Opinion of the European Economic and Social Committee on the 'Impact of the territoriality of tax law on industrial change'

(2008/C 120/14)

On 16 February 2007, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on the

Impact of the territoriality of tax law on industrial change.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 13 November 2007. The rapporteur was Mr Schadeck and the co-rapporteur was Mr Gay.

At its 440th plenary session, held on 12 and 13 December 2007 (meeting of 13 December), the European Economic and Social Committee adopted the following opinion by 102 votes to seven with six abstentions.

Part 1 — Conclusions and recommendations

A. Europe's economy is highly integrated into the global economy. The degree of integration varies across the sectors; it is particularly marked in the case of the industrial activities most susceptible to globalisation. Consequently, the European Union's (EU) economic and tax policies must also be defined in relation to global change. Although this opinion is focused on the impact of the territoriality of tax law on industrial change within the EU, the Union should not be viewed in isolation from the rest of the world.

B. The EU and each of its Member States are responsible for managing economic, financial, social and environmental policies, the requirements of which go beyond market dynamics. It is therefore important to ensure that the territoriality of tax law has a positive impact on industrial change at EU level, which must of course respond to market dynamics, but which also benefits from being framed by the abovementioned policies, within a broader context. The very nature of the Lisbon process hinges on a delicate balance between its various strands (competitiveness, social dimension, environmental protection) which must be nurtured, with due regard also for tax competition between the Member States ([1]).

C. The EESC notes that tax competition is one of the aspects of the single market that can lead to distortions of competition. With it comes the need for transparency rules and the identification of abuse and harmful practices ([2]). It also requires indicators to act as a good yardstick for gauging the tax competition situation. The EESC notes, however, that taxation is not a critical factor in SMEs' investment decisions. It has much more bearing in the more mobile multinational companies.

D. Tax competition does not solely concern company taxation. With the increasing mobility of financial assets, this competition also affects personal investment income and taxation of capital.

E. The EESC believes that coordinating tax provisions across the various governments can be a lever for strengthening the operation of the internal market by eliminating tax dysfunctions and compliance costs, particularly in border regions. The EESC reaffirms the recommendations it made in its opinion on Fiscalis 2013 ([3]).

F In the Committee's view, the lack of coordination between Member States' national direct tax systems is leading to non-taxation ([4]), abuse and other distortions to the operation of the internal market. This situation can also lead to destabilisation or even the erosion of total EU tax revenues.

G. Unlimited intra-EU tax competition risks, on the one hand, making the least mobile taxpayers — such as small businesses and services that cannot be relocated — part of a narrower tax base and, on the other hand, bringing about a

([1]) 'Tax competition exists where decisions taken by a government [national, regional, or local] directly affect the capacities of other governments and where market mechanisms are insufficient to control this interplay'. (Source: OECD); for more details, cf. Appendix 1.

([2]) Harmful tax measures are defined broadly by the Code of Conduct for business taxation as those 'which affect, or may affect, in a significant way the location of business activity in the Community'. Then the Code defines as 'potentially harmful' those measures which 'provide for a significantly lower effective level of taxation, including zero taxation, than the levels which generally apply in the Member States in question' (cf. http://ec.europa.eu/taxation_customs/taxation/company_tax/harmful_tax_practices/index_en.htm).

([3]) OJ C 93, 27.4.2007.

([4]) Double non-taxation may result from the lack of coordination between national tax systems, 'for example, in relation to the qualification by Member States of debt and equity. One Member State may consider a transaction to be a contribution of equity rather than a loan and therefore not treat the income from the capital as taxable, whereas another Member State may consider the loan to be debt and allow the interest paid as a deduction for the company paying the interest. This may result in a deduction in one Member State without corresponding taxation in another Member State. Another area concerns the use of hybrid entities, i.e. entities which are regarded as a corporate body (opaque) by one Member State and as non-corporate (transparent) by another Member State; this difference in qualification by Member States may lead to double exemptions or double deductions' (Source: Commission Communication entitled 'Co-ordinating Member States' direct tax systems in the Internal Market' (COM(2006) 823 final, point 3).

re-distribution of the tax burden between taxpayers and consumers to cover public expenditure and social transfers. The latter could undermine social cohesion.

H. SMEs and service companies are the least well-equipped to benefit from tax competition. The Committee advocates introducing support services and training programmes for their managerial staff (just as for public officials) as well as the establishment of suitable data bases, particularly in the EU's border and peripheral regions, to help such companies with the procedures required for branching out internationally.

I. The Committee feels that the fight against tax fraud must be a priority and draws attention to the conclusions of its recent opinion on the subject ([5]).

J. The transfer of the tax burden onto the least mobile production factors may decrease the competitiveness of the businesses concerned and their jobs vis-à-vis their foreign competitors. This burden transfer may be detrimental to the rate of national GDP growth, which may lead to a reduction in public investment capacity in the absence of new budgetary resources.

K. Tax competition prompts Member States to improve their grip on public expenditure. The Committee would urge that this not be detrimental to either the range or quality of public services. Such services are vital for retaining and attracting wealth- and job-creating economic activities, which — ultimately — increase the tax base. Tax competition must not be prejudicial to collective social protection coverage or funding.

L. The Committee supports the commitment made by Member States to eliminate *harmful* tax competition and a number of harmful tax measures by 2010 at the latest, as set out in the Code of Conduct adopted in 1997 ([6]). It also calls on the Commission to continue its work in this regard, which it began at that time.

M. The Committee also supports the Commission's policy aimed at ensuring that State aid, including selective tax breaks for business, contributes to the pursuit of sustainable industrial change and regional development objectives whilst also being compatible with EU competition policy.

N. The Committee calls for the introduction of a common consolidated corporate tax base (CCCTB) ([7]) in a bid to simplify and render more equitable and transparent tax practices across the Member States. This would enable maximum benefit to be derived from the internal market, whilst safeguarding Member States' budgetary and fiscal sovereignty and protecting them from potential clashes with Treaty provisions. Given that the CCCTB will probably be introduced on the basis of enhanced cooperation, the EESC hopes it will be adopted by as many Member States as possible.

O. The Committee calls for more information on the content, practicalities and development of the CCCTB project before updating its opinion on this complex strategic issue, while in the meantime referring to its exploratory opinion, issued in 2006, in response to a request from Commissioner Kovács ([8]).

P. However, the EESC would raise a number of points and questions concerning the CCCTB. It feels that this optional project should be adopted by as many Member States as possible (via transitional measures, if necessary) and that the Member States should ultimately apply a single tax base to all taxpayers at the end of a coexistence period. Furthermore, consideration should be given to whether the common base applied to companies operating on external markets will be entrusted to a transnational body. Finally, we should also consider the effects of the common base on tax rates, i.e., the risk of their increasing dispersion. In this case, a minimum rate could be established, which could be set just below the current average rate of the new Member States.

Q. The EESC recommends that the Commission step up its monitoring of tax practices in certain tax havens that try to tap into the taxable income of Member States' tax systems.

Part 2 — Background

1. *Subject of the opinion*

1.1 Taxation (the level of tax burden and the amounts of tax levied) is often cited as one of the criteria for evaluating how attractive an area is for industrial, financial and commercial activity. There is not, however, agreement as to the relative weight of this criterion in comparison with others, such as the proximity of markets, production costs, the availability of skilled workers, public infrastructure and facilities, public funding, etc.

1.2 Tax systems are complex and comparing them is not easy. It is vital, however, to consider whether the tax incentives of the various authorities achieve the aims for which they were designed, to assess the impact that any decision seeking to facilitate positive industrial change in their areas could have and relate this to the estimated cost.

1.3 The aim of the opinion is to provide guidelines for anticipating and managing industrial change, aiding continued growth in European competitiveness under the Lisbon objectives and creating a true internal market, with healthy competition that is undistorted, or at least permissible (compatible with the internal market rules).

([5]) Opinion on the *Communication from the Commission concerning the need to develop a coordinated strategy to improve the fight against fiscal fraud* (OJ C 161, 13.7.2007, p. 8).

([6]) Available at: http://ec.europa.eu/taxation_customs/taxation/company_tax/harmful_tax_practices/index_en.htm#code_conduct. See also Appendix 4.

([7]) Cf. the recent Commission Communication on *Implementing the Community Programme for improved growth and employment and the enhanced competitiveness of EU business: Further Progress during 2006 and next steps towards a proposal on the Common Consolidated Corporate Tax Base (CCCTB)* (COM(2007) 223 final, 2.5.2007).

([8]) ECO/165 — CESE 241/2006, OJ C 88, 11.4.2006.

2. *Tax competition and mobility of economic factors*

2.1 This mobility is increasing within the EU, for the following reasons:

— large companies view the EU internal market as one single market, their domestic market;

— e-commerce recognises no national borders;

— production and distribution value chains are becoming more and more fragmented and their components increasingly mobile [9];

— improvements in transport infrastructure and reduced costs resulting from the restructuring of freight transport encourage companies and their subsidiaries to spread out geographically;

— multinational mergers and acquisitions of companies are increasing;

— the enlargement of the EU is also contributing to the mobility of economic investments, people and capital; and

— increasing levels of language proficiency and training are helping to increase people's mobility.

2.2 All Member States utilise all aspects of their tax system, both specific and structural, to attract investment and economic activity to their country, thus increasing their employment potential and tax base.

For their part, taxpayers (both companies and individuals) look outside of their country to optimise their financial situation. Their tax liability is one strategic factor, being subject to the disparities across the national tax systems.

2.3 Such tax competition to attract investment also exists within individual States.

2.4 It is not easy, however, to measure its actual impact on the mobility of production factors and capital. While many studies have been carried out, there has been no real consensus on their conclusions, save that tax is only one of the factors determining the location of mobile investment. This point will be expanded on later.

2.5 With its enlargement from 15 to 27 Member States, the EU has undoubtedly become more diverse. All of the new Member States are marked by their specific geographical, historical, cultural, social, political and economic context, and come with their own specific industrial fabric, as well as their own particular tax laws.

3. *Impact of taxation on industrial change*

a) Labour and capital taxation

3.1 Taking the EU as a whole, total tax and social security revenue amounts to approximately 39 % of EU GDP on average and can be broken down as follows [10]:

Corporation tax	10 %
Income tax	25 %
Social security contributions	26 %
Indirect taxation	30 %
Other taxes	9 %
TOTAL tax and social security revenue	100 %

3.2 Indirect taxation is essentially made up of consumption taxes — particularly value added tax (VAT), which is harmonised at EU level — as well as certain taxes and duties levied on specific goods and services, which are partly harmonised at EU level, such as excise duty. Given that indirect taxation plays only a secondary role in the issue of the location of industry, this opinion is primarily focused on labour taxation (§ 3.2.1) and the taxation of capital invested by business (§ 3.2.2).

3.2.1 ***Employee income tax and total social security contributions*** correspond to approximately half of the total revenue from tax and other charges. As this taxation is directly labour-based, it clearly increases salaried-worker labour costs. Given that the cost of labour is a crucial financial factor for industry, it therefore follows that taxes and other charges — including social security — on employee income risks having a direct or indirect impact on the competitiveness of EU industry. There is a direct impact when public authorities collect taxes and employers' social contributions from companies. When taxes and social security contributions are deducted from employees, they firstly reduce employees' net income. They may then also indirectly impact on the negotiation of gross salaries, or even prompt migration to other regions and discourage the development of any activities other than low-wage-cost manufacturing.

3.2.1.1 Higher labour costs naturally lead companies to increase labour productivity by increasing the share of capital investment. This is particularly marked in Member States where labour costs are highest. Conversely, the relative cost of labour is one variable (among others) that drives companies to locate their labour-intensive operations in Member States with the lowest labour costs. Given that taxes and social security contributions tend to be higher in Member States with above-EU-average salaries (inclusive of employers' social security contributions and taxes), the tax burden on labour increases the labour cost differential and thus steers job creation towards Member States with a more competitive cost structure.

[9] Cf. Committee opinion on the *Value and supply chain development in a European and global context* (CCMI/037 — OJ C 168, 20.7.2007, p. 1).

[10] Source: OECD, *Revenue Statistics 1965-2004: 2006 Edition*. The data refers to the EU-15.

3.2.1.2 From the consumer's point of view, the sale price of manufactured products is clearly influenced by all cost factors, including taxation. Indirect taxes are levied on the product at the point of sale to the consumer, and are neutral. VAT is levied at the same rate within the consumer's Member State, regardless of whether the product was manufactured in a company in that country, in another Member State, or outside the EU. On the other hand, taxes levied within the EU at the different stages of production, particularly the burden of taxes and charges on labour costs, are purely national charges, which affect products at their place of production. It follows that consumers can choose between products subjected to varying levels of taxation, depending on the country of production. Furthermore, even if labour taxes and social security contributions were harmonised within the EU, the consumer would still have the choice between EU-made products subject to a somewhat heavy tax and social contribution burden, and products coming from outside the EU, subject to different — and sometimes much lower — taxes and charges. It is therefore important to not only coordinate labour tax and social contribution structures within the EU but also to factor into the analysis aspects regarding trade between the Union and the rest of the world.

3.2.1.3 The EESC recommends that the Commission step up its monitoring of tax practices in certain tax havens that try to tap into the taxable income of Member States' tax systems.

3.2.2 ***Capital taxation*** primarily concerns companies themselves, but also concerns investors, or specifically, shareholders.

3.2.2.1 Corporation tax is levied at nominal levels ([11]) which vary substantially between the Member States (see table in Appendix 2). Belgium, Germany, Spain and Malta have rates between 34 and 38 %, while Cyprus, Ireland, Lithuania and Latvia have rates between 10 and 15 %.

Generally, the new Member States have much lower corporation tax rates than the old Member States: the average for the EU-15 is 29,5 %, while for the EU-10 it is 20,3 % ([12]).

3.2.2.2 However, the nominal rates give an incomplete picture of the tax levied. In fact, the actual tax levied must take account of the means of determining the taxable income and of the different technical processes used to determine the tax rate. It is therefore useful to also consider the implicit tax rate on capital, which compares the tax levied on companies with their gross operating surplus ([13]) (see table in Appendix 3).

3.2.2.3 The discrepancy between the two measuring instruments is striking:

— Some Member States have a very high nominal corporation tax rate, but seem in fact to impose a relatively low tax burden on their companies.

— Other Member States have an 'attractive' (very low) nominal corporation tax rate, but seem however to impose a relatively high tax burden on their companies.

— Clearly, certain Member States apply a high rate to a narrow tax base while others apply a lower rate to a broader base. The effective tax burden is clearly the result of these two variables, so that it is not possible to base the analysis solely on the nominal tax rates. This theory is borne out by the figures for Ireland and Germany, for example ([14]).

3.2.2.4 These statistics in themselves illustrate the complexity of the tax issue ([15]). Rather than draw premature conclusions from this, we shall merely focus on the differences between the Member States, differences which, in certain situations, can mean that a given industrial company operating on the EU market can face tax costs — including social security contributions — that vary greatly from one Member State to the next.

b) The company's value added chain

3.3 Traditional small and medium-sized enterprises (SMEs) are more and more open to market globalisation — whether participating in it or subject to it — particularly those located in border and peripheral regions of the EU. Often taking the form of individually- or family-owned companies, these SMEs do not benefit as much from tax competition as large multinational corporations. They do not have the organisation, management capabilities, the means or the knowledge to derive maximum benefit from this competition. Rather, ensuring compliance regarding tax returns in different countries, and varying national tax bases, rates, exemptions, write-off rules, etc., entail extra costs for SMEs and represent a barrier to accessing external

([11]) The *statutory tax* rate is the legally imposed rate.
The *effective tax rate* is the amount of tax an individual or firm pays when all other government tax offsets or payments are included, divided by the individual or firm's total income or taxable income.
The *implicit tax rates* are defined for each economic function. They are computed as the ratio of total tax revenues of the category (consumption, labour, and capital) to a proxy of the potential tax base defined using the production and income accounts of the national accounts.
The *overall implicit tax rate on capital* is computed as the ratio between revenue from all capital taxes, and all (in principle) potentially taxable capital and business income in the economy. It aims at representing the average tax burden falling on capital income.
(Source of the above definitions: European Commission, DG TAXUD — Cf. *Structures of the taxation systems in the EU, 1995-2004*).
Comparative tables for nominal and implicit rates on capital within the EU are included in Appendices 2 and 3. It is not possible to include an equivalent table for effective rates, given the differing methods of calculating them.

([12]) Source: European Commission, *Structures of the taxation system in the European Union: 1995-2004*, p. 83 (doc. TAXUD E4/2006/DOC/3201). Data on Bulgaria and Romania are not available to date.

([13]) For a more detailed methodological analysis and presentation of the data, *cf. op. cit.*, pages 84-87.

([14]) With regard to Germany and Ireland, another indicator tends to confirm the aforementioned paradox. Taxes on capital represent 15 % of total taxation in Germany, whereas in Ireland the figure is 28 % (source: *Structures of the taxation systems in the EU, 1995-2004*, European Commission, Table C.3_T).

([15]) Within this opinion, it will not be possible to analyse such data for each Member State and provide detailed explanations, nor to tally these statistical indicators with other data bases.

markets. At the same time, however, these internationalised (or aspiring-to-be internationalised) SMEs represent one of the best assets for growth, in terms of creating wealth, added value, innovation and, of course, jobs, in line with the Lisbon process. Support is needed to help businesses with these procedures. With a view to easing the transition, SME managerial staff must receive training, like that given to public officials.

3.4 Many companies that do impact significantly on intra-Community trade — especially those involved in international trade, beyond the EU — generally operate under another economic model, i.e.:

— such companies take the form of limited liability companies, whose shareholders are not necessarily based in the same region or Member State as the company's head office;

— they generally take the form of parent companies and subsidiaries, making up a broadly integrated group of companies;

— the group's various entities operate in several Member States, and

— each of the group's units has a specific function, each is involved in creating added value and the value-added chain is clearly demarcated between the various companies, each assuming a particular function within the overall strategy.

3.5 Modern industrial groups carry out a range of interlinked economic functions (value and supply chain management, organisation of the various production phases, optimising of intangible assets such as expertise, patents, brands, etc.) with the ultimate aim of marketing their products in line with a strategy based on systematic market analyses. The location of these different economic functions fits into an overall strategy, one factor of which is taxation.

3.6 In such a group structure, both the individual legal entities and the overall group should be analysed. The group assigns economic functions to its various entities in accordance with market-based economic data, with a view to optimising the group's overall efficiency and profitability. Member States are entitled to refine their tax systems in order to fuel economic activity. Business is also entitled to treat taxation in the same way as other costs incurred.

3.7 Each legal entity is bound by the tax law in force at its location and information on the tax system is one of several decision-making factors at play in the overall management of the group.

3.8 The situation pertaining to industrial groups operating within EU markets is therefore very complex. Rather than discussing the location or relocation of a group, it would be more appropriate to carry out a functional analysis of the industrial fabric and to determine the location factors pertaining to the various economic functions at Member State and EU levels, and perhaps beyond. Certain economic functions are more mobile than others and, for certain mobile functions, taxation has more bearing on location than for other functions. While it is clearly the case that taxation is one of the decision-making factors, it would, however, be wrong to overestimate its influence on the choice of location.

4. *The framework for competition between Member States based on company taxation*

4.1 Tax competition within the EU is currently framed by three sets of measures:

— the code of conduct and system of communicating changes in tax law, introduced in 1997, has established an active dialogue with finance ministers, aimed at ensuring that legislative measures do not promote harmful tax competition (points 4.2 to 4.4);

— EU competition law, particularly regarding State aid, aims to ensure that the introduction of certain tax measures or the practical application of tax law does not effectively grant certain companies State aid that is contrary to the proper operation of the internal market (points 4.5 to 4.7);

— the majority of Member States have introduced legislative measures aimed at preventing the creation of artificial and abusive structures designed to allow companies to enjoy preferential tax regimes (point 4.8).

4.2 **The code of conduct**, which is not legally binding, commits Member States to respecting the principles of healthy tax competition. Following this process, a range of legislative, regulatory and administrative tax measures were identified, which have — or could have — a significant impact on the location of business within the EU. The Member States made a firm commitment to roll back existing tax measures that constituted harmful tax competition by 2010 at the latest, without exception ([16]).

4.3 The Committee welcomes the results of this code of conduct, as by eliminating *harmful* tax practices ([17]), the Member States are thus increasing *healthy* tax competition within the EU and helping to complete the internal market.

The Committee would encourage the Commission to continue this initiative by expanding the scope of the code of conduct and assessing certain tax measures introduced in recent years.

([16]) For certain measures, a deadline as late as 2016 has been agreed.
([17]) See definition provided in footnote 2.

4.4 In parallel with this, a **system of communication** has been established between the Member States and the Commission, aimed at checking that changes in tax law are consistent with EU policy. Member States have undertaken to refrain from introducing any measures deemed harmful to the EU's interests.

4.5 Under the **provisions of the Rome Treaties, Member States are prohibited from granting aid to business**, including tax breaks, that would distort or risk distorting competition within the single market and responsibility is bestowed on the Commission for monitoring this. In 1997, when beginning work on the code of conduct, finance ministers meeting in the ECOFIN Council gave the Commission a clear mandate to pursue its action on State aid aimed at eliminating any Member State tax legislation not in keeping with the above-mentioned Treaty provisions.

4.6 Over the last ten years, the Commission has gradually stepped up its action in this area. It has not only launched a clarification process — in consultation with the Member States — which provided clearer criteria on which to base its action in a range of areas, but has also undertaken specific actions against particular tax measures adopted by certain Member States.

4.7 Unlike the code of conduct, which is non-binding politically, State aid law is legally binding. The Commission has a great deal of authority in this area and can prohibit the entry into force of an incompatible aid measure, require that it be modified, or even compel the Member State concerned to recover any aid incompatible with the internal market, where it has not been notified prior to implementation. In this case, recipient companies are obliged to pay back any tax benefits granted to them.

4.8 The majority of Member States have **tax provisions aimed at combating tax evasion and the transfer of activities** to tax havens. In fact, all Member States want to attract economic activity to their countries, to generate tax revenue from such activity and to avoid the relocation of tax bases abroad.

4.8.1 Although the tax measures adopted vary from one Member State to the next, the question sometimes arises as to whether such provisions are compatible with the internal market and free movement within the EU, given that the tax law applied by all Member States must comply with EU law. The European Court of Justice has clarified its position on this matter: essentially, the provisions aimed at combating tax evasion and the transfer of revenue to tax havens are in principle incompatible with the principle of free movement within the EU; such provisions could, however, be justified only where they are limited to combating commensurately the establishment of artificial and abusive structures.

4.9 The Committee feels that the fight against tax fraud must be a priority and draws attention to the conclusions of its recent opinion on the subject ([18]).

4.10 Article 93 of the EC Treaty provides for the adoption by the Council, acting unanimously, of '*provisions for the harmonisation of legislation concerning turnover taxes (…) to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market*'.

4.11 The European Commission has undertaken several interesting initiatives aimed at completing the internal market through measures affecting company taxation. In particular, the Commission confirmed on 3 May 2007 that it would continue its efforts to introduce a common consolidated corporate tax base (CCCTB). During the first half of 2008, the taxation Commissioner intends to present a proposal for a Directive aimed at implementing the CCCTB by 2010. The EESC shares the Commission's view that the CCCTB could make a major contribution to the success of the internal market, although it means more transparency and therefore more active tax competition. The Committee urges the Commission to persevere with its work, despite the complexity of the issues. At this stage it seems premature, however, to comment on this plan in more detail, since the Commission has not yet presented a detailed model for the definition of a consolidated common base and for the introduction of a consolidated tax system across the EU's 27 Member States. Nevertheless, the Committee would raise a number of points and questions concerning the future of the CCCTB company taxation project.

5. *Points and questions that the Committee would raise regarding the common consolidated corporate tax base (CCCTB)*

5.1 Given that the CCCTB could be optional for Member States (probably on the basis of enhanced cooperation), the EESC hopes it will be adopted by as many Member States as possible, via transitional measures, if necessary.

5.2 If the CCCTB system is optional for business, this will mean that the administrations of participating Member States will have to deal with two different tax and returns systems. Is this conceivable at a time when most Member States are seeking to increase public service productivity?

5.3 If the CCCTB system is adopted by multinationals, is there not a risk of distortions in treatment (formalities, accounting and tax systems) between companies within a given Member State which is in favour of the application of the CCCTB?

([18]) Opinion on the *Communication from the Commission concerning the need to develop a co-ordinated strategy to improve the fight against fiscal fraud.* (ECO/187 — OJ C 161, 13.7.2007, p. 8).

5.4 With regard to the two previous points, should we not be aiming for a single system to be gradually applied to all taxpayers within the same Member State?

5.5 If the CCCTB system is to bring more transparency, should the declaratory common base be entrusted to a transnational body?

5.6 With the CCCTB system, tax differences hidden in the calculation of tax bases will be reflected in the rates within the Member States that have opted for the CCCTB. Will the common tax base system not result in a greater dispersion of tax rates (at least nominal rates)? There is a risk of renewed competition over published tax rates. A Commission study (2001) noted that the dispersion of nominal rates was the primary cause of tax-competition-related economic distortion!

5.7 If tax rate differentials were to remain (contrary to the recent trend towards convergence) — or even increase — between the Member States that opt for the CCCTB, could we envisage the introduction of a minimum rate for these Member States? This rate could be set just below that adopted by the new Member States, for example. The situation will remain unchanged for these countries with regard to the import of foreign capital. The other Member States could adopt a higher tax rate without fear of overly aggressive external fiscal policies affecting their economic capital.

Brussels, 13 December 2007.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

Opinion of the European Economic and Social Committee on the 'Impact of European environmental rules on industrial change'

(2008/C 120/15)

On 16 February 2007 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on the

Impact of European environmental rules on industrial change.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 13 November 2007. The rapporteur was **Mr Pezzini** and the co-rapporteur was **Mr Nowicki**.

At its 440th plenary session, held on 12-13 December (meeting of 12 December), the European Economic and Social Committee adopted the following opinion by 137 votes to 1 with 1 abstention.

1. Conclusions and recommendations

1.1 Environmental policy is currently one of the main social challenges facing public authorities and economic decision-makers. The slow global response to environmental problems can no longer be an excuse for putting off the legislative and behavioural changes needed to achieve the EU's fundamental objective, i.e. to achieve sustainable development.

1.2 European industry has great potential to become a sustainable economy, but its success will increasingly depend on its ability to innovate in the area of industrial change. This change is necessary as a result of opening up markets, and globalisation and technological and behavioural changes, which are accelerated by a growing acceptance of the need to protect the environment and natural resources.

1.3 The Committee believes that all economic and social operators — whether public or private — and politicians and public authorities must be fully aware of the fact that we are facing a new industrial revolution that places quality of life and of the environment at the heart of development and requires a new, integrated approach to planning, production and consumption, and to conserving and managing natural resources.

1.4 The Committee believes there is an urgent need to move on from a defensive, knee-jerk approach to one that is decisive and proactive, preparing the future by launching at EU- and Member State level a clear, stable framework of positive actions on a sustainable basis to speed up:

— the development and application of clean product and process technologies;