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OPINION

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CEEP INPUT ON THE POST-COVID-19 RECOVERY INSTRUMENT: NEXT GENERATION EU

Executive Summary

- **Next Generation EU aims to mobilise** €500bln in grants and €250bln in loans to Member States **without involving the mutualisation of pre-existing debts**. CEEP very much supports this proposal including its innovative character and its close interlink with the MFF 2021-2027.
- The crisis has drastically exposed the result of years of underinvestment in social and physical infrastructures in some Member States. CEEP consequently calls for a **precise and consistent emphasis on public services and services of general interest**, as the current proposals fail to sufficiently emphasize the role of SGIs, which are the **pillar underpinning the economic and social infrastructure of the EU.**
- The lack of an appropriate framework supporting those essential services will seriously jeopardise our economy's overall capacity to recover as well as to overcome our long-term challenges: Next Generation EU **gives EU and national institutions the chance to demonstrate that investment in physical and social infrastructures cannot be considered as a cost**, but rather as the indispensable precondition to ensure long term competitiveness, employment and growth.
- **EU social partners represent a unique bridge capable of connecting stakeholders** and allowing the consolidation of efficient and coordinated actions that bring together the EU, national, sectorial and company levels. **Joint actions to foster social partners at national level must be a priority** for a socially inclusive recovery: their active participation, also at regional and local levels, will be especially crucial when it comes to the design of national recovery plans.
- EU leaders must remain aware of the evolving nature of the recovery instrument and be ready for eventual adaptations to the original proposal, embodied in the Next Generation EU. This can be achieved by **Member States continuously showing flexibility and commitment to the core principles of unity and solidarity.**
- Special attention must be given to enhancing top-down and bottom-up articulations between levels of governance and across key stakeholders. The **scale and scope of the recovery should not jeopardise the active participation of local and regional authorities**, which are crucial for an efficient policy design and implementation.
- It is crucial to mobilise the necessary funds to foster strategic investment and industrial ecosystems to better respond to future shocks. Other challenges, such as revising the current European framework of taxation and generating additional EU own resources, will follow with Member States still very far from an agreement. Against this challenging background, the idea of **relying on uncertain income sources as proposed by the European Commission does not seems to be a pragmatic solution in the short term.**

This position paper aims at giving the input of the SGI community in support for a swift agreement on the Next Generation EU. The position is the result of intense discussion within CEEP membership, as the views on this instrument and its link with the Multiannual Financial Framework (MFF) were as diverse as amongst Member States. This compromise is a sign of a mature political culture, of accountability and capacity to compromise in the name of unity and solidarity: all members of CEEP agreed on the positions laid down in this position paper with the aim of supporting the European Commission and the Council in finding the right answers to the social and economic impact of the pandemic.

Introduction

Next Generation EU aims to mobilise €500bln in grants and €250bln in loans to Member States without involving the mutualisation of pre-existing debts.
CEEP very much supports this proposal including its innovative character and its close interlink with the Multiannual Financial Framework (MFF) 2021-2027: the recovery instrument is a temporary measure but it can play a key role in designing Europe’s long term recovery and resilience, under the condition that Member States respect this spirit and design forward-looking recovery plans.

The promotion of strategically designed investment will guarantee the recovery, promote upward convergence and, consequently, foster a stronger and more resilient social market economy, also addressing the ecological challenges.

As illustrated during the 2008 crash and consequent debt crisis, a sluggish and reluctant response can seriously jeopardise the entire Single Market as well as the political legitimacy of the EU. Today, collective action is not only an exercise of European solidarity, but also of strategic economic thinking.

Capital availability, global supply chains and the aggregate demand will be deteriorated in the near future. Such an unprecedented and highly uncertain scenario requires a strong and coordinated action by the EU and its Member States which reflects the universality of this shock and does not unfairly compromise national balance sheets and further cripple the fiscal capabilities of Member States, which will be an indispensable tool throughout the years to come.
Therefore, as CEEP, we call for a swift political agreement and a rapid implementation of the new funding tools. The social and economic impacts of the pandemic are not on hold. On the contrary, they grow exponentially and asymmetrically across the Member States.

Despite its urgency, European leaders must remain mindful of the risks that accompany the current proposal. Amongst those, we can highlight potential macroeconomic imbalances as a result of the massive borrowing on financial markets, the exposure of relying on additional resources that have not yet been agreed – such as a new EU taxation framework – and the difficulty to maintain cohesion and coordination whilst putting forward a plan with such wide range and scope. This is the reason for the continuation of the revision of the European fiscal and economic policy framework in parallel to the approval of the MFF 2021-2027 and the Next Generation EU. In particular, the current review of the Stability and Growth Pact needs to be completed by the time the General Escape Clause is repealed: This will be essential to maintain the predictability of investment capacity, especially at the local level.

We count on the European Council to promptly allow the necessary materialisation of the recovery instrument Next Generation EU, **whilst not losing sight of its foreseeable attached risks**. Furthermore, we call for the reiteration of the need to articulate public and private stakeholders across different levels of governance in order to guarantee its ultimate efficiency. **In this context, the active involvement of social partners is paramount.**

SGIs and the Next Generation EU

Despite the focus of the third pillar of the Next Generation EU on **strengthening healthcare systems** – which must certainly be a priority within the recovery package – and the mention of investment in critical infrastructures and promoting a "transition that leaves no one behind", **we advocate for a more precise and more consistent emphasis on public services and services of general interest.**

Whilst rightfully accentuating the need to foster EU strategic value chains, the European Commission proposal from 27 May and the Council negotiating toolbox from 9 July fail to sufficiently emphasise the role of SGIs, which are the **pillar underpinning the economic and social infrastructure of the EU**.

The crisis has drastically exposed the result of years of underinvestment in social and physical infrastructures in some Member States, as well as the significant asymmetries that still divide Member States. The pandemic has further pressured obsolete infrastructures and compromised the goals of the EU in terms of promoting upward convergence.

SGI providers employ over 60 million workers, contribute to approximately 26% of the EU GDP and represent a large percentage of the activities that remained operational throughout the lockdown. Those services handled guaranteeing the well-being and security of citizens throughout the crisis and played a vital role in maintaining a certain level of economic activity which prevented the total collapse of the Single Market.

Beyond the essential services offered by **healthcare** providers, SGIs also encompass:

- **Education**, which will lead the skilling, re-skilling and up-skilling of the workforce, an indispensable feature of the green and digital transition particularly amidst demographic changes;
- **Social Services**, which support citizens and guarantee the well-being of the most vulnerable groups of citizens exposed to economic and social exclusion, including by employing them;
- **Housing**, which is increasingly evolving from the exclusive housing provision to the crucial work of *building cohesive communities;*
- **Water, energy, waste management, urban transport, railways**, which are instrumental infrastructures responsible for achieving the green transition and fostering the circular economy;
- **Telecommunication and ICT-infrastructure providers,** which are instrumental for the maintenance of networks enabling economic activities, connections between people and businesses;
- **Local and regional authorities**, which are crucial to ensure that the EU initiatives reach their targets on the ground and that economic and social cohesion is enabled at all levels;

- **Tourism,** representing part of the European GDP and often, a crucial development activity at the territorial level, has been impacted hugely by the Corona-virus crisis. There will be a very slow recovery of the activity;
- **National Promotional Banks and Institutions,** which have quickly provided necessary countercyclical support to the economy and are well placed to allow smooth articulation between EU supported funds and existing national and regional public support schemes to enable the necessary long-term investments to recover from the pandemic.

Considering the centrality of those services, CEEP members have been continuously in action across the EU during the COVID-19 outbreak.

As a result, as soon as the Next Generation EU is approved, our members will be ready with clear and effective investment plans going. Examples includes a **5-year plan worth €50bln in Italy in the fields of water, waste and energy to support the digitalisation and greening of infrastructures and service provision, contributing to an increase of 3,6% GDP and the creation of 350.000 to 400.000 jobs**; or a **3-year plan of €51bln in France in the field of social housing as a basis to preserve and create employment in the sector and reach total carbon neutrality by 2050**. All over Europe, our members will be the guarantors of the added value of Next Generation EU for citizens and for private businesses, as they will use its means to invest in long-term, green and socially inclusive projects in opposition to short-term “survival” and financial rescue plans.

That is why it is indispensable that **those services are appropriately targeted by tailored policies and are strongly supported. In this regard, we believe that the Social Investment and Skills Window within the InvestEU programme, should have been reinforced rather than reduced by 10 %.**

Furthermore, as a financial element of the MFF the Next Generation EU cannot be seen in isolation from other EU funding frameworks. This is why we call on all the institutions to safeguard the support of all EU Funds – including Structural and Investment Funds – to SGIs in the areas of health, infrastructure, employment and social inclusion.

The lack of an appropriate framework supporting those essential services will seriously jeopardise our economy’s overall capacity to recover as well as to overcome our long-term challenges: Next Generation EU gives European and national institutions the chance to finally demonstrate that investment in physical and social infrastructures cannot be considered as a cost, but rather as the indispensable precondition to ensure long term competitiveness, employment and growth.

The implementation and the involvement of Social Partners

Beyond the discussion regarding the number of funds to be allocated or the distribution between grants and loans, **we must focus on the implementation process and the appropriate involvement of SGI employers and providers as well as social partners in general, both at EU and at national level.**

Given the urgency and magnitude of the crisis, CEEP believes that unprecedented action must take place. We must however make sure that Next Generation EU adequately addresses its purposes and reaches the stated and agreed objectives. In order to do so, **multiple channels of articulation must be**

activated to connect stakeholders and ensure that a **transparent** and **efficient implementation process** takes place. It is also essential to support the transfer of expertise and know-how between partners who would like to make use of best-practice solutions in the other EU Member States.

Europe must **act collectively and, on several fronts, to ensure its economic resilience.** Therefore, we must **explore multiple sources** to establish the **appropriate conditions for enterprises – especially those serving general interests - to thrive** whilst **safeguarding the well-being of our workforce.**

EU Social partners and their members across the EU represent a unique bridge capable of connecting stakeholders and allowing the consolidation of **efficient and coordinated actions that bring together the EU, national, sectoral and company levels**. CEEP is committed to continuing and deepening its work related to the challenges imposed by the COVID-19 and profoundly reinforces that **the active involvement of social partners is indispensable for optimal recovery, as well as for addressing the digital, green and socially just transitions.**

The new **Recovery and Resilience Facility** – which aims to pool €560bln towards the promotion of public investment and structural reforms targeting Member States and regions in greater need – as well as the funds attached to Cohesion policy and the Just Transition Mechanism in the context of the MFF 2021-2027, will be closely steered by the **European Semester. CEEP welcomes this format which enhances the necessary participation of social partners within the first pillar of the Next Generation EU.**

However, CEEP would like to warn against the risk of undermining other EU funding instruments by prioritising those that solely focus on the recovery. Whilst we welcome the value of Next Generation EU, its delivery should not come at the detriment – financially or politically - of other instruments that have already proven their efficiency in addressing economic and social crises, such as the European Structural Funds.

Nevertheless, the specific mechanisms through which social partners will be involved in the two remaining pillars of the instrument are not yet clear. Therefore, knowing the singular added value of the knowledge provided by social partners and the need to foster a bottom-up approach to ensure the efficient allocation of funds, CEEP highlights its concern in this regard.

Finally, CEEP emphasises the importance of addressing the unequal state of play regarding social dialogue across the EU. Joint actions to foster those institutions at the national level must be a priority for a socially inclusive recovery. The active participation of social partners from different levels of governance, including the regional and local levels, will be especially crucial when it comes to the design of **national recovery plans**.

Ensuring that every Member State has the capacity to prepare and implement those plans is essential for **fair and strategic resource allocation**. The success of Next Generation EU will be directly proportional to the quality of **well-designed selection criteria**.

Assessing some of the potential risks of Next Generation EU

This current crisis has already mainly been impacting the global economy and substantial shifts in the international order and institutions are very likely to take place in the short, medium and long terms.

One of the singularities of this COVID-19 crisis is the economic effect of the lockdown measures. In case of a return of the virus requiring similar measures to be put back in place, EU institutions and leaders need to bear in mind that fiscal and monetary policies will further suffer from diminished capacities due to the very nature of this crisis. Uncertainty is also very likely to be a considerable obstacle to the rehabilitation of confidence, without which private investors will not answer to the level expected by the Commission.

These potential constraints are the reason why European leaders must be aware of the evolving nature of the instrument and be ready for eventual adaptations to the original proposal, embodied in the Next Generation EU. This can be achieved by Member States continuously showing flexibility and commitment to the core principles of unity and solidarity.
Special attention must be given to the enhancing of both top-down and bottom-up articulations between different levels of governance and across their key stakeholders. The large scale and scope of the recovery plan can jeopardise the active participation of local and regional authorities, which are crucial for an efficient policy design and implementation. Therefore CEEP calls for an integrated approach that empowers the local actors who are the actual forces in charge of materialising these proposals "on the ground".

Moreover, the new MFF 2021-2027 and Next Generation EU aim to trigger the full potential of the EU own resources. It will be enabled, according to the Commission, by "*targeted reinforcements to the long-term EU budget*". Amongst the possible sources of additional revenue, the Commission has singled out proposals for new taxation schemes targeting, for instance, digital, corporation and non-recycled plastic.

CEEP believes that it is crucial to mobilise the necessary funds to foster strategic investment and industrial ecosystems to better respond to future shocks. Nonetheless, we want to highlight the **challenge**, in terms of immediate and reliable results, **of revising the current European framework of taxation and generating additional EU own resources.** It is a very arduous political process, with Member States still very far from an agreement. Against this challenging background, the idea of relying on uncertain income sources as proposed by the European Commission does not seems to be a pragmatic solution in the short term.

Another concern is related to the potential macroeconomic impacts of borrowing on financial markets, especially if, along the way, the European Commission's credit ratings eventually take a hit.
Such a scenario **exposes one of the main vulnerabilities of the EU**. This crisis is – and will keep on – triggering multiple cross-border spillovers, which implies that coordination must remain at the core of the EU policy endeavours.

Conclusion and way forward

The European Commission made a vital move presenting Next Generation EU on 27 of May. However it is only a first move, and coordinated actions must now guide every step of the way and inspire long-term and future-proof responses to this crisis.

This is why CEEP supports the preservation of the General Escape Clause of the Stability and Growth Pact until the end of 2021. Given the uncertainty of the scenario we face, as well as the intensity of the shock, we cannot expect Member States to bounce back any time before that.

Public investment must lead the way right now in order to ensure a proper and generalised recover and safeguard Europeans competitiveness under the constraints imposed by the pandemic, the extent and duration of which are hardly predictable, whilst restructuring to an economy in line with the fundamentals of ecology.

In this context, however, the commitment to fiscal sustainability – especially when considering the impacts of demographic change – cannot be left behind.
This process of debt reduction must not culminate in the recurrence of underinvestment in our infrastructures. Policy makers must remain particularly attentive to continuously provide the necessary incentives for investment in public services and SGIs and be ready to step in if market forces fail to enhance those essential provisions.

Finally, the EU economic governance must dispose of the appropriate tools to be able to respond to such emergencies, calling for structural transformations in a timely manner. Tackling the barriers and transaction costs that block the EU from the exercise of its economic governance and fostering the necessary articulations across Member States, public and private sectors, is the only way to guarantee the **resilience of our Single Market and currency vis-à-vis an increasingly competitive international realm**.

In this spirit, the EU must establish an institutional framework that allows the efficient coordination amongst different levels of governance and enhances the EU's leading role, which can spark our Union's unique competitive advantages to face the challenges ahead.