

WHY THE EU NEEDS AN EXCESS PROFITS TAX

AN EXPLORATIVE ANALYSIS OF THE BIGGEST
AND MOST PROFITABLE COMPANIES

CHRISTOPH TRAUTVETTER

Agence Europe

About the author:

Christoph Trautvetter // Coordinator and Research Officer of Tax Justice Network Germany (Netzwerk Steuergerechtigkeit Deutschland).



B-1047 Brussels, Belgium

+32 (0)2 283 23 01

left-communications@europarl.europa.eu

www.left.eu



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EXECUTIVE SUMMARY:

FOUR REASONS WHY THE EU NEEDS AN EXCESS PROFITS TAX

In 2022, during the energy crisis, the EU introduced a windfall profits tax on oil and gas companies, reviving a crisis measure used after the First and Second World Wars. The acute crisis is now over, but many others are looming, and it's time to draw lessons and look ahead. Building on a growing debate, this study suggests a general and permanent tax targeting persistent excessive profits to address the crisis of inequality and democracy caused by big corporations that have become too big to regulate and to control democratically. It provides new data analysis on 209 of the biggest and most profitable companies, explores these companies in more detail and tells the story behind their excess profits to illustrate why the EU needs an excess profits tax. Throughout the different industries and companies four main reasons emerge.

1. TAXING WINDFALL PROFITS ONCE IS NOT ENOUGH TO FINANCE THE TRANSITION

When gas prices climbed to new historic records and oil prices nearly reached the record of the last big oil crisis in 1980, oil and gas companies earned roughly EUR 200 billion to EUR 300 billion in windfall profits from European customers. The EU's solidarity contribution collected roughly EUR 20 billion of these profits. Considering the reluctance of big member states like Germany against such a tax, this was a big achievement. But it was only possible because prices jumped from very low to very high levels in a very short period. Coming from this high level, another such jump is very unlikely to happen again any time soon, and obvious windfall profits of this magnitude are very rare. But many big companies from different

"[...] the 209 biggest and most profitable companies globally realized excessive profits of nearly EUR 2 trillion in 2022, EUR 310 billion of that in the EU"

industries, including the big oil and gas companies, continue realizing profit margins that persistently exceed the normal rates expected in competitive markets. Using a definition from the OECD, the 209 biggest and most profitable companies globally realized excessive profits of nearly EUR 2 trillion in 2022, EUR 310 billion of that in the EU. A progressive excess profits tax of 20 to 40 per cent on those profits could collect roughly EUR 107 billion per year within the EU – more than half the EU's budget of EUR 170 billion per year.

With such a tax, the 25 biggest oil companies would pay roughly EUR 25 billion every year, Microsoft would pay EUR 4 billion, and LVMH and Philip Morris would each pay up to EUR 1 billion. This money could be used to boost public investments, fight inequality and finance the transition to a digital and green economy.

ESTIMATE OF EXCESS PROFITS AND EXCESS PROFITS TAX INCOME (2022, IN EUR BILLION)

	Number of companies	Excess profits globally	Excess profits allocated to the EU	Excess profits tax income in the EU (different tax rates)		
				25%	20-40%	50%
OECD Pillar One	106*	780	131	33	40	66
Including Big Banks and Big Oil	209*	1.850	310	78	107	155
Lowering threshold or profit rate	10.000	3.000	503	126	?	252

*Companies selected following the method of the OECD's Pillar One

2. THE MOST PROFITABLE COMPANIES OFTEN AVOID TAXATION MOST AGGRESSIVELY

Over the last twenty years, Microsoft has avoided approximately EUR 300 billion of tax. With an average tax rate of only 20 per cent over the last twenty years and a tax rate of 13,2 per cent in 2022, Microsoft paid nearly half of the statutory tax rate in the US over most of the period and much less than its European competitors. The US tax reform of 2017 cut the statutory tax rate and reduced the effective tax rate of the biggest US bank (JPMorgan) by about 10 per cent. It also claimed to reduce lowly taxed offshore profits but created a special tax regime that allows companies like Alphabet, Pfizer or Nike to continue paying only 13 per cent on their profits earned in Europe and shifted to the US. That is nearly half the rate of around 25 per cent for their competitors in most EU countries. Thanks to special tax regimes in the source countries, Big Oil, on average, pays higher taxes. But Shell still shifted roughly 10 per cent of its profits to Singapore where it benefits from a special tax regime and booked only 1 per cent of taxes. An excess profits tax could help to re-establish a level playing field for small and medium-sized companies.

AVERAGE TAX RATES BY GROUP¹

	All companies	US-based companies	Others
Big Tech	12,5%	12,5%	12,3%
Big Pharma	15,8%	12,4%	19,7%
Big Banks	19,5%	17,3%	20,2%
Big Brands	23,1%	18,7%	28,5%
Other	24,9%	19,8%	27,9%
Big networks	30,2%	26,1%	31,7%
Big Oil	32,1%	30,7%	32,4%

3. REGULATION AND ANTI-TRUST ARE NOT ENOUGH TO CONTROL CORPORATE POWER

In the financial crisis, several banks were too big to fail, and it seems that despite some regulatory efforts, the casino of the financial markets hasn't been closed. Instead, the biggest US bank (JPMorgan) has nearly tripled its assets and increased profitability beyond the pre-crisis level. Likewise, there were many attempts to strengthen competition against the big technology companies or within the European electricity markets, but they have largely failed to address the dominant position and the resulting rents

¹ Adjusted for exceptional items such as discontinued business or big value-adjustment

earned by the biggest companies globally or at the national level. The big technology companies from the US paid slightly more than EUR 10 billion of EU fines in the last 20 years, which is only approximately as much as the sum of their excess profits earned in the EU every year. And sometimes, regulation might actually be the source of sustained excess profits – like in the case of excessive patent protection in the pharma industry. In most cases, the result is high profitability, feeding further growth of corporate power. In these cases, an excess profits tax could serve as a backstop where and while attempts at regulation or anti-trust fail.

4. THE BIGGEST COMPANIES ARE TOO BIG FOR FUNCTIONING MARKETS AND DEMOCRACY

The world will most likely fail to reach the sustainable development goals or even less to end poverty until 2030, but it might well see its first trillionaire within the next ten years, according to [Oxfam's Inequality report](#). Big corporations and their owners outrank most nation-states in terms of economic resources, and they drive inequality. Together, the 209 most profitable companies and their billionaire owners employed more than 25 million people and earned EUR 15 trillion in revenues. That is more than the adult population in all EU member states except Germany, France, Spain, Italy and Poland and equals the EU's GDP. This inequality and concentration of power endangers the functioning of free markets because, with their excessive profits, the biggest companies can outspend any competitor and grow even bigger. And it endangers democracy because money buys power. The modest excess profits tax suggested in this study won't be enough to quickly change that but it will give people back their belief that democracy can make a difference. After all, what is the democratic justification for a situation where entrepreneurs in millions of small and medium-sized pay more taxes than a few hundred of the biggest and most profitable companies and don't manage to change that?

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INTRODUCTION

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INTRODUCTION

Throughout Europe, support for taxing crisis profits increased when everyone had to stay home because of the Corona-virus and business at companies like Amazon, Netflix or Zoom exploded. And even more so when petrol prices jumped at gas stations. But underneath those two crises there is a much bigger one that should make us rethink corporate taxation. In many countries and across various sectors, a few huge companies control increasing shares of the market. And with these increasing market shares comes increasing corporate power, profits and profitability which helps the companies to grow even faster.

Taxation is both a part of the problem – because the biggest and most profitable companies often reduce their tax rates most aggressively and successfully – and could be part of the solution. Over the last twenty years Microsoft has paid hardly half the tax rate of its European competitors. If for the next twenty years Microsoft would pay double their rate, this could re-establish a level-playing field and on the way collect the necessary funds for a successful transition into a world of artificial intelligence and climate crisis. This study makes the argument why such a tax is necessary and uses concrete examples to illustrate how it would work.

FROM CRISIS PROFITS TO EXCESS PROFITS

In the recent past, several attempts have been made to identify and define – in a legal sense – crisis or windfall profits. Following the Corona crisis, a study estimated that large multinational companies had increased their profits by EUR 364 billion in comparison to the trend-adjusted earnings of the previous years (Dubinina et al, 2021). This illustrated how several big corporations continued to thrive despite the crisis. But comparing pre-crisis and post-crisis profits doesn't distinguish between profits earned through entrepreneurial initiative and pure luck. During the discussion around taxing windfall profits after the Corona crisis, many observers understandably questioned why the restaurant owner that quickly shifted to home-delivery, the innovative company

that provided reliable tools for online conferences or the scientists that created life-saving vaccines in record time shouldn't be allowed to keep their extra profits. An analysis prepared for the European Parliament (2022) argued that in such a situation levying a solidarity tax from everyone that continues to make profits or to own significant wealth despite the crisis might be the better way.

When, in autumn 2022 and in the wake of the energy crisis following the Russian invasion of the Ukraine, the EU introduced a solidarity contribution, things were markedly different. Nearly all companies from a clearly delineated industry had amassed huge windfall profits thanks to the increase in the prices for oil and gas to historical records. As a result of this price increase and the way the European electricity markets are designed, many energy producers also earned huge windfalls. And because energy markets are highly regulated, revenues could rather easily be capped. But due to limitations and mistakes of the design of both measures, they will most likely collect only a very small share of the windfall profits. Some of the source countries of the oil and gas such as Saudi-Arabia have been much more successful in taxing windfall profits using windfall profit taxes preceding the current crisis.

The energy crisis and the EU measures have raised at least three important questions related to windfall profit taxes:

1. Could those crisis measures be institutionalized as a tool against future crises?
2. Could they be used for or extended to other sectors such as the food industry that saw marked price increases in the wake of the crisis or the weapons industry that is set to increase turnover and profits following the increase of military expenditure in many countries?
3. Could there be a faster and easier way to determine windfall profits?

Some of these questions can now be answered. The increase of profits in the oil and gas industry was rather unique in scale and focus and the modest success of the solidarity contribution in collecting additional resources despite its flaws can't be easily repeated. It also came too late to stop the huge inflationary ripple-on effects. Using stock price increases would be a faster method of identifying excess profits (Francois et al., 2022) but it is more unreliable and faces the problem of distinguishing windfall profits from "normal" business success. Last but not least, recent research seems to suggest that price controls and market interventions might be faster and more suitable tools to avoid inflationary effects from systemically significant prices for basic products such as energy, food or housing (Weber et al., 2024). Does that mean we don't need the tax? Or maybe just a different one?

FROM THEORY TO PRACTICE

Instead of a windfall profit tax, in a paper published September 2022, Hebous et al. (2022) argue for a general, permanent and internationally coordinated excess profits tax building on the OECD's Pillar One. Another paper published in October 2023 (Heck et al., 2023) suggests a progressive excess profits tax of 20 to 40 per cent and estimates its potential tax revenue for the EU at EUR 126 billion for 2022. In line with these two papers, this study calls for an excess profit tax targeting persistently excessive profitability resulting mainly from increasing corporate power. It adds to the growing body of research and the political debate around the tax in two ways. First, it gives an updated and extended overview of where such excess profits can be found and how big they would be using different benchmarks up to 2023. And second, it provides illustrative examples and in-depth analysis of individual companies to build the case for the tax and to explore its consequences for example around the distribution of excess profits among countries.

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INTRODUCTION

METHODOLOGY



METHODOLOGY:

IDENTIFYING EXCESS PROFITS FROM CORPORATE POWER

One of the key lessons from the energy crisis is that some companies used their price-setting power to protect or even increase their profits in times of crisis (Weber and Wasner, 2023). But even before the crisis, a growing body of literature had shown how increasing concentration and market power are linked to increasing profit margins. For example De Loecker and Eeckhout (2021) show that markups – a concept often used to measure market power – as well as profitability had increased globally from 1980 to 2016 and that this increase was driven by the upper tail of the distribution, i.e. the biggest companies. These increases were particularly strong after 2010. And they were concentrated in North America, Europe and Oceania, and within Europe especially in Denmark and Italy, while they were less pronounced or absent in Asia, Africa and most South American countries. Portugal was the only European country with a decrease of markups. Likewise Weche and Wambach (2018) find strong increases of markups in most European countries after 2012 and the European Commission (2019) finds increasing market power and concentration driven by “superstar firms” and limitations of competition in certain areas such as electricity, telecommunication, pharmaceuticals, automotive industry and the digital economy. Finally Gibbon and Schain (2023) show how common ownership of competitors by the same investors can drive markups.

The most logical answer to rising profitability driven by market power is competition and anti-trust policy. But tax policy plays an important role both as a source of and solution to increasing concentration. On the one hand, in the last years the biggest and most profitable companies have often paid the lowest tax rates. This can at least partly be explained by the current international standards of corporate taxation. These standards use the so-called arms-length principle (hereafter “ALP”) to allocate profits between subsidiaries of the same company using “typical” prices charged by independent competitors. This leaves companies making “untypically” high profits with more leeway to shift profits to tax havens. On the other hand, an excess profit tax could work as sort of a backstop and capture a big part of the monopoly rents in cases where competition policy

is too slow or unsuccessful. More generally, a higher tax on companies with higher profits or higher profitability – i.e. a progressive corporate income tax – would treat corporate profits more like labour income that is taxed progressively in most European countries.

DEFINING EXCESS PROFITS

While windfall profit taxes are based on the idea that exogenous shocks create temporary “undeserved” increases in profits, the excess profits tax proposed here targets profits that exceed “normal” profits at levels and over a longer period of time than justified by competitive markets. In economic theory there are different ways to measure profitability. Heck et al (2023) define excess profits as a ratio of profits over assets and use a limit of 10 per cent for “normal” rates of return and a limit of 15 per cent for “super excess profits”. Hebous et al (2022) argue that a tax based on return on capital could theoretically be an efficient, investment-neutral tax targeting rents and could potentially replace corporate tax altogether. They show that most historic excess profits taxes, i.e. in Canada (1916 and 1940), Denmark, France, Germany, Italy and UK (1915), Holland, New Zealand, Russia, Spain (1916) as well as the US (1917 and 1940) used return on capital rates between 5 and 10 per cent as the one or the only way to define excess profits.

Unlike those historical examples, the OECD’s Pillar One uses return on revenue ratios to identify so-called residual profits, i.e. profits that exceed a ratio of 10 per cent. In fact, return on revenue has replaced return on capital ratios considered at the early stages of the proposal.

In the following analysis we use the same criteria of the OECD proposal (OECD, 2023a) to identify excess profits. In particular we use the profitability test (ratio of pre-tax profit to net revenue greater than 10 per cent) and the temporal perspective (also passing the profitability test in the previous two years or in at least two of the previous four periods with the average exceeding the 10 per cent margin for the current and the previous four periods).

Commonly used profit ratios

Profit ratios usually relate profits – sometimes before interest and/or tax (EBIT) – to...

...the stock price (price-earnings ratio);

...capital employed (ROCE) or assets (ROA). There is no uniform definition of those ratios but they are usually inferred from the assets on the balance sheet, sometimes after deducting short-term liabilities, or by the long-term liabilities and shareholder capital – which is usually equivalent. But the valuation of the assets strongly depends on the accounting standard used and its interpretation.

...on equity (ROE) using only shareholders capital, i.e. assets without third-party liabilities and is therefore influenced by the ratio of equity to debt.

...revenue (ROR). This is among the simplest and most widely used ratio often known as profit margin. Without using data from the balance sheet it can provide information on the competitiveness of a company in comparison to other companies from the same industry. The ratio can be based on gross profit (only deducting cost of goods sold), operating profit (also deducting overhead costs) or net profit (deducting all other costs such as interest or taxes).

ALLOCATING EXCESS PROFITS

According to the most widely used international tax standard, profits within a corporate group are allocated based on the ALP between its subsidiaries and its establishments in different countries. Basically, this principle tries to identify comparable prices that independent competitors would pay for the transactions in question. For many transactions – such as the distribution of goods or marketing – there are readily comparable industry benchmarks. But after accounting for these “basic” costs many of the biggest multinational corporations earn additional profits. In the theory of the ALP these are allocated according to the so-called DEMPE functions, i.e. to the places where development, enhancement, maintenance, protection and exploitation of the brand name, patents, software or other intangible assets leading to those profits takes place. But in practice the theory leaves a lot of discretion and leads to massive profit shifting.

That's why the OECD in its Pillar One has suggested to allocate 25 per cent of all profits beyond the 10 per cent margin to the countries where the customers are located. In essence, this share of profits to be redistributed is the result of political negotiations. Several authors (Hebous et al, 2022) argue that because customers can't be easily shifted to other places, some or even all profits should be allocated to where the customers are or suggest to replace corporate income tax with a destination-based tax altogether (Auerbach et al., 2017). The ongoing debate around the OECD's Pillar One has shown that identifying the destination of products and services isn't always as straight-forward as some people had hoped and not free of discretion. But it has delivered detailed rules for such an allocation mechanism. In its simplest form – and as a backstop to a more realistic allocation – this mechanism allows revenues to be allocated according to the destination country's share of global GDP.

The OECD's allocation rules for Pillar One

Article 7 as well as Annex D of the draft Multilateral Instrument published on the 11th of October 2023 the OECD suggest a whole range of ways to allocate (source) revenues to jurisdictions. The allocation and the method to be used for the allocation depends on the category of the transaction (i.e. sale of finished goods, provision of digital content, sale to a business customer, provision of various advertising and online intermediation services, passenger and cargo transport, licensing, sale or lease of user data or immovable property as well as government grants). A reliable method can be based on reliable indicators (i.e. those used for own commercial purpose) or an approved allocation key. If no reliable method is available a general allocation key (for components, services or general) can be used. For example, revenue from the sale of finished goods is allocated according to the delivery address of the final customer, the address of the retail store or the independent distributor and if that does not work, a regional allocation key or the lower income jurisdiction allocation key and as a last resort the global allocation key. For most online services the usual indicators would be user profile information, geolocation of the device and IP address.

Other suggestions to allocate or apportion profits include the formula suggested by the European Commission in its CCCTB proposal (EC, 2016). This formula allocates profits based in equal parts on the

location of customers (1/3rd), salaries and employees (1/6th each) and capital (1/3rd). In contrast the digital services tax enacted in France in 2019 uses a French presence ratio based mainly on the share of users for each of the taxable services based in France. And according to an overview prepared by the EU tax observatory, nine other countries had comparable rules implemented in 2023 (Borders et al, 2023), mostly using customer-location as the allocation key. More details how the different allocation keys influence the results can be found in the data annex.

FINDING EXCESS PROFITS

Unfortunately there is no reliable public data on corporate profits. Instead there are several, mostly commercial databases. These databases largely rely on public financial accounts. Because publication standards differ widely between countries and different company types and because it is inherently difficult to track companies through their name-changes, mergers, joint ventures and other

restructurings, this data has serious quality issues and usually requires a lot of manual cleaning. Most studies analysing financial data use [Orbis](#), arguably the most comprehensive database provided by Bureau van Dijk, a subsidiary of Moody's. Another commonly used dataset is [WorldScope](#) provided by Thomson Reuters which contains financial data for approximately 100.000 companies. The US-magazine [Forbes](#) provides a publicly accessible dataset for the 2.000 biggest companies globally identified according to their own methodology. Similarly, the [EU's Industrial R&D Investment Scoreboard](#) provides a free-to-use database of the world's top 2.500 companies and the 1.000 EU-based companies with the highest R&D investment with historical data until 2003 based on Orbis.

Using these databases, several studies have already provided estimates on the size of excess profits. In its most recent impact assessment for Pillar One the OECD uses cleaned and augmented data from Orbis until 2021. Based on the Pillar One criteria, the

Table 1 | THE BIGGEST COMPANIES AND THEIR EXCESS PROFITS BY GROUP

Group	Highest excess profits	Well-known	EU	No.	Excess Profits (2022, EUR billion)
Banks and financial industry ("Big Banks")	ICBC, China Construction Bank, Agricultural Bank of China	JPMorgan, Goldman Sachs, CitiGroup	Banco Santander, BNP Paribas, Credit Agricole, Unicredit	65	588
Oil, gas and mining ("Big Oil")	Saudi Aramco, Equinor, Petrobras		ENI, OMV	24	549
Digital and technology ("Big Tech")	Apple, Microsoft, Alphabet, Tencent, Meta			18	312
Pharmaceutical ("Big Pharma")	Pfizer, Johnson & Johnson, Merck (US)		Novo Nordisk, Sanofi, Merck (Germany)	15	97
Consumer brands („Big brands")	LVMH, Procter & Gamble	Coca-Cola, McDonalds, Nike, Philipp Morris	Inditex, L'Oreal	20	90
Telecom, energy, transport	Maersk, Verizon, China Mobile		Iberdrola	15	78
Others	Thermo Fisher, Kering, Accenture	Tata, 3M, Caterpillar, Lockheed Martin	ABB, Linde, L'air liquide, Schneider Electric	52	134
Total				209	1.848

Source: Own presentation based on financial data from Orbis, Forbes and EU Scoreboard using 10 per cent return on revenue as cut-off and for financial year 2022.

assessments finds 106 companies with residual profits of USD 820 billion (approx. EUR 780 billion). According to the OECD, these residual profits are strongly concentrated. Only 11 companies accounted for 50 per cent of the profits and 26 companies were responsible for 70 per cent of the total (OECD, 2023b). Heck et al (2023) include companies from industries excluded by the OECD's Pillar One (finance and extractives), use EUR 80 million instead of EUR 20 billion as revenue threshold, identify excess profits based on an asset ratio and don't control for previous years. Using Orbis data up to financial year 2022, they find 14.230 companies with excess profits of approximately 3.000 billion Euros². According to their analysis excess profits in 2022 were also significantly higher than in 2021.

Applying the OECD's Pillar One criteria to our dataset (without the elimination of certain industries) we identified 209 companies with excess profits of nearly EUR 2.000 billion for 2022. A more in-depth analysis of these companies shows:

- The biggest amount of excess profits is earned in the financial as well as the extractives industries. Excluding them – like the OECD Pillar One does – more than halves the excess profits captured.
- Research-intensive industries from digital services to pharma allow some very big companies to earn big excess profits.
- Big consumer brands manage to earn excessive profits with high marketing budgets and addictive products.
- Companies running networks for telecommunication, producing energy or providing transport are the smallest groups. These sectors and the natural monopolies they sometimes provide have been targeted by anti-trust efforts in the past.

- Big conglomerates active in many different industries, big industrial companies producing anything from chemicals and cement to tractors and weapons, complete the list of big companies with excess profits.

Overall the markets these companies are active in and the reasons that allow them to earn high profits are very different. But they have one thing in common: they have become too big and too profitable to be taxed like any other small and locally active business. And the global community led by the OECD has at least in theory agreed to tax them differently.

ESTIMATING EXCESS PROFITS TAX INCOME

The potential income from an excess profits tax depends strongly on the definition of excess profits as the base of the tax as well as the tax rate. And the tax income in the EU depends strongly on how taxing rights would be allocated. For our estimate of excess profits tax income we assume that 100 per cent of excess profits are redistributed³ and that 16.75 per cent of excess profits are allocated to the EU⁴. The resulting income from the tax in the EU ranges between EUR 33 billion per year using the narrowest definition of the OECD's Pillar One and a tax rate of 25 per cent to very roughly EUR 380 billion, if more companies are included and virtually all excess profits would be collected⁵. A tax that would cover the biggest 200 companies and collect an additional 25 per cent on top of their existing corporate income tax would result in a tax income of EUR 78 billion per year for the EU. A progressive tax of 20 to 40 per cent, as suggested by Heck et al (2023) would increase the income from the 209 companies of our analysis to EUR 107 billion.⁶

Table 2 | EXCESS PROFITS TAX INCOME DEPENDING ON DEFINITION AND TAX RATE (2022, IN EUR BILLION)

	Number of companies	Excess profits globally	Excess profits allocated to the EU	Excess profits tax income in the EU (different tax rates)			
				25%	20-40%	50%	75%
OECD Pillar One	106	780	131	33	40	66	98
Including Big Banks and Big Oil	209	1.850	310	78	107	155	233
Lowering threshold or profit rate	10.000	3.000	503	126	?	252	377

Source: Own presentation

2 The study only reports excess profits accruing in the EU (EUR 397 billion). It uses cbcbr data for 2018 to allocate profits to the EU, allocating on average 10 per cent of profits to the EU for companies domiciled in non-EU countries and 70 per cent for EU countries.

3 The allocation of taxing rights is both technically and politically highly contested. For its Pillar One proposal the OECD suggest to only redistribute 25 per cent of residual profits to the countries where the customers are based.

4 Aggregate cbcbr statistics of the OECD for 2019 is used to estimate the share of customers, employees and tangible assets of the reporting companies located in the EU and compare the results to the share of GDP, the backstop indicator suggested by the OECD, as a benchmark for our allocation key. The resulting profit share for the EU varies between 16,5 per cent (EC formula) and 17 per cent (revenues).

5 In combination with the average corporate income tax rate of 25 per cent, an excess profits tax of 75 per cent would tax nearly 100 per cent of the profits. An excess profits tax that would ensure a combined tax rate of 90 per cent for the excess profits of all 209 companies from our sample using their factual corporate tax rate would have yielded approximately EUR 200 billion for the EU in 2022.

6 Heck et al (2023) suggest a progressive tax of 40 per cent for profits exceeding the 15 per cent margin and 20 per cent for the 10 per cent margin.

The following table provides an overview of how the excess profits of the biggest 209 companies and the income from a progressive tax with rates from 20 to 40 per cent would be allocated to individual member

states according to different allocation keys and based on data from country-by-country reports for the year 2019.

Table 3 | EXCESS PROFITS AND TAX INCOME – ALLOCATION ACROSS THE EU (2022, IN EUR MILLION)

Europe	Excess profits based on different allocation keys			Excess profits tax income based on a progressive tax of 20% – 40%		
	Revenue	Formula	GDP	Revenue	Formula	GDP
Austria	9.303	9.478	8.655	3.211	3.272	2.988
Belgium	12.366	11.199	10.638	4.269	3.866	3.672
Bulgaria	488	797	1.637	168	275	565
Croatia	458	524	1.296	158	181	447
Cyprus	311	382	523	107	132	180
Czechia	5.406	5.890	5.348	1.866	2.033	1.846
Denmark	8.006	7.233	7.369	2.764	2.497	2.544
Estonia	134	154	697	46	53	241
Finland	5.448	4.195	5.201	1.881	1.448	1.796
France	57.943	56.038	51.093	20.003	19.345	17.638
Germany*	79.838	77.354	75.056	27.561	26.704	25.911
Greece	2.968	3.029	4.028	1.025	1.046	1.390
Hungary	2.737	3.611	3.296	945	1.247	1.138
Ireland	16.123	11.739	9.802	5.566	4.052	3.384
Italy	29.215	24.197	36.962	10.085	8.353	12.760
Latvia	140	242	756	48	84	261
Lithuania	321	514	1.293	111	177	446
Luxembourg	4.452	3.972	1.501	1.537	1.371	518
Malta	319	394	333	110	136	115
Netherlands	24.121	20.005	18.558	8.327	6.906	6.406
Poland	9.913	12.972	12.718	3.422	4.478	4.390
Portugal	2.316	2.690	4.632	799	929	1.599
Romania	2.263	3.908	5.535	781	1.349	1.911
Slovak Republic	1.179	1.852	2.123	407	639	733
Slovenia	711	675	1.104	246	233	381
Spain	25.425	30.542	25.693	8.777	10.544	8.870
Sweden	11.889	10.516	10.891	4.104	3.630	3.760
Total (EU)	313.792	304.105	306.737	108.327	104.983	105.891
Total (world)	1.848.210	1.848.210	1.848.210	638.035	638.035	638.035

Source: Own presentation

*A combined tax rate of 90 per cent on excess profits after accounting for corporate income taxes paid would have yielded approximately EUR 50 billion for Germany in 2022

Box – Putting the big numbers into perspective

To put the estimates of excess profits and potential tax income into perspective, it is helpful to compare them to corporate profits and corporate tax income globally. The Global Tax Evasion Report 2024 provides a good overview of the central figures for 2022. According to these numbers, global corporate profits amounted to roughly EUR 16 trillion and global corporate tax income was EUR 3 trillion of which about EUR 1 trillion currently ends up in tax havens. Corporate income tax collected in the EU totalled EUR 500 billion. The EU budget comprises payments of around EUR 170 billion per year.

INTRODUCTION

METHODOLOGY

**THE STORIES BEHIND
EXCESS PROFITS**



THE STORIES BEHIND EXCESS PROFITS

Taxing excess profits is not a new idea. Attempts to tax excess or windfall profits have been made after the First and Second World War, during the oil-crisis in the 70s and 80s and more recently in the wake of Corona and the current energy price crisis. But in comparison to those historic precedents the economic environment has changed significantly. This makes it necessary to explore the justification and central design questions for the tax in more detail. We use nine company cases from all six groups to explore those questions and illustrate potential answers. When are high profit rates excessive? What drives such profits? How do they relate to market power? Where do they accrue?

The following table gives an overview of the company examples and their excess profits calculated and allocated to the EU according to the methodology described in the previous chapter.

“Out of the 209 biggest and most profitable companies, 65 were banks and financial companies, together they made excess profits of EUR 589 billion.”

profits of EUR 589 billion. The banks that caused the financial crisis of 2008 with their excesses and were rescued at a high cost to society because they were too big to fail have returned to the pre-crisis profitability and have grown even bigger. JPMorgan was not only involved deeply itself in the often

Table 4 | EXCESS PROFITS AND TAX INCOME – ALLOCATION ACROSS THE EU (2022, IN EUR MILLION)

Company	Revenue	Profit before tax	Profit margin	Excess profits	Excess profits in EU	Excess profits tax EU	Excess profits tax rate
Saudi Aramco	566.629	288.259	51%	231.596	38.792	14.568	38%
Microsoft	190.883	80.597	42%	61.509	10.303	3.801	37%
JPMorgan	120.293	43.328	36%	31.299	5.243	1.896	36%
Pfizer	94.065	32.560	35%	23.154	3.878	1.394	36%
LVMH	79.187	20.112	25%	12.193	2.042	684	34%
Banco Santander	54.920	15.250	28%	9.758	1.634	562	34%
Philip Morris International	29.779	10.908	37%	7.930	1.328	481	36%
Sanofi	46.730	10.422	22%	5.749	963	307	32%
Iberdrola	54.860	6.292	11%	806	135	27	20%

Source: Own calculation. Allocating 16,75 per cent of profits to the EU and using a progressive tax rate of 20 to 40 per cent.

BIG BANKS: TOO BIG TO FAIL?

The biggest companies: Out of the 209 biggest and most profitable companies, 65 were banks and financial companies, together they made excess

fraudulent real estate deals that caused the crisis but also took over several other crisis-hit banks. With profits of EUR 43 billion it was the third biggest bank in 2022. All other top five were Chinese banks.

The market: Financial services are excluded from the OECD's Pillar One. The OECD argues that the sector is "subject to a unique form of regulation, in the form of capital requirements [...] that generally helps to align the location of profits with the market" (OECD, 2022). But even if that was true, this doesn't mean that financial institutions don't make excessive profits or don't shift profits to tax havens.

Next to insurance and asset management firms, banks are the main financial institutions. Analysing their excess profits requires a closer look at the financial reports because they are somewhat different from other companies. For the majority of banks, net interest income is the main source of revenues. Net interest income is essentially the difference between the interest banks charge their customers and the interest they pay to their customers for their deposits. On top of this, they pay and earn interest from their business with central banks. In addition, especially the bigger banks earn commissions for wealth management and consultancy.

The net interest income of many banks has gone up in 2022 and 2023 mainly for two reasons. First, after the financial crisis of 2008 many central banks lowered their interest rates to historical lows and bought a lot of securities from the banks. In reaction to the

and the low interest income from the securities acquired after the financial crisis.

These developments revived the discussion about excessive profits of the banks and several EU countries, including Spain, Italy and Czech Republic⁸ have introduced additional taxes on banks for 2023 and following years. These taxes differ in many aspects including the time period, the companies covered and the tax rate as well as in terms of the tax base. The Czech Republic introduced a windfall tax on profit-increases compared to previous years. Italy also uses a historical comparison but uses the interest margin rather than pre-tax profits. Finally, Spain introduced a tax of 4.8 per cent on all net interest and commission income without a historic comparison. This tax in Spain is expected to collect EUR 1.3 billion for 2023. Spanish banks argued against the tax [arguing that banks' profitability](#) (measured as return on equity) was below the industry average in the last years and that the additional tax would decrease profits and thereby capital available for lending. In its opinions on the tax proposals in [Spain and Italy](#) the ECB acknowledges the tendency of increasing net incomes when policy rates increase but points to offsetting effects later in the cycle and warns against weakening capital building.

Table 5 | EXCESS AND WINDFALL PROFITS TAX ON BANKS IN THE EU

Country	Validity	Conditions
Spain	2023-2025	4,8% on net income on interests and commissions
Czech Republic	2023-2025	60% on pre-tax profits exceeding profits of 2018-2021 by 120%
Italy	2023 (once)	40% of interest margin exceeding margin of 2021 by 10%

Source: Based on Allen & Overy (2024) Own calculation. Allocating 16,75 per cent of profits to the EU and using a progressive tax rate of 20 to 40 per cent.

inflation resulting from the energy crisis, they quickly raised interest rates in 2022.⁷ Historically, higher interest rates tend to go together with higher net interest income (source). In line with this trend many banks increased the interest on their loans faster than on their deposits (Walker, 2023). Second, the net interest income of central banks throughout most of the Eurozone turned negative for the first time in a long while. In 2023 the ECB posted a negative net interest income of EUR 7 billion and for the German central bank the loss even added up to EUR 14 billion. This partly results from the interest paid to the banks

JPMorgan and how regulation failed to close the casino: During the financial crisis of 2007/2008 many banks were rescued creating the impression that they might be too big to fail. But for JPMorgan the crisis meant above everything else growth. It took over the investment bank Bear Stearns and the savings bank Washington Mutual to save them from bankruptcy. At the first signs of crisis in 2023 this story repeated itself and JPMorgan took over the failing First Republic Bank. As a result of these mergers JPMorgan now nearly holds three times as many assets as in 2006. Through this spectacular growth, profitability remained surprisingly stable.

⁷ A historical overview of interest rate decisions of the ECB can be found under: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

⁸ Hungary also introduced an additional taxes on banks and the Ukraine increased the corporate income tax applicable to banks but the tax and the situation in both countries is quite different.

Due to provisions for bad loans it went down from 32 per cent before the crisis to only 4 per cent in the crisis year 2008 but by 2014 it had recovered its pre-crisis level and has since then climbed to 39 per cent. On top of that, the Tax Cuts and Jobs Act passed by Donald Trump at the end of 2017 slashed its effective tax rate by about 10 per cent. After distributing roughly 30 per cent of the after-tax profits to its shareholders, the remaining profits were not used to strengthen the equity ratio – that stayed at pre-crisis levels of approximately 8 per cent – but to finance growth.

Table 6 | KEY FIGURES JPMORGAN (USD MILLION)

	2006	2017	2023
Total assets	1.351.520	2.533.600	3.875.393
Revenue	61.999	99.624	158.104
Profit before tax	19.886	35.900	61.612
Tax	6.237	11.459	12.060
Profit margin	32%	36%	39%
Return on equity	17%	14%	19%
Return on assets	1%	1%	2%
Tax rate	31%	32%	20%

Source: Own presentation based on financial statements

James Dimon and his interpretation of crisis

James Dimon has been CEO of JPMorgan since the end of 2005 until today. In this time, his compensation saw a comparatively modest increase from USD 27 million to USD 35 million. Because a big part of this compensation is in shares, he profits from dividends and value increases of the bank. This makes him one of the best paid CEOs and a billionaire with a wealth estimated at USD 2.1 billion according to Forbes.

In his annual letter to JPMorgan's shareholders he regularly reflects on current political developments. On 61 pages his **letter for 2023** warns of a "potentially dangerous world" and the looming consequences of years of deficit spending and quantitative easing. At the same time he praises the bank's number one position in many markets and the growing market share – in the face of "extraordinary competition" – and his contribution to generating a total

return of 12,1 per cent per year to the shareholders of "Bank One" since he joined as CEO. He also stresses the amount of taxes paid by JPMorgan in the US (USD 46 billion) and abroad (USD 22 billion) over the last ten years and calls this a "fair share". But most interestingly, he closes his letter with two suggestions how to fix "America's torn social fabric" as a result of the "gap between low-wage and well-paid workers" that "has been growing dramatically". He suggests to more rigorously evaluate schools with respect to the income level their graduates achieve and to increase the tax subsidy for low- and moderate-income working individuals through Earned Income Tax Credit without saying where the money should come from. What he doesn't mention: That his bank just got a ten percent tax cut when it needed it least or that his excessive pay might be part of the problem.

Chinese and European banks: JPMorgan is the biggest and most profitable bank from the US but two Chinese banks are even bigger and more profitable. The main reason for this is that they spend less on compensation. While JPMorgan spent 32 per cent of its revenue on compensation and a total of 59 per cent on costs, the total costs for China's biggest bank (ICBC) only added up to 29 per cent. The European bank with the biggest excess profit – Banco Santander from Spain – lies somewhere in between. It spent 24 per cent of its revenue on staff and was overall slightly less profitable than its US and Chinese peers. Compared to pre-tax profits of EUR 16.5 billion the EUR 225 million booked for the 4.8 per cent extra levy in Spain only marginally affected this result. Considering the planned shareholder remuneration of EUR 5.5 billion⁹ the additional levy also didn't have a significant effect on the capital of the bank. But this didn't stop its CEO to warn that the levy would hit the economy: "If 3 billion of capital comes out of the sector it takes away 50 billion euros of lending capacity."

Conclusion: Banks are special in various ways. Their business is highly regulated and their balance sheets look different from other companies. But that doesn't mean they don't earn excess profits and shouldn't be taxed accordingly. Several European countries have already started doing so and show that it can work. The argument of the European Central Bank and the CEO of Santander that this takes capital out of a vital sector and the economy as a whole is not convincing at least for the biggest banks. They have

⁹ 50 per cent respectively as cash-dividend and share-buyback

proven to be too big to fail and too big to regulate in the financial crisis of 2008. Since then they have used the additional capital from their excessive profits to grow even further and distributed them to their shareholders or as excessive bonuses to their managers. Even though most of the biggest and most profitable banks are Chinese or US-American, many EU countries are still paying the debt from the financial crisis and the EU should include the banks in its efforts to tax excessive profits.

The right profit ratio for banks

As discussed before, we follow the OECD's Pillar One methodology using return on revenue rather than return on asset ratios. In studies that use return on asset ratios (e.g. Heck et al, 2023) excess profits in the financial sector are very small. The example of JPMorgan shows why. Banks don't use machines to produce things but give out loans to realize interest margins. That's why their relation between profit (interest margin minus costs) and assets (loans) is smaller. In addition, compared to companies from other industries they are highly leveraged, i.e. using comparatively little equity to finance their books. This helps them to realize high returns on equity despite low returns on assets. The big Chinese companies don't charge higher interest and tend to have lower returns on equity and on assets than for example JPMorgan but their profit margin is bigger because they spend much less on compensation and other costs.

BIG OIL: WINDFALL PROFITS FROM THE ENERGY CRISIS

The biggest companies: Both in 2022 and 2023 Saudi Aramco was the biggest and most profitable company worldwide and with a big margin. With a pre-tax profit of EUR 290 billion in 2022 and EUR 219 billion in 2023 Saudi Aramco earned nearly twice as much as the company with the second highest profits (Apple). Among the ten companies with the biggest profit, four were oil companies. Among the 209 biggest and most profitable companies 24 were extracting oil, gas or other natural resources. Together they made excess profits of EUR 549 billion in 2022. Several of the biggest oil companies are wholly or largely state-owned (like Saudi Aramco with a global market share of about six per cent). Only two (Eni and OMV) had their headquarters in the EU.

“Among the 209 biggest and most profitable companies 24 were extracting oil, gas or other natural resources. Together they made excess profits of EUR 549 billion in 2022.”

The market: Unlike in other markets no company or country alone has a dominant market share. But the biggest producer countries form an official cartel (OPEC+). When oil demand dropped during the Corona lockdown and prices fell to around 40 US-dollars per barrel, several less productive facilities were shut, leading to a shortage of supply and high prices when demand came back in 2021. The Russian invasion of the Ukraine in February 2022 hardly affected global oil production but the prices still increased beyond 100 US-dollars to levels last seen in 2011-2013 and 1979-1980 (after controlling for inflation). In 2023 prices have dropped to around USD 80 but remained high in historical comparison. In contrast to oil, supply in Europe depends more strongly on Russian gas pipelines, Russia couldn't simply reroute its gas and had to reduce production and the production of LNG from alternative sources was more expensive. So the effect of the Russian invasion on European gas prices was even stronger.

In addition to the global price for oil and gas, profitability of the big oil companies largely depends on the cost of production. This cost varies strongly depending on the source under exploration. The marginal costs per barrel are below USD 10 in Saudi Arabia, Iraq or Norway and can go above USD 100 for European biodiesel, Arctic oil from Russia or oil from Canadian sand. The same is true for gas from different sources. As a result, the profitability differs strongly between different companies. While Saudi Aramco earns margins of around 50 per cent and continued to make high profits even during the Corona crisis of 2020, many of the European companies reached margins of around 20 per cent only when prices reached crisis level in 2022 and even booked losses in several years before that. When the EU passed a mandatory windfall profit tax (solidarity contribution) in autumn 2022 profits had increased dramatically from comparatively low values in the reference period to historic heights.

The profits and their allocation: According to the International Energy Agency (2023) net income¹⁰ of the oil and gas industry reached USD 4 trillion globally in 2022, after averaging around USD 3 trillion between 2008 and 2014 and less than USD 2 trillion in 2015 to 2021. Several other studies have analysed the windfall profits from individual companies. According to Global Witness (2023) the five biggest Western oil and gas companies (ExxonMobil, Chevron, Shell, BP, TotalEnergies) earned USD 195 billion in 2022, of which USD 134 billion were windfall profits according to the definition of the EU's solidarity contribution. Combining profit increases and market shares we estimate profit increases compared to 2019 to add to around USD 1 trillion to USD 1,5 trillion (Trautvetter, 2024a). Based on consumption data, very roughly EUR 200 billion to EUR 300 billion of that windfall was "earned" in the EU. In contrast, the stocktaking of the European Commission on the solidarity contribution published in November 2023 estimates that the tax will collect less than EUR 20 billion (EC, 2023)¹¹.

Our examples illustrate what happened with the rest of the windfall profits:

1. Most of the profits in this group accrue in the countries where the oil, gas and other resources are extracted. Those countries collected a significant share of the windfall profits – but with very different success. Progressive taxes in Saudi Arabia or very high taxes on profits in Norway captured a big share of the windfall. In contrast, the US system, largely relying on fixed fees, resulted in very low taxation and in the UK various tax credits strongly reduced the effective tax rates despite the tax increases decided in reaction to the crisis.

2. For some companies, like Shell, a significant share of the profits ended up lowly taxed in tax havens like Singapore.

3. A big share was distributed to the shareholders. According to the IEA, Approximately 39 per cent of free cash after taxes was distributed to shareholders (compared to around 20 per cent or less in previous years) while less than one per cent (USD 20 billion) was invested in renewable energy (IEA, 2023).

Table 7 | KEY FIGURES SHELL (IN EUR MILLION)

Country	Type	Revenue		Profit before tax		Tax rate	
		2022	Average 2019-21	2022	Average 2019-21	2022	Average 2019-21
Australia	Gas	6.272	3.628	9.586	-2.091	10,9%	n.a.
United States of America	Oil and gas, customers and refining	88.477	73.788	7.076	-664	1,5%	n.a.
Singapore	Refining and trading	53.672	50.726	6.484	1.456	1,4%	1,7%
Oman	Oil	1.300	1.121	5.756	2.526	79,9%	73,2%
Brazil	Oil and gas	1.479	722	4.291	-1.507	16,2%	n.a.
Germany	Customers and refining	33.832	17.027	3.201	-1.150	21,7%	n.a.
United Kingdom	New headquarter	51.884	26.470	1.810	-964	6,0%	n.a.
Netherlands	Old headquarter	37.634	26.742	846	957	34,3%	4,7%
Italy	Customers	2.776	1.385	494	23	66,9%	32,0%
France	Customers	3.195	1.585	56	13	24,2%	-0,2%
Poland	Customers	2.198	1.142	19	47	41,8%	18,8%

Source: Own presentation based on cbc-reports

¹⁰ The IEA defines net income as revenue (including subsidies) minus costs but before tax. It is unclear whether interests and depreciation are included or not.

¹¹ 15 countries that had provided information were expecting to collect EUR 17.5 billion for 2022. 12 countries that already reported first numbers on actual collection reported EUR 6.8 billion of income from the solidarity contribution. The Netherlands expected to collect EUR 6.4 billion but hadn't reported any values of actual collection. Germany expected EUR 1 billion but hadn't reported either.

And the individual financial reports give an idea who paid the EU solidarity contribution – but don't say where. In its financial statements for the year 2022 Shell reported only EUR 1.4 billion of payments throughout the EU, Eni reported EUR 1.2 billion for Italy and Germany and OMV reported EUR 90 million. With EUR 1.8 billion, US-based ExxonMobil reported one of the biggest tax liability and took the solidarity contribution to court.

Shell and its tax shelter: In its [country-by-country report for 2022](#) Shell reports activities in 82 countries including 20 EU member states. Shell reports big profits in countries where it extracts oil and gas such as Australia, the United States of America, Oman or Norway. Effective tax rates in these countries vary strongly between 1.5 per cent in the US and 11 per cent in Australia to more than 70 per cent in Norway and Oman¹². But with USD 6.5 billion the third biggest profit – and more than 10 per cent of the total – is booked in Singapore, where the company benefits from special tax incentives and booked only 1.4 per cent of taxes. Overall Shell reports an effective tax rate of 33.8 per cent for 2022.

In the EU, Shell booked a profit increase to USD 3.2 billion from losses in previous years in Germany and an increase of USD 471 million compared to the previous three years in Italy. Together these two countries most likely account for most of Shell's solidarity contribution costs in 2022. In its financial report for 2022 Shell puts these costs at EUR 1.4 billion for the whole of the EU which at the common rate of 33 per cent would equate to windfall profits of EUR 4.2 billion. But Shell doesn't provide any details on where those costs accrued in 2022 and 2023.

In addition to corporate income taxes accrued (USD 22 billion), [Shell's tax contribution report](#) also provides detailed information on other payments such as production entitlements, royalties and fees due (USD 23 billion). Finally Shell also collects and pays customs duties, sales taxes and contributions for its employees (USD 47 billion).

“Apple was the company with the second biggest profit globally both in 2022 and 2023.”

Saudi Aramco and progressive source taxation: In contrast to Shell, Saudi-Aramco's activities are focused on extraction in one country – Saudi Arabia. There, a progressive royalty payment applies depending on the price of crude oil. It starts at 15 per cent for a sales price of under USD 70 per barrel and reaches 80 per cent for sales at above USD 100 per barrel. In addition, remaining profits from the oil extraction are taxed at 50 per cent. This resulted in royalties of USD 91 billion in 2022 and an effective tax rate of 48 per cent, significantly higher than for Shell.

Conclusion: Even after prices stabilized in 2023, profits of Big Oil continued at very high levels and they will most likely continue to do so in 2024. But compared to the high prices in 2022 and 2023 those profits no longer qualify as crisis-related windfall profits. The examples show that most of those profits accrue in the source countries and are sometimes already taxed at special rates there. But a significant share of the profits ends up in tax havens and with the shareholders. And the companies do too little for a green transition. A permanent excess profits tax for Big Oil companies would be the logical source of funding for the transition but it requires political negotiations with Saudi Arabia and the other source countries – some of which are countries from the Global South.

BIG TECH: INVESTING IN WINNER-TAKES-ALL-MARKETS

The biggest companies: Apple was the company with the second biggest profit globally both in 2022 and 2023. Microsoft and Alphabet followed right behind. With Meta, another digital company from the US joined the top ten in 2023. Together, these four companies also topped the EU's list of research and development (R&D) expenditure. Amazon had more employees than the other four together and topped Alphabet and Meta in value but didn't make the top 10 in terms of profit or R&D spending. Big Tech from Asia like Huawei, Samsung, Tencent, Alibaba or Nvidia follow further down the list. Together they are sometimes referred to as digital or technology companies (hereafter “Big Tech”).

The market: The group of Big Tech companies is quite diverse in terms of products and services. Apple makes the biggest share of its profits from selling iPhones where it reached a global market share of roughly 30 per cent ahead of Samsung and Xiaomi. Whether its excess profits mainly stem from its technology or its brand is debatable. Alphabet and Meta in contrast make most of their profit from online

¹² The sum of taxes reported in the cbc is smaller than the respective total booked in the consolidated accounts.

advertisement but collect the necessary consumer data and access through very different means, i.e. online search and social networks, were they both hold very high market shares. Microsoft and Amazon make an increasing share of their profits from providing cloud services to business customers and thereby largely control the main infrastructure of the digital world outside China. In addition, they dominate the market for computer software or online shopping. Many of these markets are or are becoming winner-takes-all-markets where the biggest companies capture most of the market thanks to network effects or economies of scale. Lock-in effects because of high investment and exit costs for customers makes this tendency stronger.

Especially the Big Tech companies from the US have been the target of various threats and attempts to regulate or split them up but instead they continue buying potential competitors or emerging technology companies – from Instagram and WhatsApp to OpenAI. The European Commission as well as the French and Italian competition authorities repeatedly issued record fines for their anti-competitive behaviour against them which according to [Cullen International](#) add up to more than EUR 10 billion. But in comparison to the profits those fines were rather insignificant.

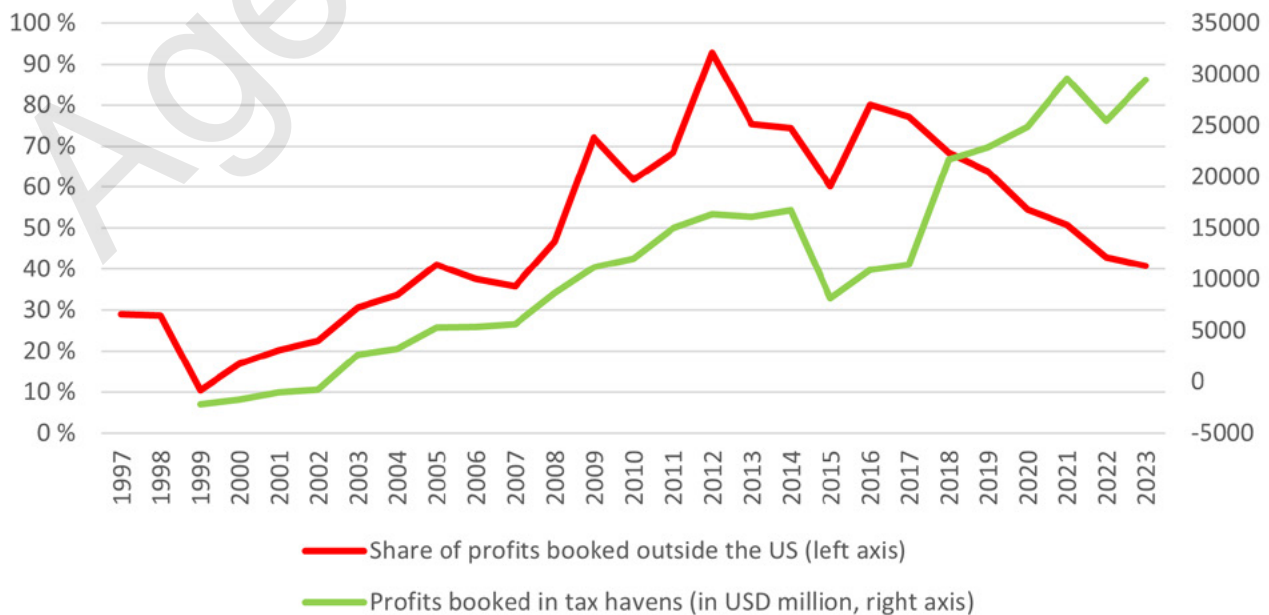
The growth of Big Tech over the last years was further amplified by aggressive tax planning and shifting profits to tax havens. With an average of only 12 per cent they were the group with the second lowest tax rate among the biggest and most profitable companies. Partly as a consequence of their

aggressive tax planning, several countries started to tax digital services. This in turn triggered the OECD's attempt to agree on a redistribution of taxing rights. The so-called Pillar One started out as an attempt to tax digital companies and both India and France had made proposals how to tax digital companies with little local presence in the countries where they sell their products based on their own experience with digital services taxes.

Microsoft and its tax avoidance: Microsoft was founded in 1975. It is best known for its Windows and Office software. By 2005 its PC user base had grown to more than 600 million according to the annual report of that year. Until today Microsoft Windows has a market share of more than 70 per cent on desktop computers. But on tablets, smartphones and web clients the share is significantly smaller. According to the report for the financial year from mid-2022 to mid-2023 Windows was responsible for only 10 per cent of turnover. Instead the share of server products and cloud service had increased beyond one third of revenue and the intelligent cloud segment was responsible for nearly half of operational income.

During this time, in the last 20 years, Microsoft has increased the share of its profits outside the USA from roughly 20 per cent to more than 90 per cent at the peak in 2012. Until today nearly 80 per cent of those foreign profits were booked in tax havens. Like that Microsoft has booked roughly USD 300 billion of profits in tax havens. How much taxes Microsoft will finally have to pay on these profits is still contested back until the year 2004. The US tax

Graph 1 | MICROSOFT'S OFFSHORE PROFITS



Source: Trautvetter (2024)

agency has already issued several high fines for profit shifting and Microsoft has recently brought back the profits from the US business from Puerto Rico to the USA. But in the last available year (2021/22) Microsoft continued to book profits of USD 42 billion in Ireland at a tax rate of only 7,2 per cent leading to a global tax rate of only 13,1 per cent (Trautvetter, 2024). In the 20 years since 2003 paid roughly USD 140 billion of tax on profits of USD 700 billion which translates to a tax rate of about 20 per cent against a statutory tax of more than 35 per cent in the US throughout most of this time period.

Conclusion: Big Tech companies like Microsoft have used a combination of aggressive tax planning and investment of their excessive profits to speed up their growth. They have so far weathered all attempts to limit their size and market power and instead continue to buy or outspend innovative potential competitors and grow further. Since the EU launched its R&D scoreboard about 20 years ago times have changed. The speed of technological progress has become too high for most companies, people, regulation and societies around the world to keep up. The US cyber safety review board seems to think that this even applies to Microsoft itself and in remarkably clear words recommends Microsoft to “deprioritize feature developments across the company’s cloud infrastructure and product suite until substantial security improvements have been made” (CISA, 2024). Taxing the excess profits of Big Tech companies could help to slow their enormous growth and re-establish a level playing field for smaller competitors from Europe and elsewhere.

BIG BRANDS: BUILDING DEPENDENCY

The biggest companies: Many technology-driven consumer companies like Apple, Samsung or the big car companies combine high R&D expenditure with a successful brand. Beyond those, the brand-driven consumer company (hereafter “Big Brand”) with the highest excess profit in our list is LVMH with its luxury labels. Among the 209 biggest and most profitable companies 20 are consumer-driven big brands. They mainly come from the countries with the biggest markets with solvent consumers – i.e. the US and Europe – even though their growth is increasingly driven by well-off consumers from around the world.

The market: When, in the last minute before the global agreement in summer 2021, the OECD changed its Pillar One from digital companies to cover the biggest and most profitable companies, companies with successful consumer brands were among the main targets. Their strong brand names allow them to realize similarly high profit margins. Instead of R&D their main source of success is advertisement. The companies in this group are active in different industries and markets. Many of them produce addictive products such as cigarettes (Philip Morris, BAT) and alcoholic or high-sugar drinks (Inbev, Heineken, Coca-Cola, Pepsico) or (sweet) food (Nestlé, Mondelez). Others produce clothes (Nike, Inditex), consumer health and hygiene products (Procter & Gamble, L’Oreal, Unilever) or restaurants and leisure (Starbucks, McDonalds, Netflix).

LVMH and its French excess profits: Louis Vuitton and Christian Dior, Sephora and Le Bon Marché, Tiffany & Co and Bulgari, Moët & Chandon and Dom Pérignon, those are just a few of the many luxury brands under the roof of LVMH. They span from leather and fashion to retailing, jewelry and spirits. Some of those activities take place in a “fiercely

Table 8 | ALLOCATION OF EXCESS PROFITS TAX FOR LVMH (IN EUR MILLION, 2022)

	Excess profits	Excess profits tax based on different allocation keys			
		Global average from cbc	LVMH revenue	LVMH employees	LVMH stores
France	363	144	387	907	436
Rest of EU/ Europe	2.033	806	821	1020	961
Rest of the World	9.797	3882	3624	2904	3435
Total	12.193	4.832	4.832	4.832	4.832

Source: Own presentation based on LVMH annual report 2022

competitive market environment”, as LVMH describes the market for perfumes. To survive in this markets, LVMH booked nearly EUR 31 billion for marketing and selling expenditure in 2023. This equals nearly 36 per cent of the revenue and exceeds what some of the Big Tech companies spend on R&D.

But unlike its US Big Tech peers, LVMH paid higher taxes. According to the financial report for 2023 LVMH paid EUR 5.7 billion of taxes which equates to an effective tax rate of 26.2 per cent and is slightly higher than the statutory rate of 25 per cent in France. According to LVMH “around half” of its corporate tax payments were made in France. However, according to our methodology LVMH’s excess profits totalled EUR 12.1 billion in 2022 and EUR 13 billion in 2023. Based on our methodology – using global average values – LVMH would pay roughly EUR 1 billion of excess profits tax in the EU and EUR 144 million of that in France. Using figures from LVMHs own reports the tax collection could increase to nearly EUR 2 billion in the EU and EUR 907 million in France if the location of employees was used as the allocation key.

“LVMH’s excess profits totalled EUR 12.1 billion in 2022 and EUR 13 billion in 2023”

Philip Morris and its excess profits from addiction: According to its own description Philip Morris International (“PMI”) is a “leading international tobacco company, actively delivering a smoke-free future”. On the way to this smoke-free future, PMI sold 613 billion cigarettes and 125 billion (smoke-free) heated tobacco units under brands such as Marlboro, L&M or Chesterfield and IQOS, Veev or Zyn. PMI only provides a figure for marketing expenditure combined with administration and research costs. Together PMI spent USD 10 billion or 29 per cent on these three items in 2023. This included expenditure on development, scientific substantiation and commercialization of smoke-free products totalling USD 12.8 billion since 2008 including a payment of USD 140 million in 2023 to terminate the agreement with the Foundation for a Smoke-Free World that PMI had created in 2017. This foundation

had drawn criticism for its funding of research and lobbying in favour of PMI’s targets.

PMI sold cigarettes in 175 markets with two major exclusions. In China PMI’s cigarettes are sold under a license by the China National Tobacco Company and in the U.S. Marlboro and other brands are sold by Philip Morris USA. The international and U.S. activities were split in 2008 but Vanguard and BlackRock remain the biggest shareholders in both companies. Philip Morris publishes market share and regional operating margins for its biggest markets and regions. As the table below shows, the operating margin seems closely related to the market share.

Region	Market share	Operating margin
European Union	43%	48%
Eastern Europe	31%	31%
Middle East & Africa	37%	45%
South & Southeast Asia	33%	33%
East Asia & Australia	32%	37%
Americas	64%	23%

PMI sold 29 per cent of its total number of cigarettes and heated tobacco units in Europe and booked 39 per cent of its revenues there. This means that an excess profits tax at a progressive rate of 20 to 40 per cent and allocated according to revenues would have resulted in tax income of EUR 1.1 billion within the EU.

Conclusion: Big Brand companies spend enormous amounts of money on advertising their products and lobbying against regulation, often at the cost of public health and by far exceeding the budget of public health campaigns or other democratic forces. Their excessive profits are often a direct cost to society. The Big Brand companies often come from the EU or have a strong customer base here. That’s why the EU should include them in its excess profits tax.

BIG PHARMA: PATENTS AND REGULATION LEADING TO EXCESS PROFITS

The biggest companies: None of the big pharmaceutical companies (hereafter “Big Pharma”) makes it to the top 10 of companies with the highest profits even though with its Corona vaccine Pfizer got close in 2021 and 2022. But among the 209 biggest and most profitable companies there are fifteen Big Pharma companies. Together they roughly control 50 per cent of the market of prescription and over-the-counter pharma sales and their patents often give them a monopoly in their fields. Four of those companies have their headquarters within the EU. According to its annual report for 2023, Sanofi from France is among the five biggest companies with a market share of about 4 per cent, similar to first-placed Pfizer.

The market: During the Corona crisis developing countries together with the [World Health Organisation](#) called for a lift on patent protection to speed up the production of life-saving vaccines. In the end patent protection prevailed and earned the pharmacy companies big profits. On top of strict patent protection, pharmacy companies also benefit from complex and often secret price negotiations with health insurance companies in regulated markets. Industry representatives regularly argue that they need the patent protection and high prices to incentivise and finance the costs of research. But by now there is ample evidence that Big Pharma has neglected research on many of the most vital diseases for human welfare. This research relies to a big degree on private donations and public funds. Instead of for research a big share of Big Pharma’s persistently high profits went into lobbying or to tax havens and the shareholders (Oxfam, [2018](#)).

Big Pharma’s tax affairs: With on average 15.8 per cent, Big Pharma had the second lowest tax rate among the biggest 209 companies after the Big Tech companies. A detailed analysis by Oxfam (2018) shows how four of the biggest pharmaceutical companies shifted profits out of the countries where they sell their products – often to tax funded health systems. According to the study their profit margin averaged 6 per cent in countries with “normal” tax rates and 31 per cent in tax havens. Among the 15 Big Pharma companies, companies from the US on average have the lowest tax rates. With a tax rate of 20 per cent, Sanofi lies above the average for Big Pharma. But according to its financial report for 2023 its activities in France and Singapore were effectively

taxed at less than 15 per cent and all else being equal Sanofi would have expected an increase in its effective tax rate by 1,5 per cent with the global minimum tax.¹³

Conclusion: Strong patent protection and regulation strongly influenced by big lobbying expenditure allow Big Pharma to earn persistently high profit margins. After-tax profits are further increased by low taxes that are sometimes the result of aggressive tax planning. If these high profit margins were rewards for innovation and compensation for unsuccessful research efforts, they shouldn’t be persistent as they seem to be. Persistently high profit margins might rather be a sign of failed regulation. Therefore the EU should include Big Pharma in its excess profits tax.

BIG NETWORKS: NATURAL MONOPOLIES OR CONNECTED MARKETS?

The biggest companies: Companies producing and selling electric energy are rare among the biggest and most profitable companies. Iberdrola from Spain and National grid from the UK were the only two companies in our sample. With profits of EUR 7 billion in 2023 and EUR 6 billion in 2022 Iberdrola was significantly smaller than most other companies of our analysis.

The market: Compared to the market for oil and gas, electricity markets are less globally integrated and more strongly shaped by locally and regionally active companies. According to the European Commission, the internal market for electricity has progressed. New interconnectors have connected the Baltic region and Spain. And (cross-border) trade via the central EU system now covers 80 per cent of EU electricity volume. But market concentration remains very high, with big market shares for the biggest generators of energy at the national level and barriers for competition at the retail level (EC, 2019).

In the energy crisis of 2022, rising gas prices lead to rising prices of electricity. The so-called merit-order principle determines the price of electricity based on the cost for the most expensive energy on offer at any moment. Through this principle the high prices for oil and gas and to a smaller degree also coal drove up the price of electricity independently of the actual production cost. This meant that those companies producing energy from nuclear, renewables or lignite with little change in the

13 The original text in French says: “À ce stade, un effet matériel est attendu au titre des activités en France et à Singapour. Le taux d’impôt effectif moyen étant inférieur à 15 % à la clôture 2023 dans ces pays. L’application des règles pilier 2 en 2023 aurait conduit, toutes choses égales par ailleurs, à une augmentation d’environ 1,5 point de pourcentage du taux d’impôt effectif du Groupe sur l’année 2023, sur la base du Résultat avant impôts et sociétés mises en équivalence”



Table 9 | IBERDROLA KEY FIGURES AND COMPARISON TO ENDESA (IN EUR MILLION)

	Iberdrola			Endesa		
	2023	2022	2019	2023	2022	2019
Share of renewables	43%	46%	36%	24%	19%	16%
Share of nuclear	14%	15%	17%	41%	41%	43%
Revenue	49.335	54.860	40.109	25.459	32.896	20.158
EBT	7.025	6.292	6.301	1.065	3.487	230
Profitability	14,2%	11,5%	15,7%	4,2%	10,6%	1,1%

Source: Own presentation based on respective annual accounts

production cost significantly increased their profits – at least if they sold their energy on the open, short-term market. An analysis of big European electricity producers shows an increase in revenues of EUR 300 billion for the selected companies in 2022. Profits and profitability increases were less strong but still significant and widespread (Columbus consulting, 2023).

In contrast to the profit-based solidarity contribution for oil companies, the EU’s crisis mechanism for the electricity market capped the share of revenue the producers could keep based on average costs and generous margins for each of the different sources of energy. Because price increases were much higher than for oil, nearly the whole excess margin was captured and nearly all excess profitability occurred in the EU countries, the expected income from this price cap was initially expected to be much higher than that from the solidarity contribution, exceeding EUR 50 billion (EC, 2023b). In the end, the decrease of prices in the beginning of 2023 and different weaknesses in the implementation of the mechanism in different EU countries significantly reduced the actual collection. For example, Germany had expected to collect EUR 23,4 billion but will most likely collect less than EUR 600 million (Deutscher Bundestag, 2024). That’s mainly because Germany was not among the seven member states that applied the market correction retroactively and therefore largely missed the energy price crisis.

Iberdrola’s excess profits: Iberdrola produces energy, operates networks and sells gas and electricity to its customers mainly in Spain, the UK, the USA and Brazil. In 2023, 45 per cent of its energy production came from renewable resources and another 15 per cent from nuclear energy. In Spain, Iberdrola produced approximately 60 Gigawatt hours

of energy in Spain (37 per cent of the total production) and had around 10 million customers there. This amounts to a market share of roughly 20 per cent and makes Iberdrola the second biggest electricity producer and provider in Spain closely behind Endesa¹⁴. The activities of both companies are comparable, with two main differences 1) Iberdrola’s share of renewables and especially hydroelectric power was higher and the share of nuclear correspondingly lower 2) Iberdrola was active beyond Spain. Both companies significantly increased their revenues during the energy crisis in 2022 but Iberdrola’s profitability actually fell.

Conclusion: The example of Iberdrola and Endesa shows that even between rather similar companies, profit margins and their development can differ quite substantially. In this case, the main source of difference is most likely the cost of production or purchase of the energy and not a question of market power. With a higher dependence on hydroelectric power, Iberdrola was probably impacted stronger by the draught in Spain in 2022, which was expressed by comparatively high supply costs that then dropped to very low levels again in 2023. In both cases, the price limits implemented in Spain seem to have limited excess profits. Permanently taxing excess profits can still make sense if it is used to finance the green transition.

¹⁴ Endesa reported a market share of 18 per cent for energy generation, 44 per cent for distribution and 30 per cent for supply.

INTRODUCTION

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CONCLUSION

Using the OECD's Pillar One as a starting point and extending it to the extractive and the financial industry, this study identified 209 companies with turnover of more than EUR 20 billion and profit margins above 10 per cent for at least 3 years. Together they book profits in excess of that margin totalling nearly EUR 2 trillion, of which about EUR 300 billion was "earned" in the EU according to estimates based on different allocation keys. The further analysis of different industries, company groups and individual examples has shown that among those 209 very big and highly profitable companies showed some differences but also some common features.

The companies analysed reach high market shares in their whole industry or in smaller segments. For example Microsoft controls 24 per cent of the global cloud market, Iberdrola produces about 20 per cent of Spain's energy and Philip Morris' profit margin rises with the market share, going up to nearly 50 per cent in Europe. Many of them reach their high profitability (and their high market shares) through big investments in R&D and advertisement.

But this doesn't necessarily mean their excess profits shouldn't be taxed. When a few very big companies have unrivalled resources for investments, this can create winner-takes-all-markets with an increasing share of profits accruing to a few "superstar" companies. Or it can create companies that are simply

too big to fail – as in the case of JPMorgan that has used its profits to triple its assets compared to the time before the financial crisis. When the sum of revenues for the biggest 209 corporations equals the GDP of the EU they might have already become too big to regulate and to control democratically.

This trend of increasing corporate power of a few very big companies has been exacerbated by the fact, that some of the biggest and most profitable companies have consistently paid very low tax rates over the last years. The U.S. tax reform of 2017, the end of the Double Irish in 2021 and the global minimum tax applying in several countries from 2024, remove the most egregious tax planning strategies but still fail to create a level-playing field or even more so to correct for the distortions of the past. Apart from strengthening the tax agencies to retroactively collect missing taxes and the anti-trust bodies to punish behaviour that undermines competition, an excess profits tax can be an important contribution to such a level-playing field. And on the way there could yield roughly EUR 100 billion per year in the EU that could boost public investments, fight inequality and finance the transition to a digital and green economy. In a world that is closer to the first trillionaire than to fighting global poverty an excess profits tax is overdue.

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The Left in the European Parliament

Rue Wiertz 43 B-1047 Brussels

www.left.eu