protection of personal data, it must be processed fairly for specified purposes and on the basis of the consent of the person concerned or some other legitimate basis laid down by law. Everyone has the right of access to data which has been collected concerning him or her, and the right to have it rectified. Compliance with these rules shall be subject to control by an independent authority.

⁹⁶⁶ [Regulation \(EU\) 2016/679](#) of the European Parliament and of the Council of 27 April 2016, OJ L 119, 4.5.2016, p. 1-88.

⁹⁶⁷ [Directive 2016/680/EU](#) of the European Parliament and of the Council of 27 April 2016, OJ L 119/89.

⁹⁶⁸ European Commission, Proposal for a Regulation of the European Parliament and of the Council concerning the respect for private life and the protection of personal data in electronic communications and repealing Directive 2002/58/EC (Regulation on Privacy and Electronic Communications). ([2017/0003\(COD\)](#)).

⁹⁶⁹ European Commission, [Attitudes on Data Protection and Electronic Identity in the European Union, Report](#). Special Eurobarometer 359, June 2011, p. 181.

⁹⁷⁰ European Commission, [Data Protection, Report](#), Special Eurobarometer 431, June 2015, p.12.

(Article 34). This is of particular importance as there were several cases where clients or even authorities were not informed about serious breaches, such as in the case of the October 2016 Uber hacking.⁹⁷¹ Data subjects also have the right to object profiling (Art. 21) and privacy policies have to be explained in a clear and understandable language with the purpose to increase transparency (Article 12). The GDPR also includes stronger enforcement and fines of up to 4% of the firms' total annual turnover (Article 83), which will be a further deterrent to breaking the rules. Finally, data protection should be by 'design and by default' (Art. 25), meaning that companies also need to find innovative methods and technical solutions to enhance data protection even further.

According to some estimates, the value of European residents' personal data has the potential to grow to nearly €1 trillion annually by 2020.⁹⁷² By strengthening Europe's high standards of data protection, law-makers are therefore also creating business opportunities. Furthermore, many of the new data protection rules are not only beneficial for data subjects, but also for businesses. The fact that there is one pan-European law for data protection instead of national 28, and thanks to the 'one-stop-shop', in which companies only have to deal with one single supervisory authority, businesses are expected to benefit from a single set of rules across the EU. Furthermore, the reforms force companies based outside of the EU to apply the same rules when they offer their goods and services within the single market, thus creating a level playing-field (Article 3). The GDPR also enables innovation to continue to thrive, according to the principle of technological neutrality.

For these reasons, and thanks to the process of further harmonisation, the new EU rules are expected to save around €2.3 billion per year.⁹⁷³ It should be noted though that the GDPR as adopted was significantly different from the Commission proposal. The Commission is due to present a report evaluating the application of the GDPR in May 2020.⁹⁷⁴ Further information on the impact of data protection standard could result from data collection on data breaches. The OECD is currently conducting a project aimed at improving the evidence-base for security and privacy policy making. In particular, it assesses possibilities for data protection authorities to collect a core set of administrative and technical data to improve the comparability of data breach notification reporting and assess the potential statistical uses of that data.⁹⁷⁵

With regard to e-Privacy, in the light of the GDPR, further changes to the current directive could decrease compliance costs, as well as lower the costs from administrative burden for business, and the costs for public administration. This includes enhancing security and confidentiality of communications, while reducing unjustified barriers to the free flow of data. Rules on tracking technologies will also be defined more clearly and the fragmentation of laws across Europe will also be addressed.⁹⁷⁶ An external study carried out by the Commission calculates that the numerical

⁹⁷¹ The Independent, [Uber fined after 'serious breach' allows hackers to download 2.7 million customers' data](#), November 2018.

⁹⁷² Boston Consulting Group, [The value of our digital identity](#), November 2012, p. 26.

⁹⁷³ European Commission, Commission Working Paper - Impact Assessment, [SEC\(2012\) 72](#), January 2012, p. 71.

⁹⁷⁴ [Regulation \(EU\) 2016/679](#), article 97.

⁹⁷⁵ Organisation for Economic Co-operation and Development, [Working Party on Security and Privacy in the Digital Economy](#), 19 April 2019.

⁹⁷⁶ EP Legislative Observatory, [Procedure File on the Proposal for a Regulation on Respect for private life and the protection of personal data in electronic communications](#), (e-Privacy), 2017/0003 (COD).

difference between a similar policy option and a base-line option, where no changes of the current directive are undertaken, would enable businesses to save up to €948.8 million per year.⁹⁷⁷

European Parliament position

The European Parliament has stressed the nature of data protection as a fundamental right and called for increased accountability of those who process data, while reducing burdens for companies and adapting rules to the technological development. The Parliament has called for a consistent legal framework on data protection on several occasions, for instance, in its 2016 resolution, Towards a Digital Single Market Act⁹⁷⁸ and in its 2017 resolution on the fundamental rights implications of big data.⁹⁷⁹ The Parliament gave particular attention to the GDPR Regulation, especially after the Cambridge Analytica scandal. It organised a series of hearings⁹⁸⁰ to address open issues related to the case and adopted a resolution on the use of Facebook user's data.⁹⁸¹ The proposed regulation on ePrivacy was amended in the Committee on Civil Liberties, Justice and Home Affairs (LIBE) in June 2017, with a view to strengthening the confidentiality of communications including in the 'Internet of Things' (machine-to-machine communications).⁹⁸² In 2015, the Parliament adopted a resolution condemning electronic mass surveillance of EU citizens, and calling for fundamental rights, including data protection to keep up with digitalisation.⁹⁸³

European Commission and Council responses so far

The GDPR Regulation has applied since May 2018. Not all EU countries have managed to meet this deadline to adapt their national legislation. The Commission published guidance for the implementation of the GDPR in January 2018.⁹⁸⁴ In order to ensure free and fair elections and in view of the 2019 European Parliament elections, the Commission also released guidance on the

⁹⁷⁷ European Commission, [Impact Assessment on the Proposed Regulation on Privacy and Electronic Communication](#), Annex 8. 2017. The study provides 5 policy scenarios and a base-line scenario. It recommends policy option 3 as the optimal choice in terms of economic and societal impact. There are three implementation scenarios where technical tasks would be put in charge of (1) software providers concerned (€948.8 million savings), (2) the third party tracker (€813.2 million savings), (3) the individual publishing websites (€67.8 million savings).

⁹⁷⁸ European Parliament resolution of 19 January 2016, Towards a Digital Single Market Act ([2015/2147\(INI\)](#)).

⁹⁷⁹ European Parliament resolution of 14 March 2017 on fundamental rights implications of big data: privacy, data protection, non-discrimination, security and law-enforcement, [P8_TA\(2017\)0076](#).

⁹⁸⁰ [Series of Hearings](#) on Facebook/Cambridge Analytica case organized by the LIBE committee of the European Parliament, June -July 2018.

⁹⁸¹ European Parliament, [Motion for resolution on the use of Facebook users' data by Cambridge Analytica and the impact on data protection](#) (2018/2855(RSP)), October 2018.

⁹⁸² EP Legislative Observatory, [Procedure File on the Proposal for a Regulation on Respect for private life and the protection of personal data in electronic communications](#), (e-Privacy), 2017/0003 (COD).

⁹⁸³ European Parliament resolution of 29 October 2015 on the follow-up to the European Parliament resolution of 12 March 2014 on the electronic mass surveillance of EU citizens ([2015/2635\(RSP\)](#)).

⁹⁸⁴ Stronger protection, new opportunities - Commission guidance on the direct application of the General Data Protection Regulation as of 25 May 2018, [COM\(2018\)043](#).

application of data protection law in the electoral context, in September 2018,⁹⁸⁵ as well as a recommendation on online transparency and fighting against disinformation.⁹⁸⁶ In his State of the Union speech for 2018, President Juncker called for the election rules to speed up with the digital age in order to protect European democracy.⁹⁸⁷

Since the GDPR regulation took effect, some legal cases have been filed, such as the complaint by European consumer groups against Google for breaching the regulation by allegedly tracking users without their consent.⁹⁸⁸ Furthermore, large multinationals earmarked approximately €6.8 billion collectively to comply with the new regulations, while hiring thousands of lawyers and coders to ensure they don't fall foul of the revamped legislation. By contrast, many smaller firms are still struggling to meet the requirements because of the rules' complexity⁹⁸⁹. Nonetheless, some other parts of the world, are looking again at their own rules, based on Europe's new standards⁹⁹⁰.

⁹⁸⁵ European Commission, Commission guidance on the application of Union data protection law in the electoral context. Guidance Document, COM(2018)638, September 2018.

⁹⁸⁶ European Commission, Commission Recommendation of 12 September 2018 on election cooperation networks, online transparency, protection against cybersecurity incidents and fighting disinformation campaigns in the context of elections to the European Parliament, [C\(2018\)5949](#).

⁹⁸⁷ European Commission, [Factsheet personal data elections](#), 2018.

⁹⁸⁸ The European Consumer Organisation, [Consumer groups across Europe file complaints against Google for breach of GDPR](#), November 2018.

⁹⁸⁹ Politico, [Six months in, Europe's privacy revolution favors Google, Facebook](#), November 2018.

⁹⁹⁰ Politico, [Europe's new data protection rules export privacy standards worldwide](#), January 2018.

EU EXTERNAL POLICY

47. Less duplication in security and defence policy **Potential efficiency gain: €22 billion per year**

Key proposition

Geopolitical and strategic shifts in the European Union's global environment have prompted a rethinking of Europe's role in the world. The EU operates in an increasingly volatile security environment, characterised by growing instability in its neighbourhood and wider threats of terrorism, cyber-attacks, climate change and hybrid warfare. Released in 2016, the EU Global Strategy (EUGS) marked the beginning of a series of important defence integration initiatives by the EU and its Member States. Although together EU countries are the second largest defence spender in the world⁹⁹¹, with a combined budget of €220 billion, in today's connected, contested and complex setting, individually they are too small to secure their defence and security goals by themselves. Increased cooperation in defence can generate considerable added value and greater efficiencies, since countries can achieve better synergies and economies of scale through joint programmes and joint action. Such cooperation can facilitate a division of labour in military tasks, allowing individual countries to specialise, instead of attempting to cover the entire spectrum of defence activities⁹⁹².

Defence policy strategists in Europe are seeking to draw on some of the lessons of their US counterparts in terms of more efficient spending and defence research and development (R&D). Organisational structures, investment and budget management in the US Department of Defense suggest that a defence-ambitious Europe has considerable potential to achieve greater efficiency and productivity gains while decreasing waste rates. Setting aside technical and political constraints, aspiring to a more harmonised European defence market and more integrated forces could potentially generate financial savings and efficiency gains running to several tens of billions of euro, while also contributing to a stronger European posture in the international arena.

While still very far from achieving comprehensive defence integration, the EU has recently made considerable progress in this direction and could still do more. One component of this has been to complement traditional defence expenditure with a new tier of common, EU-level, security and defence expenditure, which is itself due to rise by 22 per cent in the future Multiannual Financial Framework (MFF) for the financing period 2021-27.

Research by the European Added Value Unit of EPRS suggests that the cost of non-Europe in defence amounts to at least €22.15 billion per year.

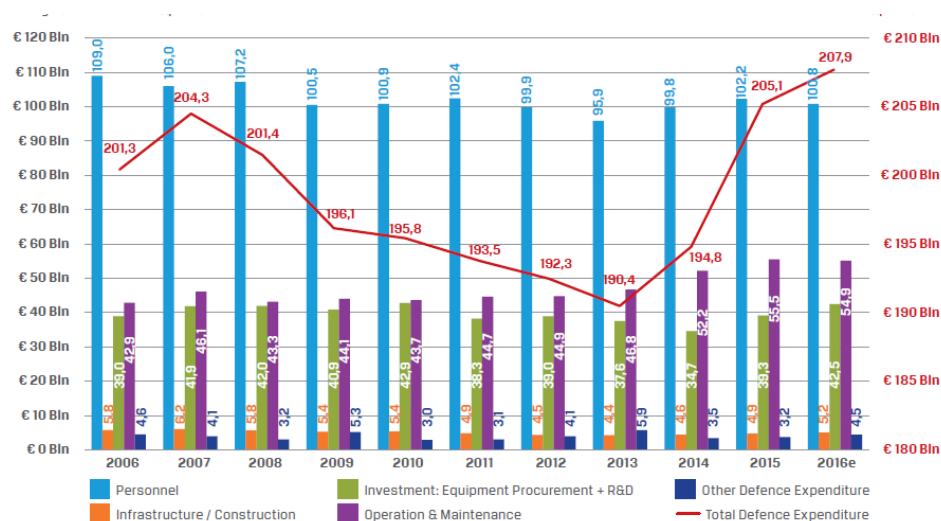
⁹⁹¹ SIPRI, [Trends in world military expenditure](#), 2017.

⁹⁹² Frederic Mauro, [PESCO: European defence's last frontier](#), GRIP, 2017.

More detailed analysis of potential benefits

As defence has traditionally been closely associated with notions of national sovereignty and power, it is inevitably a sensitive topic for Member States. Defence markets are unlike traditional markets, being closely connected to governments, which usually fund most of the R&D expenditure. The lack of cooperation in European defence markets has generated fragmentation and costly duplication of military capabilities. Causes may include lack of mutual trust, protectionist industrial interests, and a desire to preserve domestic intellectual property and skills. It is expensive and inefficient for each country to attempt to cover the entire spectrum of defence capabilities. With fewer cooperative programmes in 2016 than 20 years ago⁹⁹³, the challenge is to generate cost efficiency and greater sustainability.

Figure 16: Categories of European defence expenditure and amount in € billion



Source: European Defence Agency, 2017.⁹⁹⁴

The cost of non-Europe in defence is estimated partly on the projected spending in the 2021-27 Multiannual Financial Framework (MFF)⁹⁹⁵ - €1.5bn per year for the European Defence Fund (EDF) and nearly €1bn per year for Military Mobility - and partly on existing estimates. In 2016, EU Members (27 European Defence Agency members plus Denmark) spent approximately €220bn on defence, out of which around €50bn or 20% on investment (equipment procurement and R&D) and infrastructure. The €2.5bn stemming from the EDF and Military Mobility represent 5% of the €50bn which Member States can save through Commission action in the two areas of defence expenditure. This percentage can be augmented by considering other largely acknowledged diffusing benefits of defence collaboration, such as, but not limited to, increased interoperability, reduced duplication, a more competitive industry, more efficient use of public money, lower risk, reduced off-the-shelf purchases, standardisation, optimised production capacity, lower production costs and security of supply. A modest increase of 15% can be calculated by assuming that the benefits above will lead

⁹⁹³ European Defence Action Plan, [European Defence Action Plan](#), 30 November 2016.

⁹⁹⁴ European Defence Agency, [Defence Data 2006-2016](#), 2017.

⁹⁹⁵ Authors' calculations based on [2021-2017 MFF projections](#) and [SWD Impact Assessment establishing the European Defence Fund](#).

to a long-term reduction of costs, which results in savings of €7.4bn. Furthermore, a study by Bertelsmann Foundation⁹⁹⁶ estimates potential savings of €6.5 billion per year in terms of personnel costs through analysing the added value of integrating European land forces. A McKinsey study⁹⁹⁷ suggests savings of up to 20%⁹⁹⁸ through non-equipment joint procurement, area which in this analysis corresponds to operation and maintenance since it includes for example civilian vehicles, fuel, transportation and simple ammunition. Given the current spending in the operation and maintenance area of about €55bn per year, a conservative estimate assumes potential cost savings of 15%, or €8.25 billion. Aggregating the estimates in the four categories leads to an overall estimate of €22.15bn of potential savings per year for EU Member States, as the table below illustrates.

Table 36: Possible areas for defence cooperation and their corresponding cost reduction

Area of cost reduction	Annual cost reduction	Action leading to potential reduction ⁹⁹⁹
Investment and Infrastructure	€7.4 bn	European Defence Fund and Military Mobility
Personnel	€6.5 bn	Potential land forces reduction due to increased coordination at EU level
Operation and maintenance	€8.25 bn	Potential savings from joint public procurement and common performance management
Total	€22.15 bn	

Source: Author's own assessment.

The paradox of the EU having a single market and single currency while treating security and defence in silos, has featured in several analyses. Some 80% of procurement and 90% of Research and Technology are estimated to be run domestically in Member States¹⁰⁰⁰. Moreover, the duplication of national structures and training doctrines are also considered¹⁰⁰¹ among the most costly elements of non-Europe in defence. Joint capability development is perceived as insufficiently motivating for national government that prefer to 'keep their diminishing resources to fulfil their national requirements'¹⁰⁰². Although defence spending growth in real terms in 2017 is estimated between 3.6%¹⁰⁰³ and 4.2%¹⁰⁰⁴, since the financial crisis, the defence R&D sector has experienced severe cuts, even more so in terms of collaborative projects. Harnessing defence R&D activities is essential for a solid technological base as well as for overcoming financial barriers in the

⁹⁹⁶ Bertelsmann Foundation, [European Added Value of EU Spending: Can the EU Help its Member States to Save Money?](#), 2013.

⁹⁹⁷ McKinsey, [Big savings from little things: non equipment procurement](#), McKinsey on Government, 2010.

⁹⁹⁸ Non-equipment spending in McKinsey (2010) is assumed to correspond approximately to operation and maintenance costs in the defence expenditure breakdown (the overall amount is indeed comparable).

⁹⁹⁹ Based on the sources cited in the analysis (European Defence Fund, Military mobility, studies by Bertelsmann, 2013 and McKinsey, 2010).

¹⁰⁰⁰ European Commission, [Launching the European Defence Fund](#), June 2017.

¹⁰⁰¹ Istituto Affari Internazionali, [The cost of non-Europe in the defence field](#), 2013.

¹⁰⁰² Sven Biscop, Jo Coelmont, [Europe, strategy and armed forces](#), Routledge, 2013.

¹⁰⁰³ IISS, [The Military Balance](#), 2018.

¹⁰⁰⁴ European Defence Agency, [Defence Data 2016-2017](#), 2018.

long term¹⁰⁰⁵. In terms of R&D spending, the EU-US gap amounts to €44 billion per year. It is estimated that for each major US project, EU countries have developed three, which were allocated a third of the funds they could have been given if they were developed jointly¹⁰⁰⁶. Moreover, it has been argued that EU armed forces can jointly obtain only 10% of the operational capacity of US forces. Europe has lessons to learn from its transatlantic partner in defence efficiency and perhaps in particular as regards the R&D sector.

For example, envisaging a European organisation inspired by the American Defense Advanced Research Projects Agency (DARPA), the research arm of the Department of Defense, could be a step towards both greater efficiency and a more competitive European defence technological and industrial base. DARPA was closely involved in the development of the internet, and a sister European organisation could potentially aim to operate at the leading edge of certain emerging technologies.

The main reduction of the EU's share in global R&D spending was in the defence sector, declining from 47.6% to 42.1% between 2007 and 2016¹⁰⁰⁷. It is estimated that €196m per year has been spent on collaborative R&D in the EU since 2010. In this context, the European Defence Fund will place the EU in fourth place in terms of Europe's largest defence research investors¹⁰⁰⁸ and in first place in terms of collective R&D defence spending.¹⁰⁰⁹ Maintaining the current level of investments in the European technological and industrial base might prove expensive in the long run since old equipment is costly to update and maintain. The same equipment risking redundancy in a matter of years further attests the importance of strategic investments in capability development. A greater effort to standardise defence systems is considered¹⁰¹⁰ another area where EU countries could save public money on R&D expenditure by developing common military requirements for capabilities.

Other research suggests that the potential gains from long-term improvements in productivity from common procurement are in the region of 30 per cent or around €13 billion per year,¹⁰¹¹ that greater use of civilian standards in the military sector could generate savings of between 10 and 50 per cent of relevant spending,¹⁰¹² and that improved intra-EU transfer of defence-related products between 25 Member States could save 3.2 billion per year.¹⁰¹³ Most ambitiously of all, the comprehensive integration of Member-State armies could potentially generate cost savings of up to 120 billion per year.¹⁰¹⁴

¹⁰⁰⁵ Frederic Mauro, [The future of EU defence research](#), Study, European Parliament, 2016.

¹⁰⁰⁶ Valerio Briani, [The Cost of non-Europe in the defence field](#), Istituto Affari Internazionali, 2013.

¹⁰⁰⁷ European Commission, [The 2017 EU Industrial R&D Investment Scoreboard](#), 2017.

¹⁰⁰⁸ Nicole Koenig, [Security and defence: A glass half full](#), Istituto Affari Internazionali, 2018.

¹⁰⁰⁹ Guillaume De la Brosse, [Deploying financial tools in support of European defence cooperation](#), 2017.

¹⁰¹⁰ Daniel Fiott, [European armaments standardisation](#), European Parliament, October 2018.

¹⁰¹¹ McKinsey, [Enlisting productivity to reinforce European defense](#), 2013.

¹⁰¹² European Defence Agency, [European Defence Standardisation](#), 2015.

¹⁰¹³ European Commission, [Impact Assessment of Directive 2009/43/EC](#), 2007.

¹⁰¹⁴ Idem Bertelsmann, 2013.

European Parliament position

The 2014-19 legislative term has shown the European Parliament (EP) particularly supportive of EU defence initiatives. The EP has stressed the importance of EU countries stepping up efforts to cooperate towards capability development, standardisation, certification and maintenance, in order to achieve greater interoperability.¹⁰¹⁵ The Parliament also 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.¹⁰¹⁶ It considers financial constraints as opportunities for closer cooperation in defence and considers that the next Multiannual Financial Framework (MFF) should support the establishment of a European Defence Union, with a view to making considerable efficiency gains.¹⁰¹⁷ In its numerous resolutions and reports issuing similar calls,¹⁰¹⁸ the EP also expressed support for the European Defence Fund (EDF)¹⁰¹⁹ and Military Mobility, seen as a 'central strategic tool'.¹⁰²⁰ Its latest resolution on CSDP¹⁰²¹ has emphasised the financial benefits of defence capabilities integration, with the potential to increase spending efficiency without spending more.

Other research suggests that the potential gains from long-term improvements in productivity from common procurement are in the region of 30 per cent or around €13 billion per year,¹⁰²² that greater use of civilian standards in the military sector could generate savings of between 10 and 50 per cent of relevant spending,¹⁰²³ and that improved intra-EU transfer of defence-related products between 25 Member States could save 3.2 billion per year.¹⁰²⁴ Most ambitiously of all, the comprehensive integration of Member-State armies could potentially generate cost savings of up to 120 billion per year.¹⁰²⁵

European Commission and Council responses so far

The European Council has welcomed¹⁰²⁶ the EUGS and the Foreign Affairs Council (FAC)¹⁰²⁷ endorsed the priority areas defined therein. Consequently, the European Defence Action Plan (EDAP) was

¹⁰¹⁵ European Parliament [resolution](#) of 13 December 2017 on the Annual report on the implementation of the CSDP.

¹⁰¹⁶ European Parliament [resolution](#) of 22 November 2016 on the European Defence Union.

¹⁰¹⁷ European Parliament [resolution](#) of 14 March 2018 on the next MFF.

¹⁰¹⁸ European Parliament 8th legislature [resolutions and reports](#) mentioning defence cooperation.

¹⁰¹⁹ European Parliament [legislative resolution](#) on the proposal for the European Defence Industrial Development Programme.

¹⁰²⁰ European Parliament [resolution](#) of 11 December 2018 on military mobility.

¹⁰²¹ European Parliament, [Annual report on the implementation of the Common Security and Defence Policy](#), 12 December 2018.

¹⁰²² McKinsey, [Enlisting productivity to reinforce European defense](#), 2013.

¹⁰²³ European Defence Agency, [European Defence Standardisation](#), 2015.

¹⁰²⁴ European Commission, [Impact Assessment of Directive 2009/43/EC](#), 2007.

¹⁰²⁵ Idem Bertelsmann, 2013.

¹⁰²⁶ European Council, [Conclusions of 28 June 2016](#), EUCO 26/16.

¹⁰²⁷ Council of the EU, [Council conclusions on the Global Strategy](#), 17 October 2016.

launched, foreseeing new financial tools to support defence cooperation. The FAC also endorsed the launch of a Coordinated Annual Review on Defence (CARD),¹⁰²⁸ which aims to enhance convergence, transparency and cooperation between EU Members by synchronising national defence spending plans and centralising available capabilities. In June 2017, the European Commission committed to dedicate part of its budget to defence research through the EDF.¹⁰²⁹ At the same time, the European Council¹⁰³⁰ welcomed the EDF and agreed on the need to launch PESCO. In November 2017,¹⁰³¹ PESCO was established as a Treaty-based framework to deepen defence cooperation between 25 Member States. Military mobility¹⁰³² is yet another recent area of EU progress, with savings potential, as it involves adapting infrastructure to common military requirements. Military mobility is also both a (binding) PESCO project and an action in EU-NATO cooperation, further deepening EU-NATO relations, confirmed by the signature of a first Joint Declaration, in July 2016,¹⁰³³ and of a second, in July 2018.

Although they were among the first key actions taken by the Commission to reduce fragmentation, the two defence directives on procurement and intra-EU transfers from 2009 have so far a feeble implementation record.¹⁰³⁴ Lastly, in 2007, EDA Members have agreed on voluntary collective benchmarks¹⁰³⁵ for joint spending: 20% of total defence spending on equipment procurement, 35% on collaborative procurement, 2% on defence research and technology (R&T), and 20% of the latter on collaborative R&T. The Commission has estimated that only 16% of the 35% target of collaborative procurement has been achieved in 2015.¹⁰³⁶

Estimated benefit of any Commission action so far

In the EDAP, the Commission committed itself to ‘complement, leverage and consolidate collaborative efforts’ by Member States in defence capability development. It aims to do so by improving the competitiveness of the industry and by incentivising cooperation. The EDF is the main motor driving this ambition forward. With two legally distinct windows, one for defence research and another for joint capability development, the EDF is projected to have €1.5 billion per year allocated from the EU budget in the next MFF (cycle 2021-27). The research arm of the EDF, the Preparatory Action on Defence Research (PADR), has been allocated¹⁰³⁷ an overall budget of €90 million for 2017-2019. The yearly budget for collaborative research in the 2021-27 MFF is estimated at €500 million. As for its capability window, the European Defence Industrial

¹⁰²⁸ EEAS, [Coordinated Annual Review on Defence Factsheet](#), November 2017.

¹⁰²⁹ European Commission, [Launching the European Defence Fund](#), 7 June 2017.

¹⁰³⁰ European Council, [Conclusions of 22-23 June 2017](#), EUCO 8/17.

¹⁰³¹ Council of the EU, [Notification on PESCO to the Council and the HR/VP](#), 13 November 2017.

¹⁰³² Tania Latici, Military mobility, EPRS, March 2019.

¹⁰³³ Elena Lazarou, [EU-NATO cooperation and European defence after the Warsaw Summit](#), EPRS, 2016.

¹⁰³⁴ Suzana Anghel, Shaping a common European defence policy by 2030, in [Thinking about the future of Europe](#), EPRS, February 2019.

¹⁰³⁵ European Defence Agency, [Benchmarks](#).

¹⁰³⁶ European Commission, [Proposal for a regulation establishing the EDF](#), 13 June 2016.

¹⁰³⁷ European Commission, [Launching the European Defence Fund](#), 7 June 2017.

Development Plan (EDIDP)¹⁰³⁸ is designed to support European defence industry financially during the development phase, with €500 million allocated during 2019 and 2020.¹⁰³⁹ Collaborative projects with at least three participants from at least three EU Members are eligible, while PESCO projects receive an additional 10% financing bonus. A total of €8.9bn in the next MFF will be earmarked for the EDIDP. As a result, the EU is now the biggest investor in collaborative defence research, and among the leading defence research and development investors in Europe overall. Through the EDF, the Commission has now emerged as an important actor in defence industrial development. Additionally, the EDA-led (and currently under negotiation) Cooperative Financial Mechanism, which builds on the CARD, represents a platform for Member States to make voluntary financial contributions towards the goal of 'overcoming the lack of budgetary synchronisation'¹⁰⁴⁰. Institutional enablers such as PESCO and the EDF could become cost-sharing and cost-saving game-changers for defence industrial cooperation in Europe over the long run.

Looking forward

Defence experts¹⁰⁴¹ have long signalled risks of the European defence industry weakening over time if closer cooperation fails to materialise. This scenario can be avoided by using common defence standards, developing a habit of jointly purchasing and developing capabilities and progressing towards a single market in defence. Such activities should also help build greater solidarity among EU Member States and contribute to developing a common strategic culture¹⁰⁴². Member States should also work towards meeting the EDA benchmarks as spending more on collaborative projects could augment efficiency gains over the long term. Incentive structures such as the EDF could be broadened in order to better synchronise defence planning¹⁰⁴³ and other initiatives, such as VAT exemptions¹⁰⁴⁴, should be considered. The potential creation of a defence directorate-general within the Commission, a Commissioner for defence, a Council formation of Ministers of Defence, a European Security Council, and/or a fully-fledged EP Committee on Security and Defence are all issues to be considered¹⁰⁴⁵.

¹⁰³⁸ Christian Scheinert, [European Defence Industrial Development Programme](#), EPRS, June 2018.

¹⁰³⁹ European Commission, [The European Defence Fund: Questions and Answers](#), June 2017.

¹⁰⁴⁰ European Defence Agency, [Outcome of EDA Ministerial Steering Board](#), 18 May 2017.

¹⁰⁴¹ EU Institute for Security Studies, [The case for an EU-funded defence R&T programme](#), 2016.

¹⁰⁴² European Political Strategy Centre, [Joining Forces: The way towards the European Defence Union](#), February 2019.

¹⁰⁴³ Nicole Koenig and Jörg Haas, [The EU as a 3D Power](#), Jacques Delors Institut, September 2017.

¹⁰⁴⁴ Margriet Drent & Dick Zandee, [European defence: Action and commitment](#), Clingendael, March 2017.

¹⁰⁴⁵ Suzana Anghel, Shaping a common European defence policy by 2030, in [Thinking about the future of Europe](#), EPRS, February 2019.

48. Improved donor coordination in development policy

Potential efficiency gain: €9 billion per year

Key proposition

The EU institutions and Member States together provided over €76 billion in Official Development Assistance (ODA) in 2018¹⁰⁴⁶ and as such are the biggest player in global development aid¹⁰⁴⁷. However, a certain proportion of this spending could be saved by improved coordination among EU donors themselves, notably by reducing 'donor transaction costs'.¹⁰⁴⁸ These savings could then be used to extend aid activities to the benefit of recipient countries (or for any other purpose), underlining the EU's commitment to increase its development assistance to 0.7 per cent of GNI. Substantially larger savings could be achieved if the three-tier approach to development aid spending - the Commission's supranational development policy, the intergovernmental European Development Fund coordinated by the Commission on behalf of the Member States, and the individual development policies of Member States - were to be replaced by a coordinated budget over the longer term.

Recent decades have seen a rising attention to aid effectiveness. Indeed, the EU has been deeply involved in the definition of aid effectiveness criteria and tools, especially within the OECD on the basis of processes started with the 2005 Paris Declaration on Aid Effectiveness¹⁰⁴⁹. Coordination and avoidance of aid fragmentation are core elements of the aid effectiveness agenda.

At the request of the European Parliament's Committee on Development (DEVE), a Cost of Non-Europe Report¹⁰⁵⁰ was drawn up by the European Added Value Unit of EPRS on this subject in 2013, which showed that improvements in EU donor coordination could generate efficiency gains of some €800 million per year. More recent research suggests that the EU could gain between €3.6 billion and €14.5 billion per year - with a mid-point estimate of €9 billion - including both direct savings and better results in recipient countries in terms of GDP, savings, and poverty reduction, should the EU's own aid coordination be more efficient.

¹⁰⁴⁶ European Commission, [2018 Annual report on the implementation of the European Union's instruments for financing external actions in 2017](#), 2018.

¹⁰⁴⁷ Despite the 2017 [amount](#) represents a decline of 2.4% with respect to 2016.

¹⁰⁴⁸ Transaction costs are the overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid programmes and projects - including the policies, procedures and diverse donor rules and regulations for managing such projects and programmes, translations, and adjustment to divergent fiscal periods - that may be incurred by donor and partner countries.

¹⁰⁴⁹ OECD, [Paris Declaration and Accra Agenda for Action](#), 2015.

¹⁰⁵⁰ M. Nogaj, *The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors*, European Added Value Unit, EPRS, September 2013.

More detailed analysis of potential benefit

Fragmentation and duplication of the development aid of the EU and its Member States is widespread; competition among EU development agencies and NGOs is still evident; the impact of the EU's development action is not acknowledged or cannot be identified among the populations in beneficiary developing countries; and EU procedures are often considered cumbersome and bureaucratic by recipient countries.

Coordination is desirable in the aid sector because it allows for economies of scale and scope, it helps avoid duplication, and it brings a potential cost-saving effect. It is, however, hindered by several factors.¹⁰⁵¹ Klingebiel, Negre and Morazán (2016)¹⁰⁵² argue that even if greater coordination of development aid policies at European level could not guarantee the achievement of development aid goals, it would still lead to more aid effectiveness.

The analysis done by Bigsten et al in 2011¹⁰⁵³ and updated by Bigsten in 2013¹⁰⁵⁴ focusses on several aspects of development aid where coordination may be crucial for effectiveness. These include both measures that directly reduce donor costs and measures that increase the impact in the recipient countries (see table below). 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. Another source of effectiveness that can be achieved through greater coordination is the 'untying' of aid,¹⁰⁵⁵ which is one of the aims of the OECD Development Assistance Committee. Moreover, aid volatility may be a problem for recipient countries, which might accept lower volumes of support if they are completely predictable.¹⁰⁵⁶ Bigsten et al (2011) then find that increasing the share of budget support over total aid has a positive effect on recipient countries' economic growth. The last component of the table is the measurement of the potential benefit of an 'optimal' allocation of aid across countries, namely the allocation that maximises poverty reduction, thus eliminating the 'aid orphans' and 'aid darling' cases. The overall range of potential yearly benefits resulting from this calculation is from €3.6 billion to €14.5 billion.¹⁰⁵⁷

¹⁰⁵¹ See e.g. Fuchs, A., Nunnenkamp, P., & Öhler, H. (2015). [Why donors of foreign aid do not coordinate: The role of competition for export markets and political support](#), *The World Economy*, 38(2), 255-285 and F Bourguignon & J P Platteau, [The hard challenge of aid coordination](#), *World Development*, 69, 86-97, 2015.

¹⁰⁵² 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.

¹⁰⁵³ A L Bigsten, J P Platteau, & S Tengstam, [The Aid Effectiveness Agenda: The benefits of going ahead](#) Final Report, 2011.

¹⁰⁵⁴ Annex to M Nogaj, [The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors](#), EPRS, September 2013.

¹⁰⁵⁵ 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, DAC, Paris. This is considered able to reduce project costs by 15-30% on the recipient side. In 2014 about 80% of EU was untied (E Pichon, [Understanding 'development effectiveness' An overview of concepts, actors and tools](#), EPRS, 2017).

¹⁰⁵⁶ It can be interpreted as expenses that could be avoided by donors if they provided more predictable aid flows.

¹⁰⁵⁷ We consider the first three impacts to be relatively independent one from the other, thus additonable. Their sum represents the lower bound estimate. Moreover, they are expected to affect variables that are comparable. The extent

Table 38: EU donor coordination and their estimated economic gain in € billion per year

Policy measures		
Reduction of transaction costs	Potential savings of aid funds, either in donor or recipient country	0.83
Untying of aid		0.93
Reducing aid volatility		1,87
Shifting to budget support	Impact on growth of recipient country	2.1 ¹⁰⁵⁸
Full coordination of country allocation	Impact on poverty reduction in recipient country	8.4

Source: Author's update to 2017 prices of 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 in several occasions for greater coordination in aid programming and delivery.¹⁰⁵⁹ In its 2016 resolution,¹⁰⁶⁰ tackling the issue of 'increasing the effectiveness of development cooperation', the Parliament stressed the key role of official development assistance in fulfilling the development effectiveness agenda, 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, to step up their development assistance. Moreover, the EP has called for the budgetisation of the European Development Fund¹⁰⁶¹ on many occasions to ensure the overall consistency of EU development action.

European Commission response so far

Several policy frameworks and operational guidelines reflect the EU and its Member States' commitments to the effectiveness principles.¹⁰⁶² Especially since 2012,¹⁰⁶³ the accent has been put on joint programming of EU and Member States aid, and division of labor (on a sectorial basis). The 2016 Council conclusions on stepping up joint programming¹⁰⁶⁴ called for expanding its focus in

to which the last two impacts can be added to the other depends on their independence. Moreover, as the authors underline the last one represents an upper bound of potential benefits that could be obtained by reallocation of aid.

¹⁰⁵⁸ Effect of a 11% increase in the share of budget support.

¹⁰⁵⁹ M Latek, [Le défi de la coordination des politiques Européennes de développement](#), EPRS, 2015.

¹⁰⁶⁰ European Parliament resolution of 22 November on increasing the effectiveness of development cooperation, [2016/2139 \(INI\)](#).

¹⁰⁶¹ A D'Alfonso, [European Development Fund](#), EPRS, 2014.

¹⁰⁶² For example the [EU Policy Coherence for Development communication](#), COM(2005)134, April 2005 and Operational framework on aid effectiveness (2011).

¹⁰⁶³ European Commission, [Communication on EU development policy: an agenda for change](#), COM(2011)637, 2011.

¹⁰⁶⁴ Council of the European Union, Conclusions, [Stepping Up Joint Programming](#), 2016.

conflict-affected and fragile contexts and in low-income and middle-income countries. Joint programming is also underlined in the 2017¹⁰⁶⁵ European Consensus on Development.¹⁰⁶⁶ The new consensus adopts a holistic approach to the 2030 Agenda for Sustainable Development Aid¹⁰⁶⁷ and integrates social, economic and environmental dimensions while keeping poverty eradication as a main goal. Crucially, the fulfilment of the 0.7 % target is foreseen within the time frame of the 2030 Agenda.

In June 2018, the European Commission published the Proposal for a Regulation establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI).¹⁰⁶⁸ With a proposed budget of €89.2 billion over 2021-27, the NDICI envisages a radical change on the management of external financing, merging several tools, including the Development Cooperation Instrument and the European Development Fund. Joint programming is again mentioned as a priority.

Estimated benefit of any Commission action so far

By 2018, joint programming was active in 43 countries. It still remains a voluntary exercise; a 2017 evaluation¹⁰⁶⁹ highlights both the important role that it is playing and the limitations from which it still suffers. One of the key instruments for development aid with the final goal of poverty eradication is the Development and Cooperation Instrument (DCI). A 2017 evaluation of the 2014-20 DCI indicates that the instruments have been relatively successful in delivering its objectives and that there is still room for improvement for closer alignment with recipient countries priorities and for reducing fragmentation.¹⁰⁷⁰

¹⁰⁶⁵ Commission Communication for a new European Consensus on Development Our World, our Dignity, our Future, [COM\(2016\)740](#), November 2016.

¹⁰⁶⁶ The new consensus follows up on the 2005 European Consensus on Development, a policy statement made jointly by the European Commission, Parliament and Council committing the EU to eradicating poverty and building a fairer and more stable world.

¹⁰⁶⁷ [Resolution](#) adopted by United Nations General Assembly on 25 September 2015, Transforming our world: the 2013 Agenda for Sustainable Development.

¹⁰⁶⁸ Proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI), [COM\(2018\)460](#), June 2018.

¹⁰⁶⁹ Evaluation of EU Joint Programming Process of Development Cooperation (2011-15), [Final Report](#), March 2017.

¹⁰⁷⁰ European Commission, [Evaluation Report on External Financing Instruments - Development Cooperation Instrument \(DCI\)](#), June 2017.

49. Improved common consular protection for EU citizens

Potential efficiency gain: €0.9 billion per year

Key proposition

A growing number of EU citizens move, travel and work both within the European Union and outside its borders. EU citizens' right to enjoy diplomatic and consular protection in a country where their Member State is not represented is explicitly foreseen in Articles 20 and 23 TFEU.¹⁰⁷¹ 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 in fact only three countries in the world - the United States, China and Russia - where all the 28 EU Member States are represented¹⁰⁷².

Against this background, a study¹⁰⁷³ 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 annum (lower bounds for the cautious and optimistic scenario respectively). For the purpose of this analysis, a mid-point of €860 million is retained.

More detailed analysis of potential benefit

In order to assess the potential to 'Europeanise' consular services, the Bertelsmann Foundation looked¹⁰⁷⁴ at the types of services provided by EU embassies around the world and the average distribution of staff. It then examined the diplomacy costs for missions of both large-size and medium-size Member States, and finally it calculated the different ranges of potential savings in three different scenarios - cautions, confident and optimistic¹⁰⁷⁵. Some extra costs would emerge in relation to translation and language needs under any scenario, therefore a maximum degree of 80% of 'Europeanisation' was considered to be realistic or possible.

¹⁰⁷¹ For more details see, E M Poptcheva, [Consular protection abroad: A Union citizenship fundamental right?](#), Universidad Autonoma de Barcelona, February 2012.

¹⁰⁷² Impact Assessment accompanying the Commission Communication on Effective consular protection in third countries: the contribution of the European Union - Action Plan 2007-2009, SEC(2007)1600, December 2007. There are 18 countries in which no Member State is represented, 17 countries in which only one Member State is represented and 11 countries in which two Member States are represented. Based on the 2006 list of the Secretariat General of consular offices in the world, there were 1.436 Member States' consular representations in third countries. The country with the highest number of representations was France with 132 followed by Germany with 122 and the UK with 115. The countries with the lowest number of representations outside the EU were Estonia, Latvia (both 9), Malta (8) and Luxembourg (7).

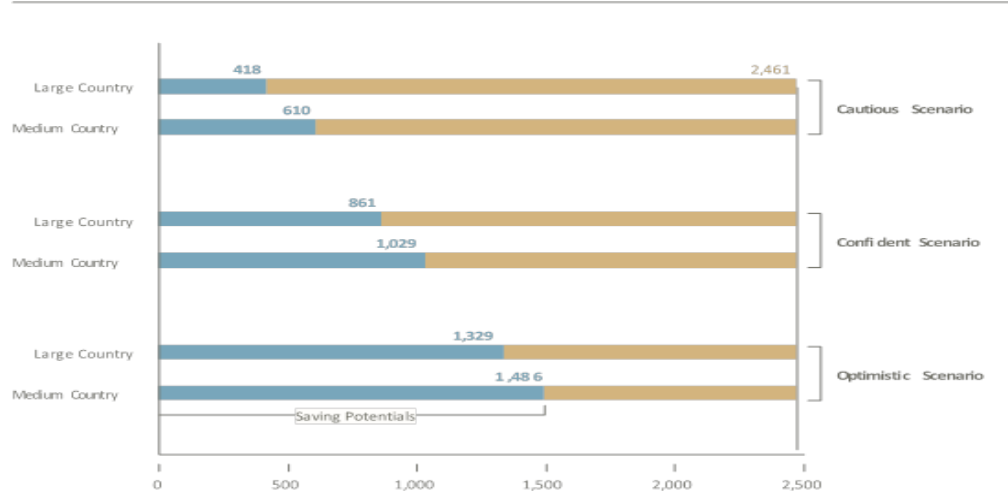
¹⁰⁷³ Bertelsmann Stiftung, [The European Added Value of Spending: Can the EU help its Member States to save money?](#) Exploratory Study, 2013.

¹⁰⁷⁴ Ibid, Case Study 2: Embassies.

¹⁰⁷⁵ In the cautions scenario it is assumed that only consular and administrative services will be brought up to the EU level; in the confident scenario additional saving will be realised in the development aid, cultural relations and press sections; and finally in the optimistic scenario it is assumed further sharing of services with the exception of military missions.

The study argued that the creation of an EU embassy providing administrative and consular services for 27 Member States would generate cost saving of between €420 million and €1.3 billion per annum, assuming that the new EU diplomatic mission would pay national wages¹⁰⁷⁶. In relative terms, this would amount to a range of savings between 6% and 19% of national costs.

Figure 17: Potential savings in consular protection, based on three scenarios (in € million)



Source: Bertelsmann Stiftung, *The European Added Value of Spending: Can the EU help its Member States to save money?*, 2013, p 72.

The debate around a more unified European diplomatic capability is not new and in recent years attempts have been made to estimate the extent to which this could be feasible and beneficial for the EU citizens. For instance, in 2006, it was estimated that each year 8.7% of EU citizens travelling outside the EU go to a country where their Member State has no representation.¹⁰⁷⁷ A 2017 Commission impact assessment argued that around 7 million EU citizens travel to, and that 2 million EU citizens live in, countries where their own EU country of origin is not represented (either via an embassy or a consulate).¹⁰⁷⁸ Around 0.53% of those travelling outside the EU would need consular assistance, which would amount to at least 425,000 cases per year,¹⁰⁷⁹ out of which at least 37,000 would come from EU citizens whose Member States are not represented in the third country.

In 2015, another study¹⁰⁸⁰ looked at the sharing premises amongst Member States' diplomatic missions and concluded that at least 16 Member States already shared at least one of their diplomatic representations outside the EU with the EU delegation. Although reduction of costs is an

¹⁰⁷⁶ Should the salaries for EU officials be taken into consideration, then the potential saving would be reduced because EU salaries usually exceed those of Member-State staff.

¹⁰⁷⁷ Report of the Austrian Presidency of the Council of the European Union to the European Council, Reinforcing the European Union's emergency and crisis response capacities, June 2006.

¹⁰⁷⁸ Impact Assessment accompanying the Commission Communication on Effective consular protection in third countries: the contribution of the European Union - Action Plan 2007-2009, SEC(2007)1600, December 2007.

¹⁰⁷⁹ Ibid.

¹⁰⁸⁰ S Schneider, *European Diplomacy through co-location between Member State missions and EU Delegations in third countries*, Erasmus Universiteit Rotterdam, 2015.

important concern, some argue that national interests would be the key driver to decide whether or not to establish a unique EU embassy.¹⁰⁸¹

European Parliament position

In a 2017 resolution,¹⁰⁸² the European 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 whose passport has been stolen, lost, destroyed or is temporarily unavailable, in order to guarantee that they can return home safely.

European Commission and Council responses so far

In 2015, new rules on consular protection¹⁰⁸³ for unrepresented EU citizens living or travelling outside the EU were adopted in order to clarify how EU unrepresented citizens could benefit from other EU countries' embassies/consulates' assistance under the same conditions as for nationals. The directive, which is applicable since May 2018, also aims to ensure that EU Member States coordinate their assistance in an efficient way.

In May 2018, the Commission proposed to update emergency travel documents,¹⁰⁸⁴ whose common format dated back to 1996. Those are the most common documents¹⁰⁸⁵ issued to help EU citizens to travel back safely to their home country, in cases when their passports or travel documents have been stolen or lost outside the EU in places where their country has no representation.

Estimated benefit of any Commission action so far

According to the impact assessment accompanying the 2011 Commission proposal on consular protection¹⁰⁸⁶ of unrepresented citizens, the proposal would have a positive economic impact for unrepresented citizens of about €1.8 million. These latter would be less inclined to seek alternative and suboptimal solutions and would also save time.¹⁰⁸⁷

¹⁰⁸¹ N Koenig, J Haas, [The EU as a 3-D power: should Europe spend more on diplomacy, development and defence?](#) Jacques Delors Institut, September 2017.

¹⁰⁸² European Parliament resolution of 12 December 2017 on the EU Citizenship Report 2017: Strengthening Citizens' Rights in a Union of Democratic Change ([2017/2069\(INI\)](#)).

¹⁰⁸³ [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.

¹⁰⁸⁴ Proposal for a Council Directive establishing an EU Emergency Travel Document and repealing Decision 96/409/CFSP, [COM\(2018\)358](#), May 2018.

¹⁰⁸⁵ According to the 2017 EU Citizenship Report, the issuance of emergency travel documents represents 60% of the cases of assistance provided to unrepresented EU citizens outside the EU, [COM\(2017\)30](#), January 2017.

¹⁰⁸⁶ Commission Staff Working Paper, Impact Assessment accompanying the proposal for a Council Directive on coordination and cooperation measures regarding consular protection for unrepresented EU citizens, [SEC\(2011\)1556](#), December 2011.

¹⁰⁸⁷ Two elements were considered for the estimate, namely the time saving for previously unassisted citizens (at around €60 per citizen) and the 'inconvenience' cost associated with the suboptimal form of assistance.

Should the recent Commission proposal on emergency travel documents be approved by the Council and Parliament, the accompanying impact assessment¹⁰⁸⁸ argues that it would bring about many benefits, including clearer and more streamlined procedures. Moreover, it would help reduce costs for unrepresented citizens by reducing the need for alternative travel arrangements and longer hotel stays.

¹⁰⁸⁸ Commission Staff Working Document, Impact Assessment accompanying the proposal for a Council Directive establishing an EU Emergency Travel Document, [SWD\(2018\)273](#), May, 2018.

50. Promoting international trade

Potential efficiency gain: €35 billion per year

Key proposition

The EU remains the world's largest trading power when taking trade in goods and services together. International trade represented 17 per cent of the EU GDP in 2015.¹⁰⁸⁹ According to the European Commission, EU exports provide jobs for 31 million Europeans and overall one in seven jobs in the EU economy depends on exports. Trade liberalisation should bring positive welfare effects, first via gains from specialisation in the country exhibiting comparative advantage, allowing an increase in productivity and exports, while consumers benefit from cheaper prices. Other trade theories highlight how trade also allows consumers to have access to a wider variety of the same good, with gains from increased competitive forces. Trade also allows access to resources that are domestically scarce, and to technology and innovation produced abroad.¹⁰⁹⁰ At the same time, the EU strives to ensure that its trade agreements go hand in hand with respect for human rights, and labour, environmental, health and safety protection standards.

There are two main ways to liberalise trade: one is multilaterally within the framework of the World Trade Organisation (WTO), which opens up trade on a most favoured nation basis (or non-discriminatory way) for all the WTO contracting parties; the second is via the conclusion of bilateral or regional trade agreements, which grant preferential market access to specific trade partners. An estimated range for the long run gains to the EU from the conclusion of a major free-trade agreement would be between a minimum of €2.1 billion (cautious scenario for the agreements with Australia and New Zealand) and a maximum of €35 billion (ambitious scenario for Japan) that are found in the impact assessments for currently-negotiated FTAs.¹⁰⁹¹ It has to be noted that the estimate selected here is the potential welfare effect of one, although major, FTA and not the aggregate impact of all potential FTAs that the EU might be able to sign in the coming years if trade negotiations went particularly well.

¹⁰⁸⁹ Eurostat, [Globalization Patterns in EU Trade and Investments](#), 2017 ed.

¹⁰⁹⁰ While gains from specialisation will have static effects (i.e. incurring once at the moment of liberalisation), gains from access to knowledge and technology are said to bring dynamic gains over time. Analysis of gains from trade will often report the static gains and could therefore be considered as lower estimates of potential gains from trade.

¹⁰⁹¹ Gains found in impact assessments cannot be aggregated as models can differ in the way they compute those gains as well as in the benchmark values, in the baseline used and in the assumptions on the state of the world economy. This aggregation would be also difficult because we expect that agreements affect trade with third countries too, therefore their effect is not independent from one another. The gains from trade agreements varies because of the trade partners' importance and because of geographic proximity as well as other variables that can affect trade flows between partners. The agreements currently negotiated with Mexico and Chile have lower expected gains than the one that we present as minimum, however those negotiations involve the modernization of an old agreement and therefore gains from liberalization with these two countries have already occurred in the past. Finally, the agreement with Singapore has also lower values: this is due to the fact that Singapore, being a city-state, relies on trade for its wellbeing and has an average duty of 0.26%, therefore the extra gain from trade in goods liberalization are extremely low as opposed to an average trade agreement.

More detailed analysis of potential benefit

Multilateralism: The EU and its Member States are members of the 164-member World Trade Organisation (WTO), the international body in charge of negotiating, administering and implementing the multilateral trade agreements upon which the current global trade system relies. The main rationale behind the creation of the multilateral trade system after the WWII and the conclusion of the General Agreement on Tariffs and Trade (GATT) was the need to end the trade protection and 'beggar-thy-neighbour' policies of the pre-war period.¹⁰⁹² Tensions in global trade have, however, piled up affecting the functioning of the system. Recent trade disputes have led to a rise in trade barriers by G20 countries¹⁰⁹³ and scholars expect a slowdown in the growth of trade in the future, if this course is not reversed. A recent study¹⁰⁹⁴ finds that the economic consequences of a full-scale trade war would lead to a permanent loss of GDP for the EU of more than 4%.¹⁰⁹⁵ A Cost of Non-Europe Report, produced by the European Added Value Unit of EPRS for the European Parliament's Committee on International Trade (INTA) in 2017,¹⁰⁹⁶ reported that if all WTO Member States were to raise their tariffs at the level of their WTO bound tariff,¹⁰⁹⁷ average level tariff duties would rise from 3.6% to 12.9%. Bureau et al. (2013) finds that such a situation would see world trade decline by 11.7%, with an average decrease in real income by 0.8%.¹⁰⁹⁸

Regional / bilateral FTAs: Free-trade agreements (FTA) are considered second best option, as opposed to multilateral negotiations. On the one hand, an FTA will produce extra-trade flows between partners ('trade creation'); on the other hand, an FTA can create incentives to redirect trade flows, from the most efficient third-country-based supplier to the FTA partner that enjoys preferential treatment ('trade diversion'). FTAs are generally found to have overall positive welfare effects on the countries concluding them.¹⁰⁹⁹ Moreover, a study by Vicard (2018)¹¹⁰⁰ shows how the existence of free-trade agreements cushion the costs incurred in a full-scale trade war. Bilateral agreements have also been used to discuss general and sectoral regulatory cooperation provisions,

¹⁰⁹² R Nieminen and L Puccio, [The added value of international trade and impact of trade barriers](#) - Cost of Non-Europe Report, EPRS, 2017.

¹⁰⁹³ WTO, [Report on G20 Trade Measures](#), July 2018.

¹⁰⁹⁴ V Vicard, [Une estimation de l'impact des politiques commerciales sur le PIB par les nouveaux modèles quantitatifs de commerce](#), Focus du CAE, 22, 2018.

¹⁰⁹⁵ The scenario of full-scale trade war considers an increase of 60% of tariff barriers, which currently is prevented by the very existence of WTO law and its enforcement.

¹⁰⁹⁶ R Nieminen and L Puccio, [The added value of international trade and impact of trade barriers](#) - Cost of Non-Europe Report, DG EPRS - European Parliament, 2017.

¹⁰⁹⁷ The maximum level of tariff on a product that a WTO contracting party has committed not to exceed without having recourse to safeguards or trade defence measures or other exceptions under GATT.

¹⁰⁹⁸ R Nieminen and L Puccio, [The added value of international trade and impact of trade barriers](#) - Cost of Non-Europe Report, EPRS, 2017.

¹⁰⁹⁹ It has to be noted that most of these studies do not allow for deriving conclusions on the effects of trade agreements on unemployment and inequality.

¹¹⁰⁰ Vicard, V (2018). [Une estimation de l'impact des politiques commerciales sur le PIB par les nouveaux modèles quantitatifs de commerce](#), Focus du CAE, 22.

allowing to ensure higher quality of regulatory enforcement via exchange of information and cooperation.

Recent agreements under or pending ratification: The Comprehensive Economic and Trade Agreement (CETA) between EU and Canada entered into force provisionally in September 2017. A recent study¹¹⁰¹ of the quantifiable elements of the current agreement estimates the potential GDP gain for the EU at between €1.7 and 2.1 billion per year. An earlier study¹¹⁰² simulated a more ambitious scenario in terms of reduction of trade costs in services, and reached a positive potential GDP impact of 0.08% (11.6 billion per year) in the EU.

The Japan-EU Economic Partnership was signed in July 2018. Studies that use a Computable General Equilibrium approach find expected GDP gains for the EU ranging from 0.14%¹¹⁰³ (estimated impact on welfare of €20-33 billion) to 0.7%¹¹⁰⁴ (€100 billion) of GDP. These models though do not include changes in employment: a study that includes this aspect found a small positive effect on employment and a potential for GDP growth of 0.21% in the EU.

AN FTA between EU and Vietnam was finalised in June 2018: it has a greater focus on tariff reduction, rather than on reductions of NTBs. The impact assessment¹¹⁰⁵ of the deal includes the entire ASEAN region and estimates a potential effect on EU GDP in the ambitious scenario of 0.23% in the long run (0.10% in a more limited scenario). This corresponds to a welfare gain between €4.76 and €29.5 billion. The same calculation includes Singapore and Indonesia.

In April 2018, the European Commission proposed to the Council to sign two agreements with Singapore, created by dividing the free-trade agreement reached in 2014, but not ratified, into separate trade and investment protection agreements. A 2013 analysis of the previous agreement indicated a small impact on EU economy (€550 million in additional GDP) and a more important impact on Singapore (0.94% of GDP)¹¹⁰⁶.

Agreements under negotiation: The more recent talks with Mercosur¹¹⁰⁷ started in 2016 and cover a broad spectrum of issues (tariffs, NTBs, and cooperation on standards). EU welfare gains are

¹¹⁰¹ DG Trade, [The Economic Impact of the Comprehensive Economic and Trade Agreement \(CETA\)](#), 2017.

¹¹⁰² European Commission and the Government of Canada, [Assessing the costs and benefits of a closer EU-Canada economic partnership](#), 2008.

¹¹⁰³ Ambitious liberalization scenario in Sunesen, E. R., Francois, J. F., & Thelle, M. H. (2009). [Assessment of Barriers to Trade and Investment between the EU and Japan](#). *Copenhagen Economics: Report to the European Commission ref no. TRADE/07 A, 2*.

¹¹⁰⁴ Long term estimation in Francois, J., Manchin, M., & Norberg, H. (2011). [Economic Impact Assessment of an FTA between the EU and Japan](#). *Complementary study commissioned by DG Trade*.

¹¹⁰⁵ Ecorys, 2009, [Trade Sustainability Impact Assessment for the FTA between the EU and ASEAN](#).

¹¹⁰⁶ European Commission, [The Economic Impact of the EU – Singapore Free Trade Agreement](#), 2013.

¹¹⁰⁷ Argentina, Brazil, Paraguay and Uruguay.

estimated to be just below €4 billion¹¹⁰⁸ and of €1.8 billion in a third¹¹⁰⁹. Negotiations on an EU-Indonesia Comprehensive Economic Partnership Agreement started in 2016 and are expected to eliminate most of the import duties on agricultural and industrial goods, reduce NTBs and address sustainable development issues¹¹¹⁰. The European Commission issued a recommendation in 2017 on FTAs with Australia and New Zealand. The two had a unique impact assessment estimating potential joint gains for the EU ranging between 0.01 and 0.02% of GDP in the long run (2030). These correspond to €2.1 and €4.9 billion. The negotiations with Mexico and Chile aim to modernise¹¹¹¹ the existing agreements concluded with these two partners. The impact assessment¹¹¹² on the updating of the Mexican agreement found that an ambitious scenario would increase GDP by 0.01% (€1.8 billion)¹¹¹³. The impact assessment¹¹¹⁴ for the updating of the agreement with Chile estimated an increase in real GDP by 2025, compared to the baseline, of about 0.001% under a cautious scenario and double that in a more ambitious scenario. Welfare gains for the EU would be about €269 million and €712 million respectively.

Scoping exercise for potential agreement: The negotiations for a Transatlantic Trade and Investment Partnership (TTIP) have been on hold since the end of 2016, with the election of President Donald Trump. However, recent trade tensions and the declining prospect of WTO reform have created incentives to discuss the possibility of reopening negotiations on an EU-US trade agreement. A paper by Vandenbussche et al. (2017)¹¹¹⁵ quantifies the effect, in terms of employment and output loss for EU countries, deriving from a tightening of US trade policy: the results show job losses in the range of 50,000-240,000 and output losses of between US\$14.3 and US\$66 billion. The Commission is exploring the possibility of submitting to the Council two proposals for negotiating mandates. One would cover mutual recognition of conformity assessment and the second would cover a deal on tariffs. This could mean that trade in services, investments and public procurement

¹¹⁰⁸ European Commission, [Update Of The Overall Preliminary Trade Sia EU- Mercosur](#), 2007 and Francois, J. F., McQueen, M., & Wignaraja, G. (2005). [European Union-developing country FTAs: overview and analysis](#). *World Development*, 33(10), 1545-1565.

¹¹⁰⁹ Boyer, I. et al. [Quantitative assessment of a free trade agreement between Mercosur and the European Union \(Vol. 69\)](#), United Nations Publications, 2010.

¹¹¹⁰ Its impact on EU welfare has been estimated in the framework of the ASEAN assessment mentioned above.

¹¹¹¹ G Grieger, R Harte, [EU Trade with Latin America and the Caribbean](#), Overview and figures, EPRS, 2018.

¹¹¹² LSE Enterprise, [Sustainability Impact Assessment \(SIA\) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico](#), Interim Report for DG Trade, 2018.

¹¹¹³ A less ambitious scenario but still decreasing non-tariff barriers by 3% would amount to 0.003% increase in GDP (alias an increase of 500 million euros). The limited scenario in that study only accounts for sectoral improvement (such increased liberalisation for agricultural goods) and does not account for non-tariff measures, the agreement currently negotiated seems to go beyond the level of that scenario.

¹¹¹⁴ European Commission, [Sustainability Impact Assessment in Support of the Negotiations for the Modernisation of the Trade Part of the Association Agreement with Chile](#), 2018.

¹¹¹⁵ H Vandenbussche, W Connell Garcia, W Simons, E Zaurino, ['America First!' What are the Job Losses for Belgium and Europe?](#) VIVES Discussion Paper No. 57, January 2017.

(initially covered in TTIP negotiations¹¹¹⁶) would be set aside, at least in the near term.¹¹¹⁷ So the gains to be expected from any agreement would be somewhere between the ‘deep’ and the ‘shallow’ TTIP scenarios, of which several estimates exist.¹¹¹⁸ The European Commission put the likely GDP gains from TTIP (in 2013) at €68.2 billion for the EU and €49.5 billion for the US.

European Parliament position

The European Parliament has a long history of advocating global free trade and has supported both multilateral trade liberalisation and bilateral EU free-trade agreements with third countries, provided they respect certain principles. In a resolution of July 2016¹¹¹⁹, the EP broadly endorsed the ‘trade for all strategy’ but reaffirmed the need for more transparency and involvement of civil society and welcomed the Commission’s pledge that no trade agreement will lower the achievements of European consumer protection standards as well as the commitment to fostering fundamental environment, social and safety standards and ensuring a transparent production process throughout the value chains. Most recently in May 2018,¹¹²⁰ the Parliament stressed the need to adapt the trade for all strategy to address the new challenges ahead, including the rise of protectionist practices incompatible with the WTO and any Brexit-related impact on trade.

European Commission response so far

In 2015, the Commission issued the ‘Trade for all’ strategy, which focusses on four main axes: promotion and better integration of the EU economy in global value chains; better implementation and enforcement of existing trade agreements; a more transparent policy-making process involving civil society and parliaments; and a trade and investment policy based on the values of the European Union. In a 2017 reflection paper,¹¹²¹ the Commission recalled the commitment of the EU to the rule-based multilateral trading system. It mentioned the intention of the EU to continue pursuing a comprehensive negotiating agenda both at the multilateral and bilateral level and promoting the

¹¹¹⁶ European Parliament, [Legislative Train, accessed in December 2018](#).

¹¹¹⁷ The European Parliament has in a recent resolution expressed the opinion that a broad, ambitious, balanced and comprehensive agreement covering all trade areas would be in the interest of the EU, European Parliament resolution of 12 September 2018 on the state of EU-US relations ([2017/2271\(INI\)](#)).

¹¹¹⁸ An in-depth analysis on TTIP negotiations published by EPRS in 2016 presented the different economic studies analysing the potential economic effect of TTIP. While at that time, TTIP was an ambitious agreement and therefore one could have looked only at the ambitious scenario planned gains, it is now necessary to view also the ‘shallow’ agreements options contemplated in those agreements. L Puccio, [EU-US negotiations on TTIP: A survey of current issues](#), EPRS, 2016. A more recent 2018 study (W Connell, W Simons, and H Vandenbussche, [The cost of non-TTIP: A Global Value Chain Approach](#) (No. 12705). CEPR Discussion Papers, 2018) finds that a deep TTIP (covering both complete removal of tariff barriers as reduction in regulatory barriers for trade and services) would have raised European GDP by 1.3%. In the same study, the “shallow” TTIP model, consisting of only the removal of tariff barriers, would yield an increase in value added production as a percentage of GDP of 0.26%. The agreement that the Commission currently envisages can be expected to yield benefits in between these two bounds.

¹¹¹⁹ European Parliament resolution of 5 July 2016 on a new forward-looking and innovative future strategy for trade and investment ([2015/2105\(INI\)](#)).

¹¹²⁰ European Parliament resolution of 30 May 2018 on the Annual report on the implementation of the Common Commercial Policy ([2017/2070\(INI\)](#)).

¹¹²¹ European Commission, [A Balanced and Progressive Trade Policy to Harness Globalisation](#).

EU values through its trade policy, safeguarding high European standards of environmental, consumer, social and labour protection, as well as fundamental rights, as well as preserving the right of government to regulate in the public interest. Finally, in the Commission Work Programme for 2019¹¹²², it reasserted its commitment to preserving and strengthening the rules-based international system and to conclude the main FTAs mentioned above. On the multilateral side, the EU has engaged with other partners to propose a series of reforms to the WTO system, in an attempt to save the regime from the current trade tensions.¹¹²³

Looking forward

The EU initially had planned for a single FTA to be concluded with ASEAN countries.¹¹²⁴ These negotiations were launched in 2007 and paused in 2009, when the decision was taken to enter into bilateral agreements with the different countries. While an agreement with the entire ASEAN is still an objective in the long run, it is not currently in sight.¹¹²⁵

Negotiations for an FTA agreement with India were launched in 2007. A 2009 impact assessment found expected gains for the EU up to €1.6 billion in the long run. The Commission recently indicated that EU will continue to work with India towards a comprehensive and balanced agreement on trade and investment.¹¹²⁶

¹¹²² European Commission, [Commission Work Programme 2019](#), Delivering what we promised and preparing for the future, COM(2018)800, October 2018.

¹¹²³ European Commission, [WTO reform: EU proposes way forward on the functioning of the Appellate Body](#), November 2018.

¹¹²⁴ Brunei Darussalam, Myanmar/Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam.

¹¹²⁵ For the moment, negotiations were finalised with Singapore and Vietnam (see above) and continues actively negotiations with Indonesia (see above). Two rounds of negotiations were started with the Philippines but no new date has been set for the next round. Negotiations with Thailand were suspended and the EU is looking into the possibility of starting negotiations with Myanmar.

¹¹²⁶ European Commission, [EU shapes its ambitious strategy on India](#), November 2018.

Summary of successive estimations of the Cost of Non-Europe from 2014 to latest calculations

Original policy area	Initial calculation	Subsequent calculation	Subsequent calculation	Subsequent calculation	Latest calculation	Latest Policy area	Total for each heading in €billion/year
	April 2014	July 2014	April 2015	December 2017	April 2019		
<i>Policy areas where potential efficiency gains have been assessed</i>							
Completing the European Single Market (goods)	***** 235	***** 300	183	183	183	Completing the single market for goods	Classical single market: 713
Completing the European Single Market (services and public procurement)			374	374	297	Completing the single market for services	
Completing the European Single Market (consumer rights)			58	58	58	Guaranteeing consumer rights	
Sharing economy				* 158	50	Promoting the collaborative or sharing economy	
Adressing corporate tax avoidance				160	85	Adressing corporate tax avoidance	
Combatting VAT fraud	7	9	9	9	40	Combatting value added tax fraud	Digital economy: 178
Digital Single Market	260	340	415	* 415	110	Completing the digital single market	
					**** 58	Promoting internet connectivity	
					**** 10	Cyber-security	
Improved coordination of fiscal policies	31	31	7	7	30	Better coordination of fiscal policy	
Banking Union and banking regulation to avert a new financial crisis	35	35	21	100	75	Completing Banking Union	Economic and Monetary Union (EMU): 322
Common deposit guarantee scheme	30	30	5	5	5	Common deposit guarantee scheme	
Common unemployment insurance insurance scheme for the euro area	15	15	17	17	17	Common unemployment insurance insurance scheme	
Completing reform of financial services sector	60	60	82	**	**** 137 **** 58	Building more integrated capital markets Pan-European Pension Product(s)	
					under assessment	Climate change	
Water legislation			25	25	25	Strengthened waste-water legislation	Environment, energy and research: 502
Integrated energy markets in Europe	50	50	250	250	231	More integrated energy market with greater energy efficiency	
European Research Area	1	9	22	3	40 **** 206	Promoting research and innovation Robotics and artificial intelligence	
Single European Transport and Tourism Area	2.5	5.5	11	11	6	Single European Transport Area	Transport and Tourism: 51,3
					6	Developing tourism policy	
Codification of passenger rights		0.09	0.3	0.3	0.3	Stronger passengers rights	
					**** 9	Odometer manipulation	
					**** 30	Liability rules and insurance for autonomous vehicles	

Equal pay for equal work	13	13	13	13	43	Reducing the gender pay gap	Social Europe, employment and health: 142
Information and consultation of workers	3	3	3	3	12	Better information for and consultation of workers	
European mutual society					15	Social enterprises and mutual society	
					**** 72	Addressing health inequalities	
					**** 53	Free movement of economically-active EU citizens	Citizen's Europe: 58,44
					**** 0.5	Creativity and cultural diversity	
Cross-border voluntary activity within EU		0.06	0.06	0.06	0.06	Cross-border voluntary activity	
					**** 0.6	Protection of children, family and property relations	
					**** 0.26	Establishment and mobility of companies	
					**** 4	Legal cooperation and litigation in civil and commercial matters	
EU law on administrative procedure					0.02	EU law on administrative procedure	Justice and Home Affairs - Migration and Borders: 55
					**** 22	Legal migration	
					**** 23	Asylum policy	
					**** 10	Border control and visa policy	
					**** under assessment	Citizenship and residency by investment schemes	
Combatting violence against women	7	7	7	7	23	Combatting violence against women	Justice and Home Affairs - Security and fundamental rights: 124,7
					**** 0.5	Equal treatment and non-discrimination	
Fighting organised crime and corruption				71	82	Fighting organised crime, corruption and cyber-crime	
					**** 16	Coordinated action against terrorism	
Improved operation of European Arrest Warrant		0.04	0.043	0.043	0.2	Procedural rights and detention conditions	
					**** 3	Data protection	
Common Security and Defence Policy (CSDP)	26	26	26	26	22	Less duplication in security and defense policy	EU external policy: 66,9
Improved EU donor coordination in development policy	0.8	0.8	0.8	0.8	9	Improved coordination of development policy	
					**** 0.9	Improved common consular protection for EU citizens	
Transatlantic Trade Agreement (TTIP)	60	60	68	68	**** 35	Promoting international trade	
Cost of non-Schengen': Impact of re-introducing border controls				*** 124	-	Not included in this version	
Company law on cross-border transfer of company seats	0.2	0.2	0.04	0.04		All these sections have been re-worked and re-organised under the new heading 7 - Citizens' Europe in order to ensure consistency and clarity of data results	
EU codification of private international law	0.1	0.1	0.1	0.1			
Unifying limitation periods for road traffic accidents				0.3			
Protection of vulnerable adults				0.011			
Common minimum standards on civil procedure							
Cross-border recognition of adoptions				0.002			
TOTAL	837	995	1597	1751	2213		

* 415 € for the Digital Single Market includes 158 € for the Sharing Economy for the calcul of the final total.

** covered in the single market for services area

*** 124 € were not included in the final total because it didn't correspond to the concept of Cost of Non-Europe as applied to the other sections.

**** New compared to the previous publication.

***** In the two first editions of the Mapping, the total includes goods, services and consumer rights.

This study brings together work in progress on a long-term project to identify and analyse the 'cost of non-Europe' in a number of policy fields. This concept, first pioneered by the European Parliament in the 1980s, is used here to quantify the potential efficiency gains in today's European economy through pursuing a series of policy initiatives recently advocated by the Parliament – from a wider and deeper digital single market to more systematic coordination of national and European defence policies or increased cooperation to fight corporate tax avoidance. The benefits are measured principally in additional GDP generated or more rational use of public resources.

The latest analysis suggests that there are potential gains to the European economy (EU-28) of over 2,200 billion euro that could be achieved, if the policies advocated by the Parliament in a series of specific areas were to be adopted by the Union's institutions and then fully implemented over the ten-year period from 2019 to 2029. This would be, in effect, a 'two trillion euro dividend', representing a boost of some 14 per cent of total EU GDP (itself 15.3 trillion euro in 2017). The study is intended to make a contribution to the on-going discussion about the European Union's policy priorities over the coming five-year institutional cycle, from 2019 to 2024.

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