EU policy to finance a competitive industry faces a hidden threat: Share buybacks

The EU aims to enhance the competitiveness of its industries on a global scale to bolster their autonomy and resilience, and make them global leaders in the green transition and digitalisation. However, a significant amount of capital that could be used for this purpose is flowing out of the EU. The reason? Growing share buybacks.[1]

New EU policy proposals aim to strengthen the EU's competitiveness and address the finance gap for the Green Deal and innovation. A key element of these proposals is to encourage more private financing by making it easier for EU companies to issue shares on EU stock markets through a revamped Capital Markets Union (CMU).[2] However, the proposals do not address the fact that listed **companies increasingly prioritise buying back their own shares** over investing in a just transition, climate change mitigation and innovation, thereby handing over vital capital to private investors that are largely based outside the EU. To prevent such share buybacks from undermining the EU ambitions, legislative changes are needed.

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Capital the EU is losing by not restricting share buybacks

Data about EU share buybacks

Between 2016 and 2023, the largest listed EU-based companies have diverted **$534.2 billion** to buy back their own shares, in addition to spending **$1,004.4 billion** on dividends.

Pointless competition

To be attractive to shareholders, the largest listed EU-based companies in 12 major EU countries paid out a record $110.6 on share buybacks in 2023, compared to $40 billion in 2016.[3] Companies that do not follow this trend frequently see their share value drop. If EU companies want to be competitive compared to their US counterparts, they might have to spend even more on share buybacks: The largest listed US companies paid out $773.1 billion in share buybacks in 2023, and $5,461.4 billion between 2016 and 2023 in addition to $ 4,017.4 billion in dividends.[4]

Losing capital to foreign shareholders

US-based asset managers like BlackRock and Vanguard are major institutional shareholders in large EU-listed companies; they and their primarily US-based clients profit from the pay-outs. This contributes to €300 billion annually flowing out of the EU, primarily to the US.[5]

Share buybacks are undermining the EU's climate, innovation, and competitiveness goals

Share buybacks are a threat to the CMU reform

By repurchasing their own shares, companies aim to increase their share value by reducing their total number of shares issued. This reduction undermines the CMU reform objective of increasing the amount of EU companies' shares issued and traded on EU stock markets to make EU companies more competitive.

Share buybacks take capital away from EU's energy transition

Companies claim that share buybacks pay out "excess capital"[6], but they could very well use this capital to operationalise a swift energy transition. Big Oil is an obvious example. To make their shares attractive, BP, Chevron, ExxonMobil, Shell and TotalEnergies spent $174.8 billion on share buybacks since the Paris Agreement (2016-2023).[7]

Share buybacks at the expense of other EU stakeholders

Governments currently use taxpayers' money to 'de-risk' corporate 'champions' to encourage innovation, decarbonisation, and competitiveness. However, these companies reward their shareholders with large untaxed share buybacks and high dividends. This comes at the cost of reduced expenditure on research and development, skill development for (green) jobs, decent pay of staff and suppliers, and lowering energy and consumer prices which could reduce inflation and increase citizens' purchasing power.

Share buybacks are a tool for tax avoidance

Companies and investors prefer share buybacks over dividends because they are mostly untaxed in EU countries like France, Germany, the Netherlands, and Spain. This deprives governments of income to accelerate quality innovation and a just energy transition.

Immediate steps the European Commission and MEPs can take to secure a sustainable future

Prevent companies receiving industrial policy subsidies from paying out share buybacks

During policy debates on the EU's competitiveness and private capital mobilisation, companies will claim that climate change mitigation measures are too expensive and undermine their competitiveness, and that they need subsidies for innovation and decarbonisation.

Reverse the trend of share buybacks hollowing out EU companies

By reviewing laws and making them applicable to EU and foreign companies operating in the EU, as follows:

- A review of the Market Abuse Regulation 596/2014 (Art. 5.2.1.(a)) and the related Commission Delegated Regulation 2016/1052, should **prohibit share buybacks from indirectly manipulating share value and from being used to avoid paying taxes** on dividends.
- The **upcoming review of the Shareholder Rights Directive** 2017/828 should include strict requirements (see Arts. 3g, 3h, 3i) for institutional shareholders to transparently engage and vote in favour of the long-term and sustainable future of companies and not for short-term pay-outs in the form of share buybacks.
- The EU should ensure that **share buyback programmes and dividend payments do not undermine expenditure on the corporate transition plans** that are compulsory under the Corporate Sustainability Due Diligence Directive (CSDDD, 2024/1760: Art. 22).
- In **reviewing the Directive related to Company Law** 2017/1132 (Arts. 60 - 61, 64), the EU should ban share buybacks when a company does not retain profits for operationalising a swift energy transition, fair payment of employees and suppliers, research and development, due tax payments, and debt reduction.

If EU policy makers follow these recommendations, they will:

- **Re-direct finance that accelerates corporate action** for a swift just transition.
- **Boost** research and development, fair wages, future skill development of employees, and the creation of green jobs in the EU.
- **Close the tap on tax avoidance** that could generate substantial funds to help the EU meet its climate and innovation goals.
- **Pave the way for further regulatory action** on share buybacks and prevent crucial subsidies and capital from ending up in the pockets of (often foreign) shareholders.
- **Enhance European citizens' trust** in the EU and its ability to fulfil its commitments towards the Green Deal and a sustainable future.

Endnotes

1 This paper follows a more explanatory blog by M. Vander Stichele, Why share buybacks are bad for the planet and people - The overlooked risks of the EU competitiveness agenda, 19 July 2024.

2 Statement at the European Parliament Plenary by President Ursula von der Leyen, candidate for a second mandate 2024-2029, 18 July 2024; ESMA, Building more effective and attractive capital markets in the EU - Position paper, 22 May 2024; Statement by the ECB Governing Council on advancing the Capital Markets Union, 7 March 2024; Statement of the Eurogroup in inclusive format on the future of Capital Markets Union, 11 March 2024.

3 SOMO calculations based on Janus Henderson, Global Dividend Index, Edition 38, May 2023, p. 19; Idem, Edition 42, May 2024, p. 21.

4 SOMO calculations based on: Janus-Henderson, Global dividend index, Edition 37, March 2023, p. 20; Idem, Edition 38, May 2023, p. 19; Idem, Edition 41, March 2024, p. 21; Idem, Edition 42, May 2024, p. 21.

5 E. Letta, Much more than a market: Speed, security, solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens, April 2024, p. 11.

6 Janus Henderson, Global Dividend Index, May 2024, p. 20; see statements by companies, e.g. AholdDelhaize, including stating that they relate to Market Abuse Regulation Article 5.

7 High payouts by listed fossil fuel companies attracted $ 4.3 trillion in global institutional investment in oil, gas, and coal in 2023 – capital that investors could have allocated to renewable energy: see https://www.somo.nl/the-trillion-dollar-threat-of-climate-change-profiteers/ and https://investinginclimatechaos.org/reports.

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