Speech by:

Emilio Gabaglio

General Secretary
of the
European Trade Union Confederation

EUROPEAN COMMISSION CONFERENCE ON COMPANY TAXATION

The need for corporate tax reform in the EU

Brussels, 29-30/04/2002

EG/PC/dm

Dear Chair, Ladies and Gentlemen,

I should like to start by answering two basic questions.

-Is corporate tax reform required in the EU? Yes.

-Is the approach being suggested in the Commission's communication 'Towards and internal market without tax obstacles' the right one? I fear not.

To explain the ETUC's basic position, I can do no better than to start by quoting from the resolution adopted by our last Congress in Helsinki in 1999:

"The free circulation of capital, goods and services within the EU, the Europeanisation and internationalisation of companies, and the globalisation of trade and financial markets leads, in the absence of effective transnational tax co-ordination, to harmful tax competition and risks a dramatic erosion of the tax base and the tax sovereignty of the Member States.

So far, the stability of the level of total tax revenues has been achieved at the cost of a progressive alteration in the structure of taxation: the tax burden has been shifted to the less mobile tax base – labour – in order to recover the tax lost from the erosion of other more mobile bases. Tax systems have become not only employment-unfriendly but also socially unjust.

Unfair tax competition must be stopped and taxation with cross-frontier effects, namely corporation tax, taxation of income from capital, and eco-taxes, should be subjected to basic common rules agreed at the level of the EU by majority voting.

The European Union should take the lead in seeking to reach binding international agreements on taxation."

Chair,
None of that, we know, is particularly original.

It draws heavily on the Commission's own Verona report in 1996 which said that the main challenges of taxation policy in the EU were

-the stabilisation of Member States' tax revenues

-the smooth functioning of the Single Market, and
-promoting employment

You will all recall, I am sure, that that report highlighted the dangers of ‘fiscal degradation’, resulting from the relocation, by companies, of taxable bases to other countries, and concluded that a minimum effective rate of corporation tax should be set.

The Commission’s new document also recognises that differences in company tax rates and systems within the EU is having an important impact on companies’ location decisions.

It says

> ‘The overall national nominal tax rate is the most relevant driver affecting competitiveness, incentives to locate and financing decisions’

It then says

> ‘…introducing a common [company] tax rate in the EU would be likely to go some way in reducing locational inefficiencies.’

That, of course, was also the conclusion of the earlier Ruding Committee in 1992

However, the Commission has now changed its mind.

In its communication, the Commission seems to go straight from establishing that the existing wide divergences in company tax rates is affecting location decisions - and thus also Member State decisions on what tax levels are sustainable - to concluding that nothing should be done since, under the principle of subsidiarity, ‘the level of taxation in this area is a matter for Member States to decide’ [page 9].

The rest of the Commission’s document is therefore about how differences in tax systems, rather than tax rates, can be tackled - and indeed the questions put to us in the note attached to the agenda predominantly address the same issue.

The ETUC accepts that there is a strong case for action on tax bases, but I repeat what I said at the beginning, such an approach, by itself, is not going to work.

The explanation for the Commission's change of tack is perhaps that having tried since the Ruding report to get action on tax rates, but having failed, it must try a new direction.

This may be considered realistic but it remains highly disappointing. Try to understand the position of our members, which I believe is shared by many other voters too.

Most of them are not of course high earners. Many have felt that the taxes they pay may be high but there has also been a recognition that this is the price to be paid for the provision of public, social, and other services.

Imagine people's feelings, however, when they are asked to pay higher taxes at the same time as they are reading in the newspapers that company tax rates are being reduced.

Of course that is not all they read. They also read about company executives' massive pay increases - often it seems for butchering the companies they are supposed to be leading. They also read about Enron, and about the activities of some multinationals in developing countries.

In fact, when I look at the so-called advantages of the Commission's proposals for just to dealing with tax bases, I find that what we are really talking about is making the life of companies easier - even to helping them to pay less in taxes or to engage in 'locational blackmail'. Such a "multinationals' charter" is just not on*.

This does not mean that the ETUC no longer cares whether the Single Market works well or not. Let me recall that we supported the '1992 project', and EMU, because they were part of an overall, balanced approach which was both economic and social

> -or, in the words of the 1992 White Paper, about 'Growth, Competitiveness and Employment'
>
> -or, in the words of the Lisbon conclusions, becoming 'the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'.

* the Commission argues that a consolidated tax base would: reduce costs for companies associated with having to deal with 15 different systems; 'do away with' transfer pricing problems; make it possible for them to consolidate profits and losses on EU-wide basis; simplify restructuring operations (!); avoid double taxation; and remove many discriminatory situations. The discussion note for the meeting asks which system should be supported - home base taxation [HST], common consolidated base taxation [CCBT], or a European Corporate Income Tax [EU CIT]: frankly, the stage has not been reached which would justify the ETUC taking a position on these.

Chair,

The need for a broad and balance approach, capable of drawing in support from across the spectrum, was in fact the basis of the Verona report: yes to completing the Single Market, but yes also to promoting employment, and to fighting unfair tax competition.

Thus I would urge the current Commission, and Mr Bolkestein in particular, to recognise that if progress is to be made on tax systems, then it has to be part of an approach which is also seeking to make progress on minimum tax rates, and, more widely, on the societal responsibilities of companies - and particularly of the very big and very powerful ones.

On rates, the ETUC is of course aware of the opposition to any action from some governments - but certainly not from all governments. The answer is not just to give up. The possibilities of using the enhanced cooperation provisions of the Nice treaty should certainly be explored. In any case, I expect Tax harmonisation will be part of the European Convention Agenda.

All this may prove to be a long battle, but as ever year goes by the phoniness of some of the arguments about ‘national sovereignty’ in this area become more and more apparent.

> -As the Verona report said ‘the apparent defence of national fiscal sovereignty has gradually brought a real loss of fiscal sovereignty by each Member State in favour of markets through tax erosion’.

More widely, the Commission should realise that the public esteem of the company world is falling. Those same companies which are forever preaching the virtues of the American model, are now having to live with some of the other aspects of that model!

Thus, post-Enron, the Commission must place the issue of company taxation into the broader context of the overall societal responsibilities of companies. And I am saying ‘societal’ because the existing debate on ‘corporate social responsibility’ is becoming corrupted - from what their obligations should be to what they might choose to do.

The proposals promised on corporate governance for this summer and the discussion now under way on accountancy standards and on transparency may provide an opportunity of doing this.

In addition, we also currently have on the Social Dialogue table the Commission's proposals for 'anticipating and managing change - a dynamic approach to the social aspects of corporate restructuring'.

Thus, for the ETUC it will be very important both that the Commission demonstrates well beyond this first step, its determination to persue more ambitious goals on company taxation and that there is a constructive response from the corporate world on the European Social Agenda.

23/04/02