

NEWS – ECIPE PRESS RELEASE – NEW OCCASIONAL PAPER

Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy

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Brussels, 15 July 2024 - The future competitiveness of the European Union (EU) is at risk due to a significant disparity in investments, particularly in technological innovation, compared to the US. Investments in technology-intensive and high-value-added industries are necessary for sustaining technology development and economic renewal. The EU's regulatory complexity, largely driven by legal fragmentation in horizontal policies is deterring cross-border trade and investment activities reducing the region's attractiveness to global investors. This new [Occasional Paper](#) advocates comprehensive and decisive reforms to renew key parts of Europe's horizontal regulatory policy landscape.

The paper identifies three critical areas that require immediate attention: *EU competition policy, tax and social security policies, and digital policies*. Highlighting the need for major reforms in these horizontal policy areas, it urges policymakers to take decisive action to streamline regulations and foster a more conducive business environment that benefits small, large, and expanding enterprises across the Member States.

Competition Policy: The proposed reforms emphasise a differentiated approach to identify and curb anti-competitive behaviour while supporting innovative technology companies and innovation leaders. Taking a dynamic view on competition together with a harmonisation merger enforcement is key to reduce legal uncertainties, crucial for fostering investments in Europe's underperforming digital economy.

Tax Policies and Social Security: The EU's complex VAT rates, labour income tax regimes, and social security rules create a challenging legal environment, leading to high compliance costs and administrative burdens, especially for businesses operating across multiple Member States. This complexity encourages tax evasion, undermines government revenues, and distorts economic activities. Simplifying and harmonising tax and social security regimes would significantly reduce these costs and legal risks, making the EU more attractive for investments by businesses of all sizes. This would facilitate smoother cross-border operations, enhance competition, and reduce opportunities for tax avoidance, fostering a fairer economic environment. Given the significant drawbacks of the current corporate income tax (CIT) systems, there is a strong case for abolishing corporate income taxes in the EU. This move would simplify tax compliance, reduce administrative burdens, and enhance the EU's attractiveness for investment. To offset the relatively insignificant revenue loss, the EU could enhance other forms of taxation, such as taxes on capital income, labour income, and sales taxes.

Digital Policies: To improve its attractiveness for technology investments, the EU must balance regulatory policies to foster innovation and growth, recognising digital business models as a key driver for the international competitiveness of less digital industries. This includes reconsidering overly stringent data protection standards and engaging in global digital integration, especially with innovators and investors from the US. Achieving a unified digital market requires policies to reduce cross-border barriers and regulatory costs. Ensuring the free flow of data globally is vital for supporting innovation and technology diffusion. Neglected in the past, well-drafted, evidence-based regulations are necessary to protect consumer and human rights without stifling innovation. Encouraging advanced cloud computing and AI integration, including in public services and government administration, will drive technological progress and foster a competitive, future-oriented European economy.

"The success of these reforms hinges on concerted political will and cooperation among EU Member States", says Matthias Bauer, the lead author of the Brief, and adds, ***"Early adopters are encouraged to lead by example, demonstrating the benefits of these reforms and paving the way for broader implementation across the European Union."***

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