# Coronavirus and the cost of non-Europe

## An analysis of the economic benefits of common European action

IN-DEPTH ANALYSIS

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European integration has been key to driving economic growth for half a century, generating significant gains in gross domestic product (GDP) for EU Member States both collectively and individually. This EPRS paper focuses on the economic benefits of common action, and what is at risk if the current coronavirus crisis and its aftermath were to stall or reverse the process of European integration.

It attempts to quantify the losses entailed if the economic downturn caused by the pandemic were to result in the gradual dismantling of the EU project and a parallel failure to take advantage of the unexploited potential of collective public goods that could yet be created. In this respect, the study makes use of two complementary concepts: European added value, which attempts to identify the benefit of existing collective action at European level, and the cost of non-Europe, which assesses the benefits foregone by not taking further action in the future.

Even cautious estimates suggest that dismantling the EU single market would cost the European economy between 3.0 and 8.7 per cent of its collective GDP, or between €480 billion and €1 380 billion per year. In parallel, the potential cost of non-Europe in 50 policy fields was identified by EPRS in 2019 as around €2.2 trillion or 14 per cent of EU GDP (by the end of a ten-year running-in period). It follows that if both problems were to arise at once, the EU economy would eventually be between 17.0 and 22.7 per cent smaller than might otherwise be the case. (This is, of course, in addition to any contraction of the economy as a direct result of the coronavirus crisis itself, which could be around 7.5 per cent of GDP in 2020, or €1 160 billion).

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# Executive summary

Although the European Union is about much more than economics – promoting peace, common values, democratic governance, international development, human rights, health, social protection, research and innovation, and many other public goods – the process of European integration has been key to driving economic growth for half a century, generating significant gains in gross domestic product (GDP) for EU Member States both collectively and individually.

This EPRS paper focuses on the economic benefits of common action and what is at risk if the current coronavirus crisis and its aftermath were to stall or reverse the process of European integration. It attempts to quantify the losses entailed if the economic downturn caused by the pandemic were to result in the gradual dismantling of the EU project and a parallel failure to take advantage of the unexploited potential of collective public goods that could yet be created. In this respect, the study makes use of two complementary concepts: European added value, which attempts to identify the benefit of existing collective action at European level, and the cost of non-Europe, which assesses the benefits foregone by not taking further action in the future.

Even cautious estimates suggest that dismantling the EU single market would cost the European economy between 3.0 and 8.7 per cent of its collective GDP, or between €480 billion and €1 380 billion per year. In parallel, the potential cost of non-Europe in 50 policy fields was identified by EPRS in 2019 as around €2.2 trillion or 14 per cent of EU GDP (by the end of a ten-year running-in period). It follows that if both problems were to develop at once, the EU economy would eventually be between 17.0 and 22.7 per cent smaller than might otherwise be the case. (This is in addition to any direct contraction of the economy as a result of the coronavirus crisis itself, which could be around 7.5 per cent of GDP in 2020, or €1 160 billion).

The potential figures for the first component would depend on the extent of any dismantling of the Union, which in this paper is analysed through various scenarios, such as the substitution of the EU with a standard regional trade agreement, further loosening of the Union by abandoning the Schengen Area and coordination in other areas, and/or full dissolution of the EU with a fall-back to World Trade Organization (WTO) rules.

The paper is organised as follows: the first part provides a general overview of the current cost-of non-Europe and European added value, followed by an estimation of the potential losses generated by dismantling the European Union. Subsequently, each sub-section looks in more depth into the main policy areas of EU action: the digital single market; European monetary union; health, education, social and cohesion policy; climate action; the energy market; research and innovation; protection of individual freedoms; security and justice; and finally international cooperation and development.

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# 1. Summary

> *All its [the European Community's] Member States are faced with three great challenge: the challenge of peace, the challenge of freedom and the challenge of prosperity, and it seems clear that they can only be met through the European dimension.* Simone Veil, 18 July 1979.

The aim of this paper is to investigate the economic cost, in terms of GDP, of a potential dismantling of the EU project, starting from the single market. However, Simone Veil reminds us that the EU has brought more than just economic gains – for instance, values, peace, democracy, social advances, convergence between territories and reduced inequalities, the rule of law and democracy, high food safety standards and strong consumer protection, investment and research, privacy and data protection, a global role in fighting climate change and international cooperation.

'Europe will be forged in crises, and will be the sum of the solutions adopted for those crises'. With these words, Jean Monnet expressed his opinion on the future of the European project in his Memoirs published in 1976. The priority attached to the completion of the single market was, for instance, partly a response to the need to escape the Euroscelorsis of the early 1980s, while the 2008 financial crisis and the subsequent 2011 sovereign debt crisis were instrumental in accelerating the deepening of the banking union with the single supervisory mechanism (SSM) and the single resolution mechanism (SRM), among other things.

The possibility that the current coronavirus crisis will have similar effect, setting the EU on a path towards further integration, is uncertain but far from improbable. Europe is experiencing its biggest series of challenges (in terms of health, the economy, social welfare, the environment and even trust and solidarity) since the end of the Second World War. According to a recent economic forecast (International Monetary Fund, 2020), euro-area GDP is expected to decline by 7.5 % by the end of 2020. The EU has started to respond to this challenge, but there is still much to be done. In particular, more concerted action is needed in relation to the health, economic and social costs of the crisis. It is becoming clear that the European integration process is at a turning-point in its history. As Jacques Delors, former President of the European Commission, has put it powerfully, 'lack of solidarity could pose a mortal danger to the European Union'.[1] The following analysis clearly suggests that this is the time not for complacency or fragmented action but for a united response.

To overcome the challenges it is facing, the EU needs to look at both the current state of its integration and how it has developed in recent decades. Is Europe struggling to respond because the integration process is not complete? What would Member States have already gained if further action had been taken earlier? What happens if this 'mortal threat' becomes a reality?

Two complementary concepts are useful in attempting to answer these questions: 'European added value' and the 'cost of non-Europe'. The former attempts to identify the collective benefit of taking policy action at EU level in any particular field, while the latter captures the collective gain that is foregone by failing to act.

First pioneered in the early 1980s, two landmark reports contributed to the development of these concepts: the European Parliament's Albert–Ball report (1983) and the European Commission's Cecchini report (1988). The first estimated that the absence of a genuine common market, summed up by all existing trade barriers, was equivalent to a financial surcharge that represented on average one week's work – or ECU 800[2] – a year for every family in Europe. In other words, every worker in Europe worked one week per year to pay for non-Europe. The Cecchini Report presented an even more promising picture, identifying a potential gain between 4.5 and 6.5 % of GDP.

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[1] Extracts from a recent statement by Jacques Delors, published on the Institut Jacques Delors website, 28 March 2020.

[2] European currency unit.

## 1.1. What would Member States already have gained if further action had been taken earlier?

In its April 2019 study, 'Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24', building on this idea and updating previous calculations, EPRS analysed 50 policy areas (with the related gaps and barriers) and pointed to overall potential gains to the European economy of up to €2.2 trillion per year, or some 14 % of total EU GDP (2017), after a running-in period of up to ten years, from a range of actions advocated by the European Parliament. It estimated that the biggest gains would come from: further measures to complete the single market (€713 billion); action to address environmental challenges, energy efficiency and energy market integration, and higher investments in research, innovation, robotics and artificial intelligence (€502 billion); completion of economic and monetary union (€322 billion); stronger EU justice and home affairs policies (€180 billion); and completion of the digital single market (€178 billion).

Had these measures already been taken, they would have improved the EU's capacity to respond more coherently and effectively to the coronavirus crisis. A more resilient European economic system would have helped to provide the appropriate level of fiscal response. A more integrated single market is a key instrument in assuring the uninterrupted supply of essential goods and the timely refurbishment of medical supplies and medical equipment. Along the same lines, further integration in the digital economy, capital markets and banking union as well as in social, employment and health areas would have given the EU additional tools to face the current crisis more effectively.

Since the coronavirus crisis is affecting the EU in the middle of its construction process, some opportunities have been lost because integration is not yet complete. However, even unfinished, the EU project has still provided its Member States with a huge sum of additional GDP, putting them in a much stronger position to cope with the current crisis compared to a scenario where the Union had never existed. This represents EU added value that would be lost if the integration process were to be reversed.

Several other studies have tried to assess European added value, the cost of non-Europe, and the economic impact of EU integration on the individual Member States (see Box 1). The central notion of the Albert–Ball and Cecchini reports was that, in certain policy areas, action taken at EU level generates higher benefits than action taken at Member State level. This is more evident in the presence of significant economies of scale; for the achievement of a collective public good and/or a coordination gain; when spillover effects go beyond national, regional or local efforts; or for action that can only be financed by pooling resources at EU level owing to extensive financing requirements. Usually, this will lead to additional GDP or to a more efficient allocation of public resources through improved coordination of public spending domestically and at EU level.[3]

In 2014, three economists (Campos, Coricelli and Moretti) tried to quantify the economic benefits of EU membership for 19 Member States that joined between 1973 and 2004. Although the size and nature of the economic gain, and also the factors determining it, varied enormously, the overall conclusion was that EU membership and the associated economic integration have resulted in an average **increase in national income of 12%** compared with a scenario in which they had each continued alone.

[3] The European Commission has selected European added value as a guiding principle for taking action at EU level, for spending money from the EU budget and also for setting political priorities. In a resolution of 24 October 2017, the European Parliament indicated the drivers that bring added value at European level.

### Box 1 – Think-tanks on European added value and the cost of non-Europe

In 2017, the **Bertelsmann Foundation** published a study in which eight policy areas were analysed in order to check for a better allocation of competences between EU and national levels, including what would be more beneficial for EU citizens. Based on calculations, the study suggested a range of policies best managed at national level (higher education and providing farmers with income support) and other that would be better addressed at EU level (asylum policies, defence, corporate taxation, development aid and a (complementary) unemployment insurance scheme in the euro area). Results for one policy area (railway freight transport) were inconclusive.

A recent book published by the **Centre for European Policy Studies** (CEPS), *Hidden Treasures - Mapping Europe's sources of competitive advantage in doing business*, by Donald Kalff and Andrea Renda, looks at EU global competitiveness and how to boost it. For example, it lists European civil law, innovation policy, cooperation on taxation, the fight against corruption, primacy in trade policy and closing the gaps still present in the single market, as 'EU hidden treasures', which could be sources of competitive advantage in doing business.

A 2019 **Bruegel** think-tank report by Clemens Fuest and Jean Pisani-Ferry, *A Primer on Developing European Public Goods,* shifts the focus from the benefits of economic integration to provision by the EU of EU public goods that were also an underlying argument for the process of European integration after the Second World War. It explains why and where 'European public goods need to be provided in much greater depth and detail' by listing eight key policy areas (foreign economic relations, climate change mitigation, digital sovereignty, research and development in large and risky projects, development cooperation and financial assistance to third countries, migration policy and the protection of refugees, foreign policy and external representation, military procurement and defence).

Since its launch in 1985, the single market project alone has been shown to have fostered a 6 to 8 % expansion in EU GDP that would have not been achieved otherwise. The most recent European Central Bank estimate set the range even higher, identifying a **GDP increase of between 12 and 22 %**, depending on the Member State analysed. A 2019 Bertelsmann Foundation assessment suggests that average welfare gains to EU citizens from the single market total **€840 per capita per year.**

Felbermayr et al. (2018) make a quantitative assessment of the trade and welfare effects of European integration by simulating the general equilibrium effects of pivotal events such as the introduction of the euro, the Schengen Agreement, the single market, customs union, and agreements with third parties. They conclude that single market membership **boosted trade in goods by 36 % and in services by 82 %**. Membership of the eurozone yields trade cost savings of about 1.7 % in goods and about 9.8 % in services trade. The removal of border controls following the Schengen Agreement has reduced trade costs by 2.6 % for goods and by 5.2 % for services.

Mayer et al. (2018) estimates the welfare gains stemming from EU membership as falling with a similar range to previous studies: the EU has **tripled trade flows** – an effect that appears to be strengthening over time. The impact is greater with regard to the single market for goods, but also remains positively significant when the effect of services is analysed, although halved in magnitude. The same research reports consistent gains from the free mobility of labour resulting from the Schengen Agreement, alongside an initial negative effect of joining economic and monetary union (EMU) – owing to implementation adjustments and business cycle fluctuation – that is entirely mitigated in the long term. **The analysis suggests that the single market has generated an average of 6.6 % permanent GDP gain, and that the welfare gains from EU membership average between 2.3 % and 8.2 %.**

A number of other policy areas have benefited from coordinated EU action.[4] The Erasmus programme, the Galileo satellite system, ITER, the EU Rescue system, and the Rapid Alert System for Food and Feed are just some examples of the positive results obtained by joint efforts at EU level. The elimination of roaming charges voted by the European Parliament in 2014 has had tangible beneficial effects on the daily lives of individual citizens as well as on the broader economy. It has cut the cost of calling, texting and communicating via the internet sharply, while at the same time increasing the size of the mobile roaming market, creating new jobs and fostering economic growth.

The following sections provide further evidence of these benefits in selected policy areas.

## 1.2. What happens if the 'mortal threat' becomes a reality?

It is difficult to provide a clear estimation of what exactly dismantling the EU would entail, as the effects would depend on what, how, when and to what extent parts of the European project would be taken apart. Would this mean giving up the common market entirely or only in part? Would borders remain open or would it be the end of Schengen? Would it mean a return to WTO standards?

Felbermayr et al. (2018) provide a first attempt at this estimation. The study explores a number of scenarios in which the EU is dismantled to different degrees, including the extreme case in which it disappears completely. The estimated output loss is substantial and mostly determined by the dissolution of the single market. For old EU members, full disintegration of the **EU would result in output losses of 5.2 %,** the end of the single market accounting for 3.4 % of those losses. For new members, the total loss **would be 10.7 %**, the single market making up 7.5 %. In terms of intra-trade flows, losses would be as high as 30 %. The study also shows how non-EU countries would meanwhile experience a 1.6 % increase in GDP were the EU to fully dissolve. Member States would not be as competitive alone in the global arena as they are as part of the EU-27 bloc, particularly when facing economies of the scale of the United States alongside the rise of expanding economies such as China.

In their study, Mayer et al. (2018) also present an analysis of the costs of different degrees of dissolution of the Union. In the case where the EU is replaced by a standard regional trade agreement, imports of goods decrease on average by 36 %, and the import penetration ratio is 25 % smaller. With regard to services, the negative effect is more mitigated and import losses stop at 29 %. The results demonstrate that the potential costs of non-Europe **range between 3 % and 7 % of GDP on average.**

A European Commission discussion paper by Jan in 't Veld (2019) estimates the economic effects of the single market using a structural macro-model. The study evaluates the macroeconomic benefits of the single market via a counter-factual simulation where tariff and non-tariff barriers are introduced. Lower trade openness and the consequent reduced market size and competition levels have a negative impact on firms' mark-ups over marginal cost. The suggestion is therefore that the total macro-economic impact amounts to a **loss of 8.7 % of GDP on average**, with reduced trade representing a loss of 6.6 % and reduced market size and less competition accounting for the remaining 2.1 %.

In general, these studies tell us that any dismantling of the EU would be extremely costly. The analyses available focus their estimates mainly on the single market. They suggest, on a credible and

[4] The European Investment Bank (EIB) in an internal calculation report has said that by 2020 its activity will have generated an additional 2.3 % increase in EU GDP. The Joint Research Centre of the Commission estimates the beneficial effect of EU cohesion policy to have brought about an analogous 0.7 % increase in EU GDP, with the impact averaging around 2.7 % in less developed regions. The Horizon 2020 programme launched in 2014 has made available a portfolio worth €45 billion of investment, fostering the creation of cross-border networks and generating innovation through ground-breaking scientific research. According to the latest Commission assessment, Horizon 2020 investments by 2030 will have generated a GDP gain of between €400 and 600 billion.

cautious basis, that the **economic loss involved in ending the single market would be between 3.0 % and 8.7 % of EU GDP**, or between €480 and 1 380 billion per year.[5] And this is the base-line to which other losses are to be added, starting with the unexploited potential that would otherwise have stemmed from a closer, deeper Union – estimated at €2.2 trillion or 14 % of EU GDP as mentioned at the beginning of this paper. Considering these two aspects alone, the **potential loss could range from €2.7 to €3.6 trillion** (with a central value of €3 trillion). This estimate does not include the cost of the current crisis that, according to latest estimates, could see EU GDP fall by 7.5 % in 2020;[6] namely a drop of €1 160 billion by the end of the year.

However, the economic cost of the current crisis, in addition to the tragic loss of human lives, could be even greater depending on the capacity to implement common action at EU level and coordinate long-term strategic action at international level. According to an EPRS paper published in April 2020, a resolute move towards greater common policy action and a deepening of the single market, more strategic autonomy, increased common investment and a reasonable deepening of risk-sharing within EMU, could help to achieve a rapid, broad based and sustainable recovery. In a pessimistic worst-case scenario – where the policy response is fragmented among Member States and where no risk-sharing takes place – the potential added value growth would be reduced by 0.8 % in 2035. **From 2020 to 2035, this would represent a cumulated €2.9 trillion of added value losses for the EU.** In a more optimistic scenario, with a decisive move towards more sustained common action at EU level, a cumulated gain of €0.5 trillion in added value for the EU as a whole would be expected from 2020 to 2035.

Furthering integration in the digital economy, the capital markets and the banking union, as well as in the social, employment, health and migration areas, while also strengthening the enforcement of EU values, would give the EU additional tools to face the current crisis and those to come. The damage caused by fragmentation would be further magnified by the inability to face future challenges with the same responsive capacity: climate change, digital monopolies, the artificial intelligence race or negative market externalities such as pollution are all global cross-border issues that no EU Member State can tackle effectively on its own.

The results of this study confirm that when it is united, Europe can deliver more, more effectively and more efficiently, as common action provides a level of strategic depth that no individual Member State or any isolated group of Member States would be able to achieve. For this reason, a resolute move towards greater common policy action could foster a faster, more sustainable and truly inclusive recovery. Member States' responses and economic interventions must be coordinated, as otherwise they could end up creating more divergence in the medium-term, putting recovery at risk, in particular in the most vulnerable Member States.

[5] In 2018, according to Eurostat figures, EU GDP totalled €15.88 billion.

[6] https://ec.europa.eu/commission/presscorner/detail/en/ip_20_799 .

# 2. A complete digital and single market, and a single transport area

The European single market for goods and services is one of the greatest achievements of the European integration process to date, benefiting millions of businesses and consumers on a daily basis in what is now the largest combined market place in the world (European Commission, 2019). The most recent estimates record a 12 % to 22 % GDP gain for individual Member States achieved so far thanks to the single market (European Central Bank, 2020). Further strengthening and achieving gains effectively within the single market is key to pushing forward an economic recovery in the EU that benefits citizens and businesses. Furthermore, a fully complete and well-functioning single market also requires progress in the areas of digitalisation and consumer protection. The potential gains for each of these four aspects are presented here separately, however, they should clearly be seen as interdependent and mutually reinforcing.

## 2.1. Free movement of goods

Thanks to the single market for goods, 80 % of regulatory barriers have been addressed (European Commission, 2015). A recent study concluded that trade in goods between EU Member States increases 109 % on average compared to a counterfactual scenario where the EU is replaced by a standard regional trade agreement (Mayer et al., 2018). The associated welfare gains from EU trade integration are estimated to reach 4.4 % for the average EU country. In the same vein, Felbermayr, Groschl and Heiland (2018) carried out a series of simulations to assess the economic benefits arising from various steps of European integration. For old EU members, the end of the single market would result in output losses of 4 % on average.

A study by the European Commission (2019) looked at the potential impact on intra-EU trade in a scenario of falling back on WTO rules. The total macroeconomic impact amounts to a loss of 8.7 % of GDP on average, with reduced trade representing a loss of 6.6 % and reduced market size and less competition accounting for the remaining 2.1 %. Based upon the available estimates, and considering the current level of implementation, it appears reasonable to assume that the single market for goods has already added **from 3 % to 8.7 % to EU GDP**.

Nevertheless, there is significant untapped potential from further expanding trade in goods (European Parliament, 2016). One study on the benefits of the single market estimated that, after 10 more years of implementing a programme based on removal of all barriers, EU value added in the manufacturing and agri-food sectors could be 8.4 % higher (Aussilloux, Emlinger and Fontagné, 2011). Research carried out by EPRS estimates the related cost of non-EU at between €183 billion and €269 billion, or **between 1.2 % and 1.8 % of GDP**, that could be generated if all barriers within the single market were removed (European Parliament, 2014).

## 2.2. Free movement of services

With respect to the single market for services, a London School of Economics study (2013) estimated a 0.8 % GDP gain under the level of implementation at the time. The European Commission (2015) meanwhile recorded that the Services Directive had already generated 1.2 % in additional GDP on average. Mayer, Vicard and Zignago (2018) carried out a series of simulations to assess the economic benefits arising from various steps of European integration. The results showed potential output losses of 2.9% in the services sector had the single market been reversed between 2000 and 2014. Based upon the available estimates, and considering the current level of implementation, it appears

reasonable to conclude that the single market for services has already added **from 1.2 % to 2.9 % to EU GDP**.

However, huge potential remains untapped. Assilloux, Emlinger and Fontagnè (2011) estimated it to be as high as 5.6 %. Aggregating the efficiency gains in various sectors related to the single market for services (service directive, financial markets, e-communications, gas and electricity) EPRS (2014) quantified potential gains at €337 to €637 billion. Similarly, a recent study for the European Parliament Committee for the Internal Market and Consumer Protection (European Parliament, 2019), concluded with a mid-range estimate of around €389 billion per year. In addition, benefits in public procurement would be in the range of €20 to €36 billion (European Commission, 2015).

The European Commission (2015) concluded that more ambitious implementation of the Services Directive could add 1.7 % to EU GDP, while the World Bank (2016) predicts a potential increase in productivity of up to 5.3 %. The impact on GDP in the long run of the unrealised potential of the single market for services would therefore be in the order of €297 to €586 billion or **1.9 % to 3.7 % of EU GDP**.

## 2.3. Digitalisation of the single market

The digitalisation of the economy is progressing rapidly, generating changes in many aspects of people's lives. Whether through communications, shopping or manufacturing, it is also a driver of transformation, offering significant potential for the European economy. The digital single market is proving even more crucial in the ongoing crisis, offering millions of people the possibility to telework and providing for online data sharing and data roaming, e-commerce and wide access to goods and services for the most vulnerable. A recent European Parliament analysis (2019) estimates that the legislative measures enacted – or expected to be enacted – to boost the digital single market in the last EU legislative term (2014-2019) contributed to €176.6 billion in annual gains, corresponding to 1.2 % of EU GDP.

So far, EU action has focused on four main areas: (1) electronic communication networks and services; (2) data exchange and management; (3) e-commerce and (4) e-government (European Parliament, 2019). Statistics for 2019 suggest that 17 % of EU enterprises were selling online.[7] Based upon the estimates available, and considering the current level of implementation, it appears reasonable to conclude that these measures on digitalisation added **1.2 % to EU GDP**[8] over the last five years.

A lot of ground still remains to be covered. The Commission's Joint Research Centre (2018) estimates a potential increase in EU GDP of between 0.44 % and 0.82 %, after full implementation of policies promoting cross-border digital activities for businesses and consumers, which are expected to have both a competition and a productivity effect on the economy. In 2014, the Commission had already quantified that the effect of similar channels could mount to 1.89 % of GDP. These estimates can be regarded as the lower and upper bounds of the potential benefits of completing the digital single market, meaning it would bring **about €110 billion a year** to the EU economy once fully implemented.

Since 2015, considerable efforts have been made to bring the digital single market to areas such as e-commerce, e-procurement and e-invoicing in the public sector, e-government and cloud computing, and considerable potential remains for further action. Looking at measures taken so far,

7 Eurostat, 2020 [isoc_ec_eseln2] e-commerce sales.

8 The overall gains from EU measures on digitalisation are likely to be considerably higher.

EPRS (2019) summarises potential benefits: the removal of geo-blocking would correspond to a gain of about €18 billion (Brown and Martens, 2016); increased modernisation of the VAT system, about €7 billion (European Commission, 2016); more efficient cross-border parcel delivery, between €2.2 and €5.6 billion (European Parliament, 2014). Digital aspects are also being discussed in policy areas such as transport, industrial infrastructure, education, health and public services. This might lead to a need for a more horizontal approach to tackling digital issues coherently, generating still more benefits.

## 2.4. Consumer protection

EU consumer protection legislation contributes substantially to the EU single market by boosting consumer confidence and trust. A recent European Parliament study focusing on five selected policy areas concerning consumer protection: (1) travelling by water, (2) travelling by bus, (3) using digital content, (4) switching payment accounts and (5) taking out mortgage credit, estimated gains of €26.8 billion per year induced by EU measures (European Parliament, 2019). These gains stem from three main areas: additional economic output (the estimates in the literature range between 0 % and 1 % per year) and the corresponding job creation, additional sales/revenues (e.g. in the tourism sector approximately €12.6 billion annually); reduced prices (1 %); and increased private consumption (up to 0.23 %).

Earlier studies 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 % of EU GDP at the time (European Parliament, 2014). Further economic gains could be generated by means of improved enforcement of existing consumer protection laws, 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. The Commission concludes that, across six markets, EU consumers suffer detriments of between €20.3 billion and €58.4 billion per year (European Commission, 2017).

## 2.5. Single European transport area

The common EU transport policy has underpinned the creation of the EU single market and helped in achieving free movement for individuals, services and goods. The main goal achieved by the common transport policy has been the creation of a single European transport area. This has resulted in market opening and freedom to provide transport services. It has provided for harmonised rules, covering transport services but also transport-related social, environmental and technology issues, to ensure fair competition. The sector has furthermore benefited from the abolition of internal borders in the EU after the Schengen Agreement. Since the 1990s the EU has also pursued infrastructure investment in key trans-European transport networks (TEN-T) to boost economic development, competition, environmental sustainability and regional and social cohesion (Schade et al., 2018). Thanks to this stable regulatory framework and investment in infrastructure, goods and passenger volumes transported in the EU have risen. The liberalisation of transport services has brought substantial benefits for passengers. In the air transport market, in particular, prices have dropped and new air services have emerged.

One striking example of successful EU action in the single market for services, which underpins the creation of the EU single market is the European transport area (ETA). The European added value of investment in the TEN-T core network has been highest in cross-border areas, in interoperability and

practical constraints and co-modality (Steer Davies Gleave, 2011). Completing the on-going TEN-T core networks would add **1.6 % to EU GDP with 800 000 more jobs by 2030** (Schade et al., 2018).

The whole EU economy benefits from a strong transport sector that ensures the flow of goods to consumers from more than 11 million EU producers and manufacturers. The development of transport networks and connections also benefits tourism, making the EU a leading destination in the world. Transport services represented **over 9 % of EU gross value added** in 2016 (European Commission, 2018).

However, the European single market for transport is still incomplete, as several barriers persist. EU action targeted at removing inefficiencies could generate at least **€5.7 billion** of additional gains. It would improve mobility for citizens, enhance the sector's environmental sustainability, and provide better intra-EU connectivity and greater international competitiveness. Moreover, accelerating the 'adoption curve' for automated vehicles by five years by clarifying liability rules at European level would generate EU added value of approximately **€148 billion or €29.6 billion** per year (European Parliament, 2019). By 2050, automated vehicles could contribute **€17 trillion** to the EU economy.

In the context of the current coronavirus crisis, all means of transport have been affected as international transport of passengers has come to a halt and national-level transport has been significantly reduced. Almost all EU Member States have introduced temporary travel restrictions, generating substantial costs for the sector (air travel has been particularly hard hit) as well as for other activities, especially tourism – with an estimated loss in revenues of **€1 billion** per month (European Parliament, 2020).

# 3. Economic and monetary union

The incomplete EMU architecture and persisting fragmentation will continue to undermine the potential for the emergence of a crisis-proof EMU. First, unless fiscal policies are effectively coordinated, there can still be significant negative 'spill-over' effects between the Member States participating in an economic and monetary union. Second, a fully completed banking union, drawing on policies advocated by the European Parliament would safeguard financial stability in Europe, breaking in particular the vicious circle between banks and sovereign borrowing costs and reducing the duplication of regulations along national lines. Third, progress with the capital markets union would reduce the current fragmentation of European financial markets and remove the barriers that stand between investors' money and investment opportunities. It would also complement Europe's strong tradition of bank financing by providing alternatives to credit-based financing and a better access to stock markets.

## 3.1. Coordination of fiscal policy

Unless fiscal policies are coordinated effectively, there will continue to be significant negative 'spill-over' effects between the Member States participating in economic and monetary union. An International Monetary Fund (IMF) study (2011) estimated the size of the potential positive spill-over effects from better coordination of fiscal policies to be around 0.25 % of GDP. For the EU as a whole, this would imply a potential total benefit of some €37.5 billion per year. Research undertaken by EPRS in 2014 and 2015 looked at the impact of better ex-ante coordination of fiscal policies under various crisis scenarios and time frames. On the bases of the results and considering the current level of implementation, it appears reasonable to conclude that the potential benefit from the existing level of coordination of fiscal policies to be between €7 and €71 billion per year or **between 0.05 % and 0.5 % of EU GDP per year**.

This also means that, so far, EU fiscal policy has not allowed full materialisation of the expected stabilisation in case of a severe crisis. The current EMU arrangements could be enhanced by pursuing the credible and sustainable coordination of public finances. This would increase sustainability and resilience in Member States and confidence between them. It would make solidarity easier and more efficient should it be needed in an economic and financial crisis. Recent estimates by the European Central Bank (2017) and European Commission (2018), using advanced modelling tools, found that the potential positive spill-over effects of better coordination of fiscal policy to represent around **0.2 % to 0.3 % of GDP**, or between €30 and €45 billion per year.

## 3.2. Banking union

Banking union contributes to reducing the current fragmentation of European financial markets by promoting a single framework for supervision, prevention and resolution. A 2015 study by the European Commission found that GDP losses could have been reduced by 10 % to 40 % in the euro area as a whole, depending on which resolution mechanisms had been in place.

An initial study by EPRS in 2012, assuming various banking union scenarios and time-frames, estimated the potential benefits to range between €35 billion and €130 billion per year if a new crisis were to materialise. Two more detailed studies (European Parliament, 2015; European Parliament, 2016) 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 Commission (2014)[9] concluded that initial reforms in the banking sector could represent net macro-economic gains of between €37 billion and €100 billion per year, not counting other reforms that enhance the stability of the financial sector. Drawing on this literature, it appears reasonable to conclude that between €35 and €75 billion or **between 0.25 % and 0.5 % of EU GDP per year** of potential gains have already been achieved.

Despite the fair 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 other financial institutions at global level. Legacy issues related to the risks accumulated before the start of the banking union are also still present on banks' balance sheets[10] (European Central Bank, 2018).

A 2018 study by the European Central Bank called for action to strengthen banks' loss-absorbing capacity and the effects of some of the risk-reducing measures already implemented. EPRS (European Parliament, 2012) estimated the remaining potential benefits of a completed banking union at around €75 billion per year. In addition, a common EU deposit guarantee scheme, assuming various intervention scenarios and time frames, would add a benefit for the euro area of up to €35 billion per year (ibid.; European Parliament, 2014; European Parliament, 2015). A completed banking union with a common EU deposit guarantee scheme could therefore represent between €80 and €110 billion per year or **between 0.5 % and 0.7 % of GDP**.

## 3.3. Capital markets union

The economic and financial crisis of 2008 and its aftermath also brought to light severe weaknesses in the regulatory coordination and development of the financial markets across the EU. Moreover, faced with the departure from the EU of the largest financial centre in the single market (the United Kingdom), the EU needs to continue building a more integrated capital markets union. A study by London Economics (2002) 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.

In 2012, EPRS (European Parliament, 2012) estimated the potential benefits of the capital markets union to be around €60 billion per year. So far, the financial market reforms adopted, such as reform of the derivatives regime, reduction of the excess cost of post-trading and, post-trading market consolidation, as well as Target2Securities could result in net benefits amounting to around €20 billion per year (European Commission, 2014). Taking into consideration these estimates and the measures in place at present, it appears reasonable to assume that €30 to €60 billion or **between 0.2 % and 0.4 % of EU GDP per year** of potential gains have already been achieved in this field.

That being said, corporate financing in the EU will continue to rely heavily on bank loans and will continue to lack 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 would also be a valuable complement to banking union, as they both facilitate economic adjustment and help to increase

[9] 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 the Capital Requirements Directive IV package) and bail-in and resolution financing arrangements (as per the Bank Recovery and Resolution Directive). The results also take into account the macroeconomic costs of the same banking reforms estimated in a separate model.

[10] Non-performing loans and advances still represented a total of €657 billion on banks' balance sheets in Q2 2018.

economic resilience. Finally, EU capital markets will still be affected by a high level of fragmentation, with varying levels of regulatory rules, effective supervision and tax practices.

This will continue to reduce the financing options available to businesses and consumers, and to make access to capital more complicated and costly. EPRS (European Parliament, 2012)[11] has estimated that the potential benefits of a more fully-integrated retail finance service[12] sector could, as a result of price convergence in the market for consumer loans, be in the order of €65 billion per year, measured in interest savings alone. Integration of capital markets would also allow for more equal financing conditions for non-financial corporations as long as they display the same level of risk and return (PWC, 2015). As a result of price convergence, potential savings on businesses' interest loans could be in the order of €55 billion per year (European Parliament, 2014).[13] The total benefits of more fully-integrated and more effectively regulated EU capital markets could potentially be of approximately €120 billion per year, **or 0.8 % of EU GDP.**

[11] Updated calculation using 2017 data. Source: European Mortgage Federation, hypostat, September 2018.

[12] 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 sectors such as the residential mortgage market and the bank financing of non-financial corporations.

[13] Updated calculation using 2017 data. Source: Organization for Economic Cooperation and Development, Financing SMEs and entrepreneurs, 2017 dataset, and European Central Bank, monetary financial institutions' interest rates on new euro-denominated loans to euro area non-financial corporations, 2018.

# 4. Moving towards a joint EU health policy

Being healthy or able to live a good life even when ill is something that people value highly. Although the EU has only a supporting competence in health policy, access to cross-border healthcare, better coordination and promotion of best practices between Member States can bring considerable benefits. The EU also intervenes in fields such as cross-border threats to health and, as health policy is also closely aligned with research policy, in the pooling of research resources.

In this respect, considerable European added value has already been achieved (European Parliament, 2018). This has been accomplished through cooperation among Member States and relevant stakeholders. Surveillance, coordination and networking, procurement and funding are helping to create economies of scale and address cross-border health threats. The European Commission (2020) helps the EU Member States to coordinate policies and programmes, with a particular focus on vaccination, as it falls under the 'Protect Union citizens from serious cross-border health threats' objective of the third EU health programme (2014-2020).

Some of the major achievements of the third health programme (2014-2020) include the establishment of 24 European reference networks, the provision of support building capacity to respond to cross-border outbreaks and the training of health professionals and other front-line staff (European Commission, 2018). The European Regional Development and Social Funds provided more than €9 billion in health-related investments during the 2014-2020 period (European Parliament, 2018). Thanks to the European Fund for Strategic Investments, 42 million EU citizens are expected to gain access to improved health services (European Investment Bank, 2018). Good results have also been achieved in areas such as access to medicines, antimicrobial resistance, childhood obesity, support for Member States' health system reforms, medical devices and vaccination (European Parliament, 2018).

Major health inequalities still remain both within and between Member States. Estimates from the European Commission and the literature suggest that more effective action in this field could lead to a potential gain for the EU economy of up to **€72 billion per year**. The health dimension could be built into other EU policies, for example increasing the use of the existing structural funds to support projects that improve health infrastructure and increasing health research and training.

Since the coronavirus pandemic began, the EU has put to use several of the mechanisms already in place, while also taking new initiatives to combat the pandemic. The Commission has assisted Member States in coordinating cross-border healthcare measures, such as transferring patients and healthcare professionals, and has also allocated resources to research projects working on vaccines. When Member States closed borders and impeded healthcare equipment from being delivered, the Commission issued guidelines on green lanes to make sure that medical equipment and healthcare professionals could move freely. Four joint procurements of personal protective equipment have been launched with Member States (European Commission, 2020) and a common reserve of medical equipment is being created for the first time ever (European Parliament, 2020). All the initiatives taken to tackle the coronavirus crisis could provide even more added value if they were formalised and ready to use when the next crisis hits and beyond.

# 5. Social, education and cohesion issues

## 5.1. EU unemployment scheme

The uneven impact of the financial crisis between Member States led to rising inequality in the past, and the EU is now facing a high risk they will deepen in the aftermath of the current coronavirus pandemic. This inequality and social pressure hit the Member States to differing degrees, but negative spillovers across the Union are possible owing to reduced aggregate demand, eroded confidence and contagion via the financial markets, threatening the core objectives of the European Union. Against this backdrop, a common European unemployment insurance scheme has been considered as one potential response to the lack of stabilisation instruments in EMU. A European unemployment reinsurance scheme could act as a 'reinsurance fund' for national unemployment schemes, providing more breathing space for national public finances and helping the Member States to emerge from the crisis faster and stronger (European Commission, 2017).

A 2014 EPRS cost of non-Europe report (European Parliament, 2014) suggests that a common unemployment insurance scheme would have stabilised household incomes to a considerable degree and attenuated the GDP loss in the worst 2008 crisis-affected euro-area Member States by €71 billion over four years, equivalent to approximately €17 billion in any one year.[14]

During the financial crisis the extension or introduction of national short-time work schemes and other forms of reduced working time meant that nearly two million European workers did not lose their jobs in 2009, and retained much of their salaries (Eurofound, 2010).

First mentioned in the 2012 Four Presidents' Report, 'Towards a genuine EMU', an EU insurance system would have the advantage of improving the absorption of country-specific shocks. The fiscal capacity of an EU unemployment insurance scheme would work as a complement to national unemployment insurance systems. In May 2018, among the proposals for the 2021-2027 multiannual financial framework (MFF), the Commission also presented a draft regulation on the establishment of a European investment stabilisation function (EISF). This draft regulation envisages support for Member States hit by an asymmetric shock and/or increase in the unemployment rate.

In the context of the current crisis, the European Commission's new proposal on support to mitigate risks in an emergency (SURE) has the same objective as the Four Presidents' Report. The SURE instrument would help Member States to mobilise significant financial means to fight the negative economic and social consequences of the coronavirus pandemic. This instrument would act as a line of defence, supporting short-time work schemes and similar measures, to help Member States protect jobs and thus employees and the self-employed against the risk of unemployment. It will allow for financial assistance up to €100 billion in the form of loans to Member States affected.

## 5.2. Free movement of economically active citizens within the EU

The fundamental right of EU citizens to move freely within the EU is enshrined in the Treaties, which give EU citizens the right to seek a job in another EU Member State, to live in that Member State and to access its labour market, enjoying the same rights as nationals of that country. The free movement of economically active citizens leads to higher employment and higher productivity and income (remittances), and has a positive impact on taxes and social contributions.

[14] 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.

The employment rate of mobile EU citizens in 2018 was 77.1 % – compared with 73.1% for EU citizens taken all together (Eurostat). It can be estimated that the EU added value – in terms of boosting collective GDP – achieved in 2017 through free movement of economically active citizens to the main destination countries was in the order of some €106 billion. This calculation represents the lower range because only 50 % of all mobile citizens are taken into account. The amount would be significantly higher if cross-border workers, posted workers, remittances and the impact on public revenues were to be considered (European Parliament, 2019).

The coronavirus crisis is having a direct impact on freedom of movement, as it has led to the reintroduction of internal border controls across EU Member States. Cross-border workers, seasonal workers and posted workers live in one country but work in another. Many of them are crucial for the healthcare system, for the provision of essential services – including maintenance and infrastructure – or for the supply of goods. For these mobile workers it has become more and more difficult to reach their workplaces. In March 2020, the European Commission clarified that the Free Movement Directive must be guaranteed even during this crisis.

Non-discrimination between nationals and resident EU citizens in particular must be ensured so as to secure continued professional supply, as some sectors of the economy (agriculture, tourism, construction and healthcare) rely heavily on workers from other Member States. It is unrealistic to replace them in the short term within Member States, e.g. with the unemployed. Making a projection, if the number of EU-13[15] movers goes down by 1 000 000, a loss of at least €20 billion per year is realistic. The sum is significantly higher if remittances and the impact on taxes and social security contributions are included.

## 5.3. Erasmus+ programme

The Erasmus+ programme for education and training was established in 1987 and has been enriching lives for more than 30 years. With a total budget of €16.45 billion for 2014 to 2020, it provides opportunities for learners and practitioners to gain skills and undergo personal development abroad. Enabling people to improve their chances of finding employment, develop fresh perspectives, learn a new language, or gain a stronger sense of EU citizenship, Erasmus+ has produced many success stories.

According to various impact evaluations (European Commission, 2016 and 2018), Erasmus+ students also experience higher employment rates, significantly less (long-term) unemployment, with shorter transition periods from education to employment, and are more likely to secure management positions. Actions in the youth priority under Erasmus+ have been most successful in including young people with fewer opportunities, reaching out to 31 % of beneficiaries by applying inclusive, non-formal learning approaches (European Commission, 2017).

In monetary terms, compared to the total cost of higher education study, the amount invested by Erasmus+ of around €1 700 per participant in 2017 on average, represents a decisive, rather than a high, share. The multiplier effect is €10 (lowest estimation) for each €1 invested within five years. For the future 2021-2027 MFF, the Commission wants to double the total budget for Erasmus+ and 'to triple the number of participants while at the same time introducing qualitative measures and incentives that would allow to improve outreach to learners with fewer opportunities'. The European Parliament proposed tripling the budget.

[15] The 13 Member States that have joined the EU since 2004.

Inevitably, the coronavirus pandemic has had a negative effect on activities that are either ongoing or were planned under the Erasmus+ programme. A number of participants have been unable to travel from their home countries or are unable to return. This uncertainty is also prompting some parents not to allow their children to travel. If this attitude were to persist after the emergency is over, it would represent a huge loss of European added value. Erasmus+ actively contributes to the development of a European identity. No other programme funding mobility or cross-border cooperation offers comparable scale and scope in the EU. Member States would not be able to achieve such effects acting alone. However, the added value of Erasmus+ will not be diminished permanently if a restart or increase in funding is possible in the near future. With a higher budget available and taking a medium term perspective, the added value could be even higher especially for those regions hardest hit by the coronavirus crisis.

## 5.4. The added value of EU cohesion policy

The main objective of EU cohesion policy is to reduce disparities. It can be seen as a form of solidarity with poorer regions and, under current circumstances, those worst hit by the coronavirus crisis. The cohesion policy budget totals €454 billion, representing about a third of the EU's 2014-2020 budget. With additional national and private co-financing of €184 billion, the policy is worth €638 billion. It provides a long-term investment framework for regions and Member States and offers more planning reliability compared with national annual or biannual budgets.

Since the latest EU enlargements and particularly during the 2008 financial and economic crisis, the differences in living conditions in the EU-28 have been increasing between and within Member States. Between 2008 and 2014, average public investment was down by approximately 15 % in real terms in the EU. Consequently the European structural and investment funds (ESIFs) became increasingly relevant in financing public investment. In recent years, the socioeconomic situation has been gradually improving and by 2016 GDP per capita in less developed regions had converged towards the EU average. From 2015 to 2017 the share of the ESIFs spent on investment ranged between 26 % and over 80 % in more than half of the Member States. In the EU-12[16] countries this has contributed to a significant convergence of GDP per capita.

According to the Commission's MFF proposal of May 2018, cohesion policy will represent a share of 36 % of total EU budget, continuing to be the key financial instrument to reduce regional disparities. While GDP per capita remains the main criterion for allocating funds, unemployment, climate change and the reception and integration of migrants are also taken into account and new criteria might be considered given recent developments, in particular the impact of the coronavirus crisis.

In the context of the current crisis specifically, the Commission has recently proposed to mobilise cash reserves from the ESIFs. This would provide Member States' budgets with immediate liquidity and help front-load the use of the €37 billion from the 2014-2020 cohesion policy programmes that has not yet been allocated – including for the UK.[17] All coronavirus crisis-related expenditure will be made eligible. Existing rules will be applied with maximum flexibility, enabling Member States to finance crisis-related action. This means greater flexibility for countries to reallocate financial resources, making sure the money is spent in the areas of greatest need: the health sector, support for SMEs, and the labour market.

[16] The 12 Member States of the EU before 1995.

[17] According to the Withdrawal Agreement, the Common Provisions Regulation applies to the UK until programme closure.

# 6. Climate action, energy market, research and innovation

## 6.1. The added value of EU climate action and an integrated energy market

At the core of EU climate and energy policies lies the transition to a low-carbon economy. It is a difficult and costly endeavour, the future benefits of which will only be seen in the long term by future generations. They can be measured in terms of the extent to which they limit and prevent the negative impacts and costs that climate change provokes. Short-term benefits can be more difficult to observe and are usually co-benefits of climate and energy action such as reduction of air pollution, economic growth and the creation of new jobs resulting from technological development or savings due to falling energy imports. There is a scientific consensus that the substantial costs of pursuing climate policies are outweighed by their benefits.

EU climate regulatory measures and commitments have created certainty for investors. This framework currently includes agreed goals up to 2030 and the common objective of becoming climate neutral by 2050 (EU Council, 2019). This has encouraged low-carbon technology and investment despite the 2008 downturn. The EU has become a world leader in the green economy. The EU's environmental goods and services sector (EGSS) outperformed other branches of the economy in added value (63 % v 16 %) and employment growth (38 % v 6 %) between 2003 and 2015 (European Environment Agency, 2019). In 2015 it employed 4 million workers. It is estimated that the process of reaching the EU's 20 % renewable energy consumption target could generate over 400 000 new jobs and, in general, investment in a low-carbon society and economy could have created up to **1.5 million additional jobs** by 2020 (European Commission, 2020).

Moreover, climate objectives have also been mainstreamed into many EU policies that do not address the main sources of GHG emissions directly, but without which the fight against climate change at EU level would be incomplete. One example is the integration of the energy market, with the aim of creating a truly European energy market where energy flows freely across borders. A common energy market is indispensable in the light of EU climate commitments, which imply the creation of a highly energy-efficient and low-emitting system, building in renewable energies. Over the years through regulatory reforms and infrastructure financing the system has been significantly harmonised and integrated, generating substantial economic and welfare benefits. The shift from bilateral to cross-border electricity trading and better electricity market integration have generated gains of **€3.9 billion per year** (Newbery, Strbac and Viehoff, 2016).

These figures show that the decarbonisation of the EU economy is not impossible but will still require major efforts. That is why in 2019 the European Commission put forward a comprehensive cross-sectoral approach in the form of a European Green Deal. Its aim is to achieve carbon neutrality by 2050, an objective agreed upon at EU level. To achieve this ambition, the EU economy would have to accelerate its transition to net zero GHG emissions, which implies prioritising low carbon approach in spending and investments.

The Organisation for Economic Co-operation and Development (OECD) has estimated that climate mitigation policies in advanced fuel-importing G20 economies could generate **GDP growth of 2.2 % by 2050**, if accompanied by structural reform and green innovation (European Commission, 2018). European Commission (ibid.) modelling of the decarbonisation of the EU economy has resulted in a consistent message that it will have a **limited impact on GDP** (either positive or negative). An analysis of selected climate impacts reveals that keeping the global temperature rise

at 2 degrees Celsius compared to 1990 levels could save **€160 billion per year** in welfare losses (European Parliament, 2019; Ciscar et al., 2018). Another assessment related to EU dependency on fossil fuel imports shows that by continuing on the path towards a carbon neutral economy in 2050 welfare losses could fall by 70 % and result in savings of **€100 to 150 billion per year** on average from 2031 to 2050 (European Commission, 2018). Achieving increased energy efficiency in the range of the EU target of 32.5 % by 2030 would **increase GDP by 1.3 %** (in the most realistic scenario) bringing **€202 billion per year** in economic benefits (European Parliament, 2019).

With regard to the energy market, full integration could result in potential gains for the European economy of at least **€29 billion per year**. This includes a benefit of €9.5 billion per year from phasing out regulated energy prices. Based on a more recent estimation, €229 billion of infrastructure investment is needed between 2021 and 2030 in the EU, meaning that even small improvements in the efficiency of market integration could amount to a large absolute sum of money (Newbery, Strbac and Viehoff, 2016).[18]

In the context of the current crisis, the fall in fossil fuel and carbon prices, alongside lower energy consumption due to the economic slowdown, might influence EU GHG emissions positively, investments in energy efficiency negatively and uptake of clean technologies, which still significantly depends on public support schemes, positively and/or negatively. Current lower energy consumption makes the achievement of the 2020 renewable energy and energy efficiency targets more likely. However, it remains to be seen if these tendencies will persist in the long run when economy activity resumes. It will also depend on the economic recovery measures pursued. (Wilson, 2020). To ensure further green growth in the EU, the regulatory framework needs to continue delivering the right signal to markets. More economic benefits from ambitious decarbonisation before 2050 can be expected (0.5 % more in EU GDP) if there is a global coordinated action on the climate in line with the Paris Agreement as opposed to fragmented action (European Commission, 2018).

## 6.2. Fostering EU research and innovation

Research and innovation (R&I) are key to economic and societal prosperity as well as to sustainable development. A wide range of studies have underlined their importance for economic growth, for the creation of new and better jobs, for improvements in health and for the alleviation of climate change (European Commission, 2017). One fifth of the world's research and development (R&D) investment is accounted for by the EU. With more than 1.8 million researchers, the EU is home to the largest number of researchers in the world. China and the United States follow with 1.6 million and 1.3 million researchers respectively (European Commission, 2018).

Over two thirds of the economic growth of recent decades derives from R&I, which accounts for 15 % of all productivity gains between 2000 and 2013 (European Parliament, 2018). Studies indicate that EU-funded research has been characterised by considerable growth in terms of participating entities, resulting in a wider set of networks and helping to create a critical mass in research (Breschi and Cusmano, 2004; Rodiger-Schluga and Barber, 2008; European Commission, 2012).

Although, according to Eurostat[19] figures, R&D investments have been on the rise since 2018, most Member States still lag behind the 'Barcelona target' of investing 3 % of GDP in R&I (European

[18] Based on an estimation by Haesen E. et al., [Investment needs in trans-European energy infrastructure up to 2030 and beyond. Final report](), Ecofys.

[19] Eurostat [R & D expenditure](), March 2018.

Parliament, 2017). The European Commission estimates that completion of the European research area (ERA) and transnationally coordinated funding could benefit the EU economy by **€16 billion a year** (0.25 % deriving from additional GDP growth on top of the 0.92 % additional growth expected from Horizon 2020, the EU flagship programme for research. Moreover, improved coordination of transnational funding would create 323 000 new jobs. In 2016, a cost of non-Europe report on the European research area drafted by the EPRS (European Parliament, 2016) identified an 'implementation gap' of 19 % in the ERA. On the basis of a distance-to-target calculation, it was estimated that these shortcomings could amount to up to €3 billion per year in foregone GDP.

Horizon Europe, the planned successor to the EU's Horizon 2020 research and innovation framework programme, is estimated to bring an average GDP increase of 0.08 % to 0.19 % over 25 years (European Commission, 2018). The GDP gains for the EU compared to the baseline could range from +0.04 % in a low scenario to +0.1 % in a more optimistic scenario (including direct and indirect effects). The total impact on GDP could range from **€30 billion to €40 billion per year** over 25 years (€800 to €975 billion in total). Each euro invested could potentially generate a return of up to €11 and 100 000 jobs in R&I activities could be created by 2027, 200 000 by 2036 (European Commission, 2018).

# 7. Freedom, security and justice, and upholding EU values

Substantial progress has been made since creating an area of freedom, security and justice (AFSJ) became a major political objective for the EU 20 years ago. Within this area, free movement of people should be ensured, in conjunction with appropriate measures with respect to external border controls, asylum and migration, while also preventing and combating crime. At the same time, the idea is to build on EU values, notably democracy, the rule of law and fundamental rights (DRF).

The policy agenda in the area of migration and security was, however, fundamentally reshaped following the rapid rise in the number of asylum seekers and irregular migrants arriving in the EU in 2015 and a string of terrorist attacks. In particular, a number of 'crisis' measures were adopted to restore trust in the Schengen area, after several Member States reintroduced internal border controls. Taking these developments into account, 2019 EPRS research on the cost of non-Europe in the AFSJ pointed to a lack of consistent monitoring and enforcement of EU values and norms, as well as outstanding gaps in the EU's framework in certain areas.

These deficiencies have a significant impact at individual level, notably in terms of preventing the effective exercise of fundamental rights by EU citizens and third country nationals alike. These deficiencies also have a negative effect on budgetary spending, growth and tax revenues, estimated to be at least **€180 billion annually**. The lack of enforcement of EU values is being assessed in ongoing EPRS research.

The coronavirus pandemic has further highlighted gaps and barriers that need to be overcome in this area. First, the lack of consistent monitoring and enforcement of EU values and norms has allowed a number of EU Member States to transgress the borders of strictly proportionate measures limited in time and subject to regular scrutiny to tackle the coronavirus (European Parliament, 2020). Second, rather than seeing the coronavirus as a common health threat, Member States have treated it as a threat to to their public policy. As a result they reintroduced 'a complex web of parallel and incoherent national regimes restricting unilaterally the entry/exit of people internal border controls'.

Member States have also restricted crossings of their external borders, impacting among others asylum seekers, including those confined in overcrowded reception centres and those wishing to enter the EU for work. In the area of security, some positive developments are to be mentioned, including the EU stepping up its fight against cybercriminals wishing to prey on teleworkers and in the fight against domestic abuse. There are also initiatives for the digitalisation of justice, for instance concerning European Arrest Warrant procedures, which for the moment cannot lead to physical transfers of suspects or sentenced persons. However, no coordinated action has been taken so far to protect vulnerable groups, including people with disabilities, the Roma, asylum-seekers and prisoners. Finally, location-tracking measures under development in a number of Member States pose serious challenges to EU fundamental rights standards.

The above-mentioned research on the cost of non-Europe in the AFSJ discusses further EU action in four main areas, which have become even more pertinent in the light of the coronavirus pandemic: monitoring and enforcement of EU values; creating safe legal pathways for migrants and asylum-seekers to enter the EU; instilling a European law enforcement culture, in which national authorities share relevant information and judicial cooperation tools are used properly; and completing the Union's fundamental rights framework, including in the areas of violence against women, discrimination and (pre-trial) detention conditions.Such EU action would have significant benefits: it could allow individuals to enjoy their fundamental rights in full and make EU society more secure, open, fair and prosperous.

# 8. Multilateralism, international cooperation and sustainable development

The EU is a crucial actor in the global arena and its commitment to a rules-based multilateral order and to international cooperation is probably now more important than ever. The EU remains the world's largest trading power when accounting for trade in both goods and services. During the 2014-2016 period trade represented 16.8 % of EU GDP. The EU is also the biggest player in global development aid: EU institutions and Member States together provided €75.7 billion in official development assistance (ODA) in 2017 (European Parliament, 2019a).

In its external policies, the EU is committed to 'peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights' (Article 2(5) of the Treaty of Lisbon). Having played an active role in drafting the sustainable development goals, the EU and its Members States have also committed to implementing them in their domestic and foreign policies (European Parliament, 2019b).

On this basis, the EU has developed a trade policy aimed at promoting a level playing field that brings benefits to all, a rules-based trade liberalisation agenda that strives to go hand in hand with respect for human rights, labour, environmental, health and safety protection regulations (European Commission, 2015). The EU has engaged in several successful negotiations of trade agreements. In 2015, the EU-South Korea Free Trade Agreement entered into force, bringing an increase in EU GDP of approximately **€4.4 billion per year**. At the same time, free trade agreements are considered the second best option as opposed to multilateral negotiations, because they produce both trade-creation and trade-diversion effects, and they are less able to set broad-based rules.

Indeed, a key aspect of EU trade policy is its commitment to **multilateralism**, which represents the main road to achieving a broad-based set of trade rules taking into account the promotion of global public goods, e.g. on climate. Global governance arenas have recently seen emerging tensions, e.g. the US withdrawal from the Paris Agreement on Climate and the risk of 'trade wars'. One EPRS study (European Parliament, 2017) reported that if all WTO Member States were to raise their tariffs to the level of their WTO bound tariff, average tariff duties would rise from 3.6 % to 12.9 %.

Vicard (2018) finds that the economic consequences of this extreme trade war scenario would lead to a permanent loss of GDP for the EU of more than 4 %. The EU is the world biggest actor in **development aid**. Its potential for coordination is a crucial tool in terms of aid effectiveness because it avoids duplication and aid fragmentation, while enabling the possibilities of economies of scale and scope. Since 2012, there has been a growing focus on joint programming of EU and Member States' aid (European Commission, 2011). The new European consensus on development adopts a holistic approach to the 2030 agenda for sustainable development aid and integrates social, economic and environmental dimensions while keeping poverty eradication as a main goal (European Commission, 2016). The fulfilment of the target of dedicating 0.7 % of GDP to development aid is envisaged within the timeframe of the 2030 Agenda, but, despite this, not all EU Member States are on track.

Preparation of the Neighbourhood, Development and International Cooperation Instrument (NDICI), a major reform of development cooperation instruments geared towards greater coordination and consistency, is now close to completion (European Commission, 2018). With a proposed budget of €89.2 billion over the 2021-2027 period, the NDICI will support a radical change in the management of external financing, merging several tools, including the Development Cooperation Instrument and the European Development Fund.

An EPRS study of the potential benefits of greater coordination in aid found that the overall range of potential yearly benefits resulting from this calculation is **between €3.6 billion and €14.5 billion** (European Parliament, 2013; European Parliament, 2019). The new instrument could tap into some of these potential gains.

The coronavirus pandemic is a global shock, making international cooperation efforts all the more necessary (European Parliament, 2020). Given its nature as a global public good, the added value of coordinated public action is high (Fuest and Pisani-Ferri, 2019). Support for developing countries is crucial in this respect. A study by Imperial College (2020), envisages peak demand for critical care beds in low-income countries that outstrips supply by a factor of 25. The UN (2020) is calling for a US$2 billion in humanitarian relief for a health recovery plan for developing countries; while UNCTAD (2020) is suggesting a Marshall Plan to collect a quarter of the aid missing from countries not complying with the commitment to keep 0.7 % of GDP for official development assistance.

Rescue packages with a global reach are necessary, including coordinated action to address the financing gap that many developing countries are now imminently facing. For example, UNCTAD (ibid.) is calling for a number of measures, including more expansive use of IMF special drawing rights for liquidity shortfalls of developing countries, and ways to lighten the burden of debt. The reorganisation of value chains after major disruption will require global governance. The manufacturing sector has been hit by a triple crisis: supply-side, demand-side, and value-chain contagion. The six hardest-hit economies are at the heart of a myriad of international supply chains, where each is an important supplier of industrial inputs to the other and to third nations (Baldwin and Tomiura, 2020). The EU can be key to promoting global governance of these new challenges.

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European integration has been key to driving economic growth for half a century, generating significant gains in gross domestic product (GDP) for EU Member States both collectively and individually. This EPRS paper focuses on the economic benefits of common action and what is at risk if the current coronavirus crisis and its aftermath were to stall or reverse the process of European integration.

It attempts to quantify the losses entailed if the economic downturn caused by the pandemic were to result in the gradual dismantling of the EU project, and a parallel failure to take advantage of the unexploited potential of collective public goods that could yet be created. In this respect, the study makes use of two complementary concepts: European added value, which attempts to identify the benefit of existing collective action at European level, and the cost of non-Europe, which assesses the benefits foregone of not taking further action in the future.

Even cautious estimates suggest that dismantling the EU single market would cost the European economy between 3.0 and 8.7 per cent of its collective GDP, or between €480 billion and €1 380 billion per year. In parallel, the potential cost of non-Europe in 50 policy fields was identified by EPRS in 2019 as around €2.2 trillion or 14 per cent of EU GDP (by the end of a ten-year running-in period). It follows that if both problems were to develop at once, the EU economy would eventually be between 17.0 and 22.7 per cent smaller than might otherwise be the case. (This is in addition to any direct contraction of the economy as a result of the coronavirus crisis itself, which could be around 7.5 per cent of GDP in 2020, or €1 160 billion).

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