forCrowd

Subject: Input for the call for evidence of the European Open Digital Ecosystems
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3. What concrete measures and actions may be taken at EU level to support the development and growth of the EU open source sector and contribute to the EU's technological sovereignty and cybersecurity agenda?

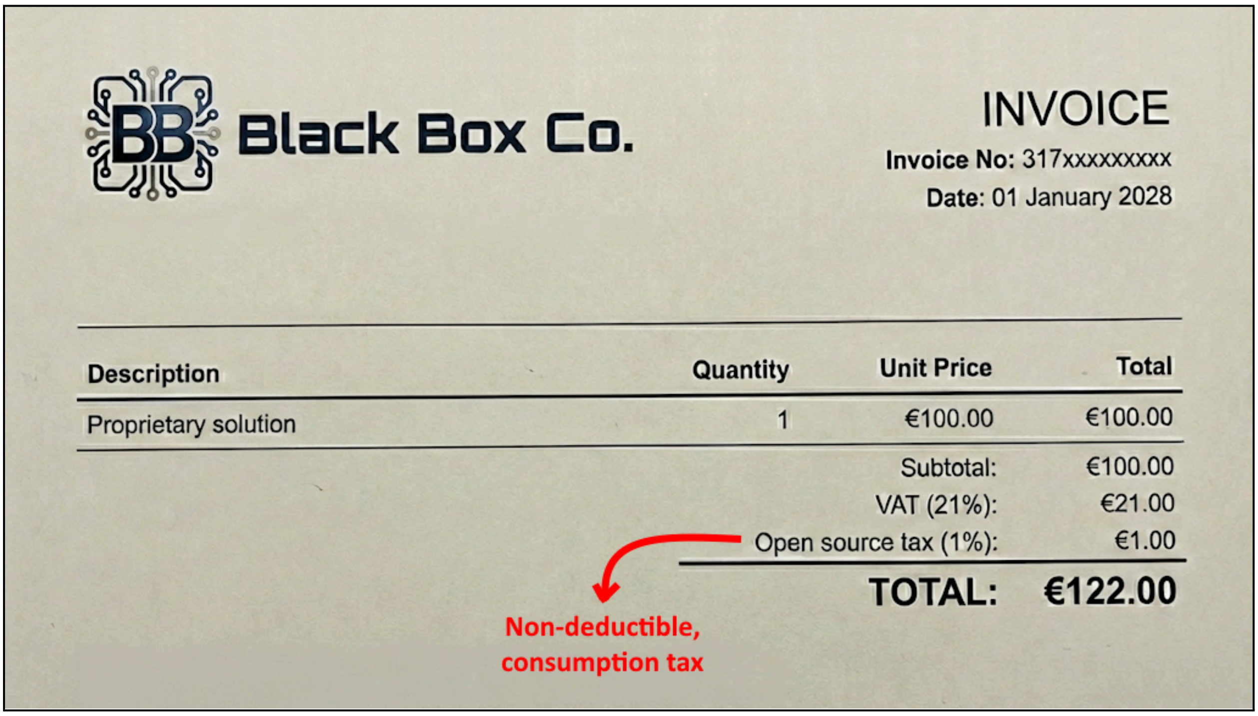
Europe has the opportunity to address its digital sovereignty concerns, attract top tech companies, and boost innovation across the continent by adopting a long-term open source strategy.

Open Source Tax

Open source software (OSS), a unique intersection of private initiatives and public goods, offers well-recognized benefits[1]-[2]-[3]-[4]-[5]. However, these goods are chronically underfunded and underproduced due to a coordination failure known as the Free Rider Problem: a lack of contracts and price signals leads OSS consumers to not know how much to pay back or whether to pay at all.

[1] The Open Source Impact Study by OpenForum Europe in collaboration with Fraunhofer ISI
[2] Open Source as Europe's Strategic Advantage by Linux Foundation
[3] Global Digital Compact by the United Nations
[4] The Value of Open Source Software by Harvard Business School
[5] Open source software and global entrepreneurship by Nataliya Langburd Wright, Frank Nagle, Shane Greenstein

We propose addressing this market failure by introducing a new consumption tax, “Open Source Tax”, on the sale of proprietary solutions, akin to the value-added tax.



A Progressive Open Source Strategy for Europe

Our strategy proposal is closely aligned with OpenForum Europe’s (OFE) European Sovereign Tech Fund (EU-STF) initiative. Taking their report as a base, our proposal can be summarized as:

- Establish EU-STF.
- Implement a 1% Open Source Tax on proprietary solutions, and use the revenue to fund EU-STF.
- Distribute funds back into the EU's open source sector in a data-driven, transparent, and reliable way.
- Gradually increase the tax rate to shift resources from proprietary to the open source side.

With this structure, while the coordination (Free rider) problem is still addressed through a centralized tax approach, OSS production remains in private initiatives, preserving free-market dynamics.

While the strategy’s **primary objective** is to expand the EU open source sector, its **secondary objective** is to expand the global open source sector, which, in turn, indirectly benefits the EU by increasing the availability of open source solutions.

In our proposal, we specifically focus on the software layer. However, the strategy can be extended to cover other relevant areas, such as AI models [6]-[7], social media platforms, cloud, hardware/design, and content, while accounting for the unique features of each.

Below are the detailed actions to implement this strategy.

1. Build EU-wide Software Inventory

As proposed by OFE (Action #1: Mapping and Identifying OSS Dependencies), the first action is to map software dependencies across the EU and identify which proprietary and open source solutions the public and private sectors rely on.

Having this inventory is critical for multiple reasons:

- **Security:** To identify the most critical components in the supply chain, allowing the resilience efforts to be focused.
- **Benchmark:** To track the impact of the policy initiatives (Cyber Resilience Act, public procurement adjustments, EU-STF) in the constantly changing tech landscape, and to determine whether proprietary dependencies increase or decrease over time.
- **Funding:** To use this dataset, particularly information on how many organizations use which OSS, to implement a data-driven funding mechanism.

A few remarks regarding the inventory:

- The inventory should be publicly available, potentially anonymized and aggregated, so that any 3rd party can review the dataset.
- Data can be collected either by directly obtaining Software Bill of Materials from individual organizations or by working with app stores and package managers.
- The dataset should be updated regularly to enable tracking of changes over time.
- Data collection could start in public-sector organizations and expand to the private sector through volunteer participation.

2. Establish European Sovereign Tech Fund

Establish a dedicated EU-wide fund to finance the open source sector, as outlined in the OFE proposal.

[6] Beyond AI and copyright by Paul Keller / Open Future Foundation, calls for a similar structure for the AI ecosystem.
[7] AI Should Help Fund Creative Labor by Mariana Mazzucato & Fausto Gernone, as another similar example.

3. Introduce Open Source Tax

Introduce a 1% Open Source Tax on all proprietary solutions sold within the EU as a revenue source for the EU-STF, instead of a fixed budget. To prevent protectionism, the tax should also apply to proprietary solutions produced within the EU.

The Open Source Tax, similar to Value Added Tax (VAT), should be collected at the point of sale. However, unlike VAT, the Open Source Tax should not be subject to tax deductions.

The long-term goal is to shift resources and the market from proprietary to open source solutions. The Open Source Tax would push both software companies and consumers towards open source and create a cycle by reallocating resources:

- With the added tax, the proprietary side becomes more expensive, while each sale generates revenue for open source alternatives.
- Stable, proportional revenue would give the EU open source sector the financial capacity to build more mature solutions.
- Due to higher costs, consumers of proprietary solutions have a stronger incentive to seek open source alternatives.

While implementing this strategy, the signal to software companies should be to gradually open source their solutions and compete in the open source market, as resources will shift to OSS over time.

4. Distribute Funds via Data-Driven Funding

Financing a growing open source market would require a “progressive”, data-driven funding structure to achieve scalability.

The required funding structure is similar to that of digital platforms such as YouTube or Spotify, where the content creators earn direct income based on the popularity of their content. For example, the online video-sharing platform YouTube distributed approximately $20 billion to around 87 million content creators in 2024, thanks to its scalable funding infrastructure [8]-[9]-[10].

In the context of EU-STF, while the fund’s revenue will be Open Source Tax, the fund should be distributed to any EU-based legal entity that produces OSS.

Metrics: The primary metrics for the fund distribution should be the software's “usage” information (how many European organizations rely on that particular OSS), as will be revealed by the EU-wide inventory, and “software size/complexity”.

[8] “YouTube generated $36.1 billion revenue in 2024”
[9] “YouTube then takes 45%”
[10] “87 million YouTube Creators”

There may be additional weights in the formula, such as “Industry,” which favors critical sectors like healthcare and finance.

No strings attached: The only purpose of this funding structure is to address the market failure around OSS and to achieve coordination between producers and consumers. Therefore, payments should be made on a “no strings attached” basis.

No discrimination: Similarly, the fund should not discriminate against any field of endeavor or party that can legally operate within the EU.

Long-term: This strategy should be implemented with a long-term commitment (e.g., 5 years or more) to ensure the EU open source sector can rely on this income.

EU-only: The EU-STF should primarily finance the EU's open source sector. Member States could be expected to have different Open Source Tax rates. In that case, there should be a proportionality between the country contributing the most to the EU-STF and the country receiving the largest share of the fund, to avoid the free rider problem at the country level.

Regarding the non-EU aspect, the EU-STF should be used to incentivize software and technology companies to relocate to the EU.

From a supply chain security perspective, the fund should also prioritize critical open source dependencies outside the EU, but only within a limited budget.

Open governance: The fund's processes and data should be transparent, including the algorithm, decision-making process, number of funded solutions, and so on. The fund should serve as a blueprint, enabling other countries to adopt Europe's strategy.

5. Gradually Shift To Open

Once the initial structure is established, increase the Open Source Tax by 1% annually and gradually shift resources from the closed-source to the open source sector.

As explained above, in this cycle, greater financial resources on the open source side would lead to more mature solutions, pushing the software market and consumers toward open source. Overall, this cycle offsets increased taxes through lower license fees and subscription costs.

Software companies in the EU can respond to this strategy by building open source alternatives to their proprietary products and competing in the EU open source market.

Software companies outside the EU should be invited to relocate to the EU or asked to lobby to adopt Europe’s open source strategy in their respective countries.

As this process unfolds, with proprietary solutions decreasing and open source solutions increasing, revenue from the Open Source Tax will stop growing once a certain threshold is reached.

This critical milestone means that the majority of the software industry has shifted towards open source. “Software” becomes a public good.

To continue financing “software” production, the consumption tax must now be applied to a broader base, to all downstream use.

Reviewing strategy outcomes

Here is a brief review of each party’s options and potential outcomes.

Software consumer in the EU

[Primary objective] As proprietary solutions become more expensive to purchase, software consumers in the EU will always have the option to turn to maturing open source solutions.

Software company in the EU

[Primary objective] Similarly, the software companies in the EU can respond to this strategy by building open source alternatives to their proprietary products and start competing in the EU open source market.

Software company outside the EU

If software companies outside the EU want to respond to the growing European open source sector, they will have two options:

- **[Primary objective]** Relocate their business to the EU and start competing in the EU open source market.
- **[Secondary objective]** Lobby in their country to adopt Europe’s open source strategy, implement a public fund with a dedicated tax structure, thereby expanding the global open source sector.

Conclusion

As concerns over Europe’s heavy reliance on proprietary solutions grow, Europe has the potential to turn this situation to its advantage by adopting a progressive, long-term strategy and building a market for open source solutions. A successfully implemented strategy could enable the EU to achieve its digital sovereignty goals, transform the EU into an open source hub, and become a model for other regions to follow.

Thank you for evaluating our proposal. We have briefly outlined our position on what concrete actions should be taken to systematically grow the EU's open source sector. Please do not hesitate to contact us if you require further information. We look forward to working with EU institutions, open source communities, and relevant stakeholders to implement this strategy.

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