

OSSERVATORIO ESG

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“The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalisation will boost jobs and growth, the resilience of our societies and the health of our environment. This is Europe’s moment. Our willingness to act must live up to the challenges we are all facing. With [Next Generation EU](#) we are providing an ambitious answer” (Ursula von der Leyen)

EU MULTIANNUAL FINANCIAL FRAMEWORK (MFF) AND NEXT GENERATION

Current context

The COVID-19 has shaken Europe and the world to its core, testing our healthcare and welfare systems, our societies and economies and our way of living and working together.

Now is the time for European Union to get back to its feet and move forward together to repair damage from the crisis and prepare a better future for the next generation. A euro invested in one country of the Union is a euro invested for all the European Union. A collective and cohesive recovery that accelerates the twin green and digital transitions will only strengthen Europe’s competitiveness, resilience and position as a global player.

This is why solidarity, cohesion and convergence must drive Europe’s recovery. No person, no region, no Member State should be left behind. This is why the EU’s recovery plan must guide and build a more sustainable, resilient and fairer Europe for the next generation.

Through the recovery, European Union will press fast-forward on the twin green and digital transitions. Europe will strengthen its strategic autonomy while preserving the benefits of an open economy. Europe will support their partners around the world and lead a renewed and reinvigorated form of multilateralism the world needs.

Economic crisis

The restrictions imposed to contain the spread of the virus slowed economic life down in some cases almost to a standstill. Supply chains and production lines have been disrupted and the trade in goods and services have been interrupted. Household spending and private investment collapsed to historic lows. Europe’s economy and most of its industrial ecosystems have been operating at a fraction of their capacity.

Estimates suggest that EU Gross Domestic Product (GDP) fell by some 15% in the second quarter of 2020 as

compared to the same time last year. Overall, the EU economy is expected to shrink by more than 7% in 2020. However, a worst-case scenario of a second wave and extended lockdown measures could lead anywhere up to a 16% drop in GDP this year.

EU recovery plan

Designed for cohesion, convergence and solidarity, the EU budget is a ready-made instrument. This is why the Commission is proposing a new €750 billion recovery instrument, Next Generation EU, embedded within a powerful and modern long-term EU budget. The money for Next Generation EU will be raised by temporarily lifting the member states’ resources ceiling to 2% of EU Gross National Income.

This will allow the Commission to use its very strong credit rating to borrow €750 billion on the financial markets for Next Generation EU. The funds raised will need to be repaid through future EU budgets - not before 2028 and not after 2058.

To help do this in a fair and shared way, the Commission will propose a number of new resources.

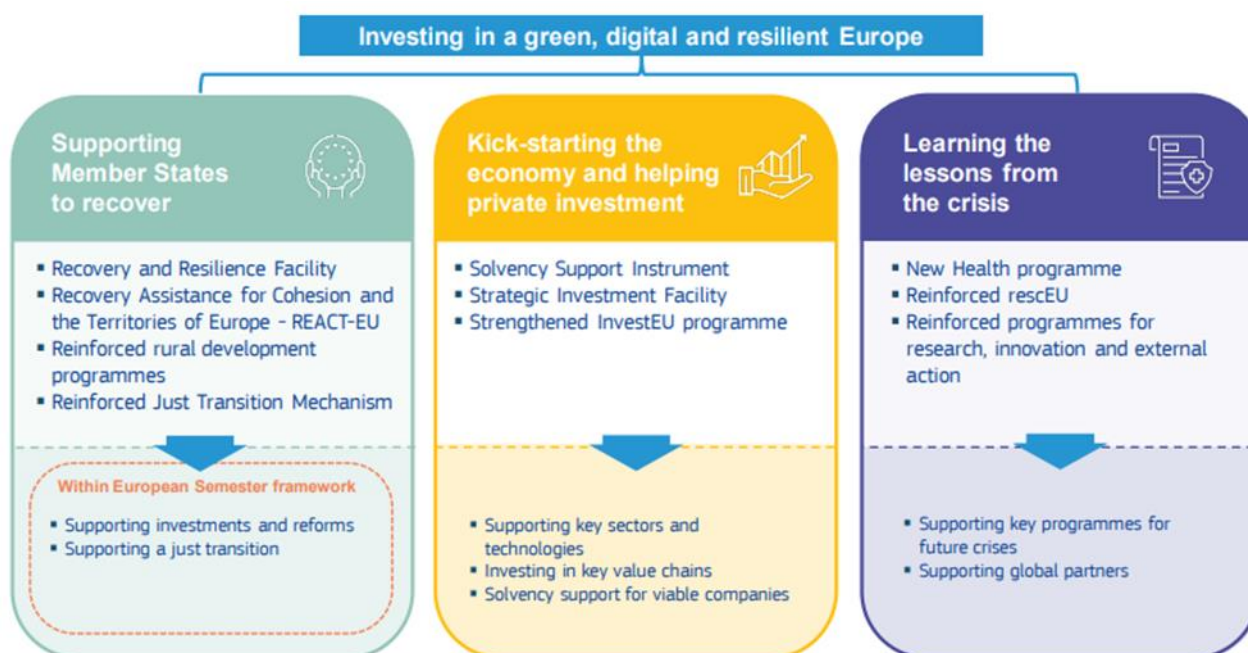
These could include:

1. Extension of the Emissions Trading System: based resources to the maritime and aviation sectors to generate €10 billion per year;
2. Carbon border adjustment mechanism: to raise €5 billion to €14 billion per year;
3. EU single market: resources based on operations of companies that draw huge benefits from the EU single market, which depending on its design, could yield around €10 billion annually;
4. Digital tax: on companies with a global annual turnover of above €750 million to generate up to €1.3 billion per year.

All of the money raised through Next Generation EU and the new EU budget will be channeled through EU programmes. The package is built on three pillars: instruments to support Member State efforts to recover, repair and emerge stronger from the crisis; measures to boost private investment and support ailing companies; and the reinforcement of key EU programmes to draw the lessons of the crisis and make the single market stronger and more resilient and accelerate the twin green and digital transitions.

It means there is full transparency and democratic accountability for the European Parliament and Council. The money from Next Generation EU will be invested across the three pillars, through €500 billion in grants and €250 billion in loans to Member States. Next Generation EU as well as targeted reinforcements to the long-term EU budget for 2021-2027 will bring the total financial firepower of the EU budget to €1.85 trillion.

Table 1: Next Generation EU three pillars



Source: https://ec.europa.eu/info/sites/info/files/factsheet_1_en.pdf

PILLAR 1: Supporting Member States to recover, repair and emerge stronger from the crisis.

Investment has a vital role to play in a balanced and sustainable recovery. Therefore, the Commission proposes to use a range of instruments to support investment and reforms in the Member States, focusing on where the crisis impact and resilience needs are greatest:

5. Recovery and Resilience: a new Recovery and Resilience Facility of €560 billion to be used for investments and reforms for recovery and resilience, including in relation to the green and digital transitions, in line with the objectives identified in the European Semester. Member States will submit national Recovery and Resilience plans as part of their National Reform Programmes, coherent with the long-term strategies of the Union, the Member States' National Energy and Climate Plans, as well as with the Just Transition Plans whenever relevant. It will be equipped with a grant

facility of up to €310 billion and will be able to make up to €250 billion available in loans;

6. The REACT-EU: this initiative will provide €55 billion of additional cohesion policy funding between now and 2022, €50 billion from Next Generation EU in 2021 and 2022 and €5 billion already in 2020 by adapting the current multiannual financial framework. This will include the exceptional flexibility introduced earlier this year, such as simplified procedures, the possibility to transfer resources between funds and categories of regions, and a relaxation of the rules on co-financing - thus enabling financing entirely by the EU budget;
7. New Cohesion Policy: beyond the immediate crisis response, cohesion policy will be crucial to ensuring a balanced recovery in the longer term, avoiding asymmetries and divergences of growth between and within Member States. It is therefore essential for the Union's strategic priorities to launch the new cohesion policy programmes on 1 January 2021.

To help the most vulnerable among us – young people and children in poverty - the Commission proposes changes to the European Social Fund Plus. Member States with youth unemployment levels above the EU average should programme at least 15% of these funds to support young people. At least 5% of the funds should be used to help lift children out of poverty.

8. Just transition fund: to support the transition towards climate neutrality, the Commission is proposing to strengthen the Just Transition Fund up to €40 billion. Increased funding for InvestEU will also mean that the second pillar of the Just Transition Mechanism will be reinforced. The Commission is also making proposals to set up the new public sector loan facility that forms the third pillar of the Just Transition Mechanism. This will be supported by €1.5 billion from the EU budget and €10 billion in lending by the European Investment Bank;
9. Rural development: the Commission is also proposing to reinforce the budget for the European Agricultural Fund for Rural Development by €15 billion to support farmers and rural areas in making the structural changes necessary in line with the European Green Deal. This will also help to achieve the ambitious climate and environmental targets in the new biodiversity and Farm to Fork strategies.

PILLAR 2: Kick-starting the economy and helping private investment get moving again.

Urgent action is needed to kick-start the economy and create the conditions for a sustainable recovery led by private investment in key sectors and technologies. The Commission is therefore proposing:

10. Solvency Support Instruments: a Solvency Support Instrument will use the EU budget guarantee to mobilise private resources to urgently support the equity of viable European companies from all economic sectors. This instrument will be temporary and targeted solely and strictly at addressing the impact of the pandemic. It will be part of the European Fund for Strategic Investments. With provisioning in the EU budget of €5 billion from the current financial framework in 2020 to ensure a fast start and an additional €26 billion from Next Generation EU, the Union budget will provide a guarantee of about €75 billion to the European Investment Bank Group, which will ensure rapid delivery on the ground. The instrument will aim for an investment level of €300 billion in solvency support;
11. InvestEU: strengthened InvestEU, which is uniquely suited to mobilising investment and supporting Union policies during the recovery in areas such as sustainable infrastructure, innovation and digitisation. The Commission is proposing to upgrade InvestEU to a level of €15.3 billion for the four policy windows already

agreed by the co-legislators. This could trigger investment of over €240 billion. Within InvestEU, the Commission is proposing to create a Strategic Investment Facility to increase Europe's resilience by building strategic autonomy in vital supply chains at the European level, while maintaining its openness to competition and trade in line with its rules.

PILLAR 3: Learning the lessons of the crisis and addressing Europe's strategic challenges.

The crisis has both underlined the value of European cooperation and demonstrated vividly that the Union must urgently build up its capacity to respond to crises and build resilience to future shocks. The Commission is proposing:

12. New Health programme, EU4Health, of €9.4 billion to ensure that the Union is equipped with the critical capacities to react to future crises rapidly and with the necessary scale. It will be designed and implemented in full respect of the division of competences between the EU and its Member States in the area of health;
13. RescEU: a €2 billion increase for rescEU, the Union's civil protection mechanism, to make it more flexible and increase the Union's capacity to act together at EU level;
14. Horizon Europe: an upgrade for Horizon Europe to €94.4 billion, to increase European support for health and climate-related research and innovation activities;
15. Neighborhood: an increase of the Neighborhood, Development and International Cooperation Instrument to €86 billion, via a new External Action Guarantee, and additional €1 billion for the European Fund for Sustainable Development to support partners – in particular in the Western Balkans, the Neighborhood and the rest of Africa – in their efforts to fight and recover from the impact of the pandemic;
16. Humanitarian Aid Instrument: an increase of €5 billion for the Humanitarian Aid Instrument, reflecting growing humanitarian needs in the most vulnerable parts of the world.

In addition to the reinforcements under Next Generation EU, the Commission proposes to strengthen further programmes so they can play their full role in making the Union more resilient and addressing challenges brought along by the pandemic and its consequences:

17. Union's cyber defence: boosting the Union's cyber defence and supporting the digital transition by equipping the Digital Europe Programme with a total budget of €8.2 billion;
18. Rail Baltica: Investing in an up-to-date, high-performance transport infrastructure to facilitate cross-border connections, such as Rail Baltica, through an additional €1.5 billion for the Connecting Europe Facility;

19. Single Market Programme: creating the conditions for a well-functioning single market driving recovery by maintaining the proposed budgets for the Single Market Programme and for programmes supporting cooperation in the fields of taxation and customs at a level of €3.7 billion, €239 million and €843 million respectively;
20. Erasmus Plus: investing in young people through an additional €3.4 billion for Erasmus Plus, as well as in the cultural and creative sectors through an increase of Creative Europe to a level of €1.5 billion;
21. Common Agricultural Policy: strengthening the resilience of the agri-food and fisheries sectors and providing the necessary scope for crisis management through an additional €4 billion for the Common Agricultural Policy and for the European Maritime and Fisheries Fund of €500 million;
22. Asylum and Migration Fund: reinforcing the Asylum and Migration Fund and Integrated Border Management Fund to reach a level of €22 billion together, to step up cooperation on external border management as well as migration and asylum policy;
23. European Defence Fund: ensuring strong support for European strategic autonomy and security by increasing the Internal Security Fund to €2.2 billion and strengthening the European Defence Fund to a level of €8 billion;
24. Western Balkans: supporting our partners in the Western Balkans by bringing the Union's pre-accession assistance to a total of €12.9 billion;
25. European Medicines Agency: to increase crisis preparedness and crisis management, the Commission will reinforce the European Medicines Agency and give a stronger role to the European Centre for Disease Control (ECDC) in coordinating medical responses in crises.

Approval times

The European Commission invites the European Council and the co-legislators to examine these proposals rapidly, with a view to reaching a political agreement at the level of the European Council by July.

An early decision on the proposal to amend the current framework would allow additional funding to be made immediately available for REACT-EU, the Solvency Support Instrument and the European Fund for Sustainable Development, reflecting the urgency of these needs.

The Commission will then work closely with the European Parliament and the Council to finalise an agreement on the future long-term framework and the accompanying sectoral programmes. Completing this work in the early autumn would mean that the new long-term budget could be up and running and driving Europe's recovery on 1 January 2021.

European Objectives

All of the money raised through Next Generation EU will be channeled through EU programmes in the revamped long-term EU budget. European Union aspires to repair the short-term damage and to invest in long-term future through:

a. The European Green Deal as the EU's recovery strategy:

26. Circular Economy: a massive renovation wave of our buildings and infrastructure and a more circular economy, bringing local jobs;
27. Energy projects: Rolling out renewable energy projects, especially wind, solar and kick-starting a clean hydrogen economy in Europe;
28. Transport: Cleaner transport and logistics, including the installation of one million charging points for electric vehicles and a boost for rail travel and clean mobility in our cities and regions;
29. Just Transition Fund: strengthening the Just Transition Fund to support re-skilling, helping businesses create new economic opportunities.

b. Strengthening the Single Market and adapting it to the digital age:

30. 5G networks: Investing in more and better connectivity, especially in the rapid deployment of 5G networks;
31. Strategic sectors: a stronger industrial and technological presence in strategic sectors, including artificial intelligence, cybersecurity, supercomputing and cloud;
32. Real data economy: Building a real data economy as a motor for innovation and job creation;
33. Cyber resilience: Increased cyber resilience.

c. A fair and inclusive recovery for all:

34. SURE: The short-term European Unemployment Reinsurance Scheme (SURE) will provide €100 billion to support workers and businesses;
35. Digital Education: A Skills Agenda for Europe and a Digital Education Action Plan will ensure digital skills for all EU citizens;
36. Fair minimum wages: binding pay transparency measures will help vulnerable workers, particularly women;
37. Tax evasion: The European Commission is stepping up the fight against tax evasion and this will help Member States generate revenue.

Acting now will show a Union ready to do whatever is necessary to get the economy back on track, to protect the livelihoods of all Europeans, and to invest in Europe's long-term transition to a fairer, greener and digital future.