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EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

565TH EESC PLENARY SESSION – INTERACTIO, 8.12.2021–9.12.2021

Opinion of the European Economic and Social Committee on ‘Digital transformation opportunities for retail companies and its advantages for European consumers’

(own-initiative opinion)

(2022/C 152/01)

Rapporteur: **Felipe MEDINA MARTÍN**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Single Market, Production and Consumption
Adopted in section	18.11.2021
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	190/1/4

1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) welcomes the fact that the retail sector is being considered as a strategic ecosystem for European recovery in the revision of the European industrial strategy recently presented by the European Commission (EC). The EESC considers that the eco-system approach provides an appropriate framework, reflecting on the one hand the complex interlinkages among sectors and businesses in the Single Market in given value chains and, on the other, the need to support them in successfully embracing the digital and sustainability transitions and contributing to the recovery strategy. The EESC notes the importance, diversity and scale of initiatives undertaken by retail companies to support the green and digital transitions by investing in new technologies to respond to new demands from consumers, as well as their needs.

1.2. The European retail sector, as the biggest private employer in Europe, is in the middle of a digital transformation that has been drastically accelerated by the COVID-19 pandemic. The digital transformation is fundamentally changing retail business models, but also changing interaction with customers, and the most successful businesses are seamlessly integrating the online and offline environment into an omnichannel. The EESC has noted that two-third of retailers had no online operations before COVID-19, and that the pandemic has shown how important an omnichannel strategy is for many companies’ survival, in particular — but not only — the survival of SMEs.

1.3. The EESC highlights that one of the main challenges the retail sector is facing is the lack of an online level playing field with third-country traders; this creates unfair competition for EU-based traders that comply with EU rules requiring that products sold to consumers be safe and consumer rights respected.

1.4. The EESC agrees that a solid, ambitious digital policy for the retail sector is needed in Europe to take advantage of the opportunities that the digital innovation offers for enhancing Europe's competitiveness. Taking on board the green transition provides an opportunity for the retail sector to help consumers make more sustainable choices in their consumption at the same time. The EESC highlights the fact that a real Single Market and efficient and effective cross-border legislation will enable the retail and wholesale sectors to respond to consumer demands and compete in a globally competitive, more digital environment.

1.5. The EESC supports the joint statement in the European Pact for Commerce in Europe issued by the social partners in the retail and wholesale sectors for the EU to help the sector improve its long-term resilience by introducing targeted support measures and accelerating the digital and green transitions, and it recognises the role of retail shops in keeping town centres and rural communities alive. The EESC calls on the EC to reflect on ways to create an integrated recovery and industrial strategy building on recovery plans that reflects the mutually reinforcing role of services and manufacturing in driving growth and the efficient operation of the EU economy and supporting retail digitalisation, with a specific focus on SMEs.

1.6. The EESC urges the EU institutions and Member States to redesign employment and skills support measures and to invest in the skill sets of future retail workers through improved vocational and educational training, individual learning and social economy sector support, accounts geared to new jobs, supporting companies in such a way that they can retain a large portion of their workforce by training them to use digital technologies; re-skilling may enable others to access job opportunities in other sectors. The EESC agrees that artificial intelligence (AI) and robotics will expand and amplify the impact on labour markets of the digitalisation of the economy and that it can contribute to economic and social progress.

2. **Introduction**

2.1. The retail sector, covering retail stores (B2C) and wholesale companies (B2B), is the biggest private employer in Europe, providing one out of every seven jobs and one out of every four European companies. Retailers and wholesalers are the link between producers and manufacturers and the 450 million consumers in the European Union (EU).

2.2. Retail is a consumer-demand driven sector. It is a diverse sector of online and brick-and-mortar stores selling food and non-food products to consumers, which are quickly merging into an omnichannel business model for consumers. 99 % of businesses in this sector are SMEs that are trying to find their way in the Single Market, surviving in a highly competitive market, offering flexibility to innovate and experiment, and doing what they do best: serving their customers.

2.3. The European retail sector is in the middle of a digital transformation. This was drastically accelerated by the COVID-19 pandemic. Numerous consumers had to buy their non-food products online because stores were closed. Food stores were often able to remain open, but were subject to tight restrictions, generating high costs because of the need to keep consumers and employees safe. Many retailers that did not previously have an online web shop had to start offering their products online to be able to reach customers again while in lockdown. Often, online marketplaces were the only way for SMEs to go online quickly and this is expected to increase in the near future.

2.4. At the same time, the green transition is an opportunity for retail, as it allows the sector to rethink business models, offer alternative products and support and nudge people in the direction of a more sustainable lifestyle. It is both responding and leading to societal change. Next to the increasing demand from consumers and regulators for more sustainable alternatives, the green transition is an opportunity to rethink the way society produces, manufactures, sells, uses and discards products.

3. **Digital transformation**

3.1. The digital transformation is fundamentally changing retail business models: it is changing interaction with customers, marketing, the supply chain itself, the information flowing through the supply chain and much more. The sector is traditionally a reseller of products, but it is becoming more and more a mixture of support services around reselling, a leading generator and processor of data, and an important user of AI. This is essential to respond to consumer demand and provide more relevant personalised offers.

3.2. While many are still talking about online and offline sales channels, the most successful businesses are seamlessly integrating the online and offline environment into omnichannels, thereby offering consumers one experience. This is contributing to increased competition between the different business models and generating more choice and transparency for consumers, jobs and growth.

3.3. One of the main challenges the retail sector is facing is the lack of an online level playing field with third-country traders. Some of these issues are already addressed by different Commission initiatives. There are regular reports in the media that non-EU products being sold online by third country traders are not compliant with EU rules or are even unsafe or dangerous. This creates unfair competition for EU-based traders that comply with EU rules that require that the products sold to consumers be safe and that consumer rights be respected. The problem is exacerbated by failing market surveillance and customs controls, topped by high compliance costs for law-abiding traders. For consumers, it is difficult to resist the temptation of lower prices. One study from 2020 suggests that almost 70 % of EU consumers that buy cross-border have purchased products sold from China — a figure that stood at about 15 % in 2014 ([1]).

3.4. Retailers and wholesalers are innovating, adapting and experimenting in order to explore new products, services and business models so as to keep up with customer demand. More than two out of three retailers had no online operations before COVID-19, and the pandemic has shown just how important omnichannels are for many companies' survival, in particular — but not only — SME retailers and wholesalers.

3.5. Digital innovation enhances the competitiveness of Europe globally. One in two European customers already shop online, spending EUR 424 billion/year ([2]), but the online share of purchases varies considerably per type of product; only 15 % of customers currently buy across borders and only 7 % of SMEs sell outside their own country. A solid and ambitious digital policy for the sector is needed in Europe to take advantage of these opportunities and ensure that all companies are included in the process, that their workers' working conditions are improved and that consumers perceive a clear benefit from the retail digitalisation process across Europe, maintaining a high level of consumer protection across all sales channels.

4. **Green transition**

4.1. The COVID-19 crisis revealed increased consumer demand for sustainable products and ways of conducting business. Retailers and wholesalers acted as a vital interface with end-consumers, playing a key role in anticipating and encouraging demand for more sustainable, recyclable and/or reusable products and packaging. Retailers and wholesalers were active for many years in encouraging sustainable consumption and reducing CO_2 emissions in their operations and supply chains. But they faced challenges in driving this transition in a sector with high fixed costs and low margins.

4.2. The retail sector contributes significantly to the collection and recycling of waste. Extended Producer Responsibility (EPR) systems are based on the volume of a given waste stream a company puts onto the market in which they are present. This responsibility is not as clear when traders that are not physically established in the EU bring products onto the EU market or when consumers do this through direct import. In these cases, product waste entering the waste stream is recycled or removed at the cost of European retailers. This includes waste created by third-country operators, who pay nothing. Increased cooperation is needed between WEEE (Waste of Electrical and Electronic Equipment) schemes and online sellers established outside the EU, as are steps to make these companies aware of their obligations under EPR schemes. Consumer awareness about recycling processes and costs are also crucial to make more transparent the effects of buying online.

5. **Skills**

5.1. The EESC supports the joint statement of 8 April ([3]) advocating A European Pact for Commerce, issued by the social partners in the retail and wholesale sector: UNI-Europa and EuroCommerce. This highlighted the unprecedented impact of the COVID-19 crisis on the viability of retailers and wholesalers and the resilience of their workforce. The tradition of social partnership and the prevalence of tailored working arrangements in the sector, often through collective agreements, enabled companies to deal effectively with the sudden and radical adaptation to the 'new normal'. The social partners proposed 'A European Pact for Commerce' for EU and governmental authorities to help the sector improve its long-term resilience through targeted support measures and by accelerating the digital and green transitions.

([1]) E-commerce in Europe 2020.
([2]) https://www.eurocommerce.eu/about-us/the-narratives.aspx
([3]) 2020.04.08 — EuroCommerce_UniEuropa_statement.pdf

5.2. According to a recent report by the McKinsey Global Institute [4], COVID-19 and automation combined are putting more than 5 million jobs at risk in retail and wholesale. This could affect the many women and young people employed. As well as stabilising the economy, the EU and Member States need to invest in the skill sets of these workers, e.g. through improved vocational and educational training, individual learning accounts and reskilling. Targeted up-skilling would enable the sector to retain a larger portion of its workforce by training them to use digital technologies, while re-skilling may enable others to access job opportunities in other sectors.

5.3. EU employment and skills support measures therefore need to be redesigned to allow easy and rapid access to funding for the restructuring of this sector and to cope with the changing skills needs driven by the acceleration of market changes caused by COVID-19. Recovery plans must be used to increase skills of both retail and wholesale workers in the same way as for public sector workers.

6. **Industrial strategy — retail ecosystem**

6.1. The updated Industrial Strategy recently presented by the EC [5] presents a new focus on essential ecosystems, including retail and agri-food. Retailers and wholesalers play a vital role in the European economy and the functioning of numerous other eco-systems such as the logistics sector. The digital and green transitions must help drive post-COVID-19 recovery, and retailers and wholesalers need to be recognised as an important part of numerous ecosystems, for example, online commerce and logistics. Logistics is an indispensable industrial element for online commerce, symbiotic as neither of the two subsystems can carry out its business without the contribution of the other. For this reason it is in the general interest that the logistics sector grows in compliance with workers, consumers and environment.

6.2. The EC recognised that the retail and wholesale eco-system is one of the hardest-hit sectors and comes second in terms of investment support needs. Retailers and wholesalers operate with high turnover, high fixed costs and low margins (1-3 %), meaning that they are particularly vulnerable to liquidity shortages. In May 2020, the estimated losses linked to the first wave of the pandemic reached 16-20 % of annual turnover (EUR 250-320 billion) in non-food retail. A large number of businesses in the retail and wholesale eco-system have suffered drastically from government restrictions on them directly or indirectly e.g. as a result of their customers being shut down or subject to other mobility restrictions. Those with online operations have been able to mitigate some of the losses, but only in a very limited way. Online sales have grown significantly and are expected to continue to grow as consumers gain experience with buying online.

6.3. The eco-systems approach provides an appropriate framework reflecting both the complex interlinkages among sectors and businesses in the Single Market in given value chains, as well as the need to support them in successfully embracing the digital and sustainability transition and contributing to the recovery strategy. With private consumption constituting over 50 % of EU GDP, retailers and wholesalers ensure manufacturers' access to consumer and professional markets; customers can buy what they need, and this makes up a continuous and vital supply chain.

7. **Role of retail in keeping town centres and rural communities alive**

7.1. Retailers have built up trust with European consumers over many years and provide them with high quality products at competitive prices, constantly looking to create and pass on new efficiencies to help consumers' purchasing power. Retailers create environmentally-friendly products that help sustainable consumption, but more is needed.

7.2. Retail shops are also central to keeping town centres and rural communities alive. This also shows how relevant traditional brick-and-mortar shops are and will be for society. Retailers can serve as a post office, bank and pharmacy and help local communities remain vibrant. Empty retail space in shopping streets inexorably condemns towns to a slow decline into vandalism and crime, and a village shop can make the difference between a living rural community and one that loses its population.

7.3. European retailers need to be able to increase and accelerate their investment in automation, consumer interface and AI in order to remain competitive. Support for such investment and for expanding online sales, and particularly help for SME retailers and small town-centre operations to go online, would have a transformative effect both on their local communities and on the survival and resilience of many retail companies facing intense — and increasingly global — competition.

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(4) The future of work in Europe (mckinsey.com).
(5) COM(2020) 102 final; communication-industrial-strategy-update-2020_en.pdf (europa.eu).

8. **A level playing field for retail in Europe**

8.1. The EU, with 450 million consumers, has huge potential as a digital internal market. The European Digital Single Market Strategy was designed to stimulate cross-border e-commerce between EU countries. However, cross-border e-commerce within the EU has not grown as quickly as such e-commerce from third countries. The European digital services market clearly lags behind the US and China, especially when it comes to presence on the global market, and this is reflected in the explosive growth of online sales from some non-EU countries, particularly China, to European consumers. Over the years, we have seen that more and more innovative digital formats and technologies are created there. The EU and its Member States have to step up their efforts to create the right framework in which companies can compete, innovate, serve their customers and ensure consumer protection. The best way to do so is by ensuring that it is more attractive to invest and do businesses in the EU than it is elsewhere in the world.

8.2. Online sales are the fastest growing part of the retail market, and while still relatively limited compared with offline sales, they are starting to become very significant in a number of non-food sectors. Retailers are no longer the sole gateway to customers, with manufacturers also starting to use e-commerce to sell and interact in other ways directly with consumers. Economies of scale and extensive mechanisation of processes, along with network effects and the ability to offer an almost unlimited range of products, have worked to the advantage of large online players and platforms, whose growing market shares are starting to replicate the traditional gate-keeper role of local shops.

8.3. All goods on sale in the EU must be compliant with EU rules, and all traders selling to EU consumers must ensure this. Direct imports have resulted in new challenges of compliance with EU laws, posing health and safety risks to European consumers and exposing EU traders to unfair competition. A strong message has been sent out to the effect that no matter where a company is located, goods sold within the EU — irrespective of their value — must comply with the rules. Among others, the proposed Digital Services Act, the review of the General Product Safety Directive, proper implementation and enforcement of the Market Surveillance Regulation and other EU legislation will be instrumental.

8.4. It is crucial that the Single Market and this sector function properly, as it will enable retail and wholesale to respond to consumer demands and compete in a globally competitive and more digital environment. The EESC believes that action at EU level is of the utmost importance to prevent further fragmentation of the internal market and to avoid the introduction of new, often protectionist, national rules for products and services, as well as preventing diverging implementation and interpretation of EU law.

9. **AI in retail and wholesale**

9.1. Retailers and wholesalers have been using automation for many years in areas such as transport, ordering and stock management or in interactions with consumers. With AI, automation has become much more sophisticated, allowing for better insights and efficiencies. AI impacts the retail and the wholesale sector in many ways. This includes improving interaction with customers, speeding up parcel delivery, predicting customer behaviour, optimising stock, detecting fraud and making the sector more sustainable.

9.2. There has been a sharp increase every year in retail uptake of AI. Only 4 % of retailers used AI technologies in 2016, while in 2017 this increased to 17 %, and in 2018 it rose to 28 %. Unsurprisingly, uptake has been highest in large retailers and wholesalers with USD 10 billion or more in annual turnover. AI is being used by retailers in the automotive domain (19 %), electronics and home applications (25 %), home improvement (26 %), food and grocery (29 %), apparel and footwear (33 %) and multi-category (42 %).

9.3. As the EESC detailed in its opinion on AI ([6]), AI and robotics will expand and amplify the impact of the digitalisation of the economy on labour markets and can contribute to economic and social progress. In recent years, AI has become a focus for businesses, decision-makers and society. AI offers endless opportunities for retail and wholesale companies to grow operationally, improve supply chains, help make decisions, understand consumer needs and improve the customer experience. These are just some of many reasons why so many retailers and wholesalers are exploring and investing in the opportunities offered by AI.

([6]) OJ C 440, 6.12.2018, p. 1.

9.4. Many AI applications have no impact on individuals. The AI used for medical diagnosis and the AI used for shelf scanning in a warehouse may be similar technologies, making decisions based on complex data sets — but they involve fundamentally different risks and require different safeguards. AI needs regulation that addresses the different levels of risk entailed in the use of AI systems, ensuring that consumers are safe and have trust in the systems.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Beyond GDP measures for a successful recovery and a sustainable and resilient EU economy'

(own-initiative opinion)

(2022/C 152/02)

Rapporteur: **Petru Sorin DANDEA**

Plenary Assembly decision	25/3/2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	23/11/2021
Adopted at plenary	8/12/2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	209/2/7

1. **Conclusions and recommendations**

1.1. The EESC believes that an economic transition from a model driven by growth to one predicated on sustainability is inevitable. Given the sheer complexity of and the huge challenges posed by this transition, the proposals for new indicators set out in this opinion are only one example of approaches that could be taken when it comes to tools for measuring the social, economic and environmental situation.

1.2. The EESC proposes that a series of indicators be developed, ensuring that policy-makers can make informed decisions and foster policies to grow the circular economy. For instance, information on the amount of materials derived from natural resources used in some items designed to be used over a long period of time correlated with data on the average period of use and the potential rate of recovery of these materials would inform decision-makers about the investments needed in the recycling sector.

1.3. The Committee considers that a concise 'Beyond GDP' scoreboard should be designed. This could then be incorporated into the European Green Deal scoreboard. The 'EU Doughnut by 2030' concept developed by the German institute ZOE could be used to design this scoreboard. The scoreboard could be incorporated into the European governance process for the purposes of assessing progress and pinpointing the measures needed to achieve the European Semester targets. The Committee believes that the European governance process should take a new approach geared towards the well-being of citizens.

1.4. The EESC considers that the Member States should give priority to using some of the indicators proposed by the United Nations, depending on their country's circumstances, and urges them to act on the proposals set out in the OECD's reports on improving the measurement of well-being and prosperity.

1.5. The EESC endorses the views of the European social partners set out at the Porto Summit, whereby the 14 indicators proposed can comprise a scoreboard complementing GDP and can be used to frame policies supporting a sustainable growth model.

1.6. Investments in social cohesion, sustainable development, human and social capital and quality of life will be paramount for creating opportunities for modern businesses and for boosting employment, wealth and sustainable growth in the future. The EESC thus considers that indicators that look beyond GDP must be able to do more than merely monitor and measure: they must inform policy development, improve communication and promote target setting.

1.7. The European Commission recently issued a communication [1] steering financing towards sustainable activities. The EESC endorses the Commission's initiative and considers that a set of indicators needs to be devised to track both the 'greening' of financing and the degree to which economic sectors have been 'greened'. These indicators would steer decision-makers when they plan public incentives for sustainable activities. They would also be an important monitoring tool for Member State governments. Monitoring is needed because the pace at which we direct investments towards sustainable sectors must be controlled: if we invest too slowly, we may deplete available resources before there is any alternative. This would cause prices to explode, with a dramatic effect on the economic system. If we invest too quickly, many sectors could be starved of investments, slowing down the very economic activity which generates the resources needed for investments.

1.8. With a view to combating climate change, the EESC considers that some existing indicators also need to be revised so that progress can be monitored more accurately. Some of the indicators used fail to fully capture the adverse effects of certain economic activities on the environment. A number of indicators should also be adapted to better reflect the EU's objectives.

1.9. Digitalisation and greening the economy will entail profound changes in the various sectors. In order to keep the social cost of these changes as low as possible, policies will be needed to safeguard the labour force in general, ensuring that the necessary work is distributed fairly among the active population in the medium and long terms. On a similar note, as proposed by the European social partners, the EESC considers that steps must be taken to develop a set of indicators for collective bargaining. Collective bargaining protects workers, but it can also promote policies for vocational training programmes which make workers mobile; this will be imperative given the challenges posed by the economic transition. Smart programmes organising working time negotiated by the social partners can ensure that the work available is distributed fairly throughout the economy.

1.10. Major economic changes will require the buy-in of society as a whole. The EESC feels that further surveys (along the lines of Eurobarometer surveys) need to be conducted, in order to track society's perception of how the economic model is being changed.

1.11. The development of initiatives to measure well-being more effectively and analyse the impact of economic activities on the environment (such as the work done by the German research institute ZOE, which has developed the system of indicators known as 'Doughnut Economics') should also be supported by the Member States and the European Commission.

2. **Introduction**

2.1. Gross domestic product (GDP) is still the main macroeconomic indicator used around the world to quantify economic activity. However, many people feel that GDP fails to reflect the real level of well-being and development of a society, and the damage done to the environment by certain economic activities.

2.2. Although even the people who came up with the concept of GDP were aware of its limitations, debate on 'Beyond GDP' gained traction in the 1990s. It became clear that more suitable indicators were needed, able to cope with the global challenges of the 21st century (climate change, poverty, resource depletion, health and quality of life). The 2007 high-level conference on Beyond GDP [2], hosted by the European Commission, the European Parliament, the Club of Rome, the OECD and the WWF, was a key step along the path towards identifying the indicators most appropriate for measuring this type of progress and best able to be incorporated into the decision-making process and public debate. The Commission on the Measurement of Economic Performance and Social Progress [3], chaired by Joseph E. Stiglitz, Amartya Sen and Jean-Paul Fitoussi, and their final report then shone a spotlight on other limitations of GDP (doubts regarding the way it measures productivity and the fact that it fails to factor in human capital).

(1) COM(2021) 188 final, *EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal*.
(2) Summary notes from the Beyond GDP conference: https://ec.europa.eu/environment/beyond_gdp/proceedings/bgdp_proceedings_-summary_notes.pdf.
(3) Report by the Commission on the *Measurement of Economic Performance and Social Progress*: https://ec.europa.eu/eurostat/documents/8131721/8131772/Stiglitz-Sen-Fitoussi-Commission-report.pdf.

2.3. In recent years, European decision-makers have had to allow for many new priorities, such as the digital and environmental transitions and increasing focus on social issues in a wide range of policy fields. What is more, although there can be no doubt that the crisis triggered by the COVID-19 pandemic will have a deep and damaging impact on the European economy, we must not forget that other challenges (climate change, increasing inequality and a sluggish increase in productivity) have not gone away. Investments in social cohesion, sustainable development, human and social capital and quality of life will be paramount for creating opportunities for modern businesses and for boosting employment, wealth and sustainable growth in the future. This means that indicators that look beyond GDP must be able to do more than merely monitor and measure; they must inform policy development, improve communication and promote target setting.

2.4. Through this own-initiative opinion, the EESC wants to make a useful contribution to determining which well-being and development indicators should be used alongside the traditional economic indicators. The opinion also points out that more data are needed and shows how these indicators could be built more effectively into the European and national policymaking process, with a view to enabling the EU to exit the ongoing crisis stronger and more resilient to future shocks.

2.5. Now more than ever, we need to devise indicators to shape and implement policies geared to developing a global model for a sustainable economy, a model which is able to ensure the well-being of everyone living on planet Earth. The current economic model, which uses continuous growth as the main factor of system stability, cannot be sustained by a planet with limited resources.

2.6. In June, the European Commission published a discussion paper ([4]) reiterating the need to develop indicators complementary to GDP that will enable more effective monitoring of the transformation of society and the economy to be carried out as policies driven by the European Green Deal are implemented. It also sets out the efforts made in recent years by some countries seeking to develop complementary tools to monitor well-being and the environmental impact of economic activities.

2.7. At global level, a number of initiatives are ongoing aimed at developing indicators which, on the one hand, will enable politicians to design and implement policies to foster sustainability and, on the other hand, will help generate a clearer picture regarding the process of transforming the economic model. One remarkable example here is the EU Doughnut by 2030 ([5]), which has developed a new concept for presenting a political summary of existing dashboards and selected 30 indicators with the aim of making the policy-design process more effective but also helping the public to better understand what is required when it comes to transforming the economic system.

3. **General and specific comments**

3.1. The debate on Beyond GDP has yielded significant responses from institutions, researchers and politicians. The OECD, UN, European Commission and Eurostat have come up with proposals for indicators which are able to measure well-being and prosperity at individual, community and national level more effectively. In 2015, the UN adopted the Sustainable Development Goals, setting 169 targets and 200 indicators for the overarching goals. In 2018, the OECD’s high-level group of experts prepared two reports ([6]) calling for well-being to be measured more effectively by improving certain existing indicators or adding new ones. The EESC considers that the Member States should give priority to using some of the indicators proposed by the UN, depending on their country’s circumstances, and urges them to act on the proposals set out in the OECD’s reports on improving the measurement of well-being and prosperity.

3.2. Recently, the European social partners Business Europe, the European Trade Union Confederation (ETUC), the European Centre of Employers and Enterprises providing Public Services and Services of general interest (SGI Europe) and UEAPME signed a joint document ([7]) recommending a set of indicators complementing GDP in the social, economic and

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([4]) https://ec.europa.eu/info/publications/economic-policy-making-beyond-gdp-introduction_en.
([5]) https://zoe-institut.de/en/publication/a-compass-towards-2030.
([6]) OECD (2018), *Beyond GDP: Measuring what counts for economic and social performance*, OECD Publishing, Paris — https://doi.org/10.1787/9789264307292-en.
OECD (2018), *For Good Measure: Advancing Research on Well-Being Metrics Beyond GDP*, OECD Publishing, Paris — https://doi.org/10.1787/9789264307278-en.
([7]) https://est.etuc.org/wp-content/uploads/2021/05/FINAL-BEYOND-GDP-SOCIAL-PARTNERS-EU.pdf.

environmental fields. The EESC endorses the views of the European social partners, whereby the 14 indicators proposed can comprise a scoreboard complementing GDP and can be used to frame policies supporting a sustainable growth model.

3.3. The EESC has been engaged in the European debate on Beyond GDP since 2011. It has drawn up a series of opinions ([8]) proposing new indicators for measuring well-being and prosperity, as well as surveys seeking to pinpoint what makes Europeans feel that their life is good and meaningful. The EESC points to the need to develop new indicators to measure economic resilience in terms of ability to adapt and change, while also taking account of the principle of 'leaving no one behind'.

3.4. In order to know that we are leaving future generations a planet which is at least as good as it is at present, we need to rethink an economic model that is based on uncontrolled exploitation of natural resources. The circular economy is expanding and promotes more rational use of natural resources. The EESC therefore proposes that a series of indicators be developed, ensuring that policymakers can make informed decisions and foster policies to grow this sector. For instance, information on the amount of materials derived from natural resources used in some items designed to be used over a long period of time correlated with the average period of use and the potential rate of recovery of these materials would inform decision-makers about the investments needed in the recycling sector.

3.5. The Committee considers that a concise 'Beyond GDP' scoreboard should be designed. This could then be incorporated into the European Green Deal scoreboard. The 'EU Doughnut by 2030' developed by the German institute ZOE could be used to design this scoreboard. The scoreboard could be incorporated into the European governance process for the purposes of assessing progress and pinpointing the measures needed to achieve the European Semester targets. The Committee believes that the European governance process should take a new approach geared towards the well-being of citizens.

3.6. The EESC recommends that the Commission and the Member States set targets for each of the indicators. In this way, the 'distance to target' concept could be adopted to make it easier to understand the process and track progress.

3.7. The European Union has set an ambitious target as regards climate change, aiming to become neutral in terms of carbon emissions by 2050. This also means that investments must be channelled towards economic activities which do not have an impact on the environment. The European Commission recently issued a communication ([9]) steering financing towards sustainable activities. The EESC endorses the Commission's initiative and considers that a set of indicators needs to be devised to track both the 'greening' of financing and the degree to which economic sectors have been 'greened'. These indicators would steer decision-makers when they plan public incentives for sustainable activities. They would also be an important monitoring tool for Member State governments. Monitoring is needed because the pace at which we direct investments towards sustainable sectors must be controlled: if we invest too slowly, we may deplete available resources before there is any alternative. This would cause prices to explode, with a dramatic effect on the economic system. If we invest too quickly, many sectors could be starved of investments, slowing down the very economic activity which generates the resources needed for investments.

3.8. With a view to combating climate change, the EESC considers that some existing indicators also need to be revised so that progress can be monitored more accurately. One example here is the indicator on greenhouse gases: the indicator devised by Eurostat does not include emissions from certain sectors, such as air transport. A number of indicators should also be adapted to better reflect the EU's objectives.

([8]) Opinion of the European Economic and Social Committee on *GDP and beyond — the involvement of civil society in choosing complementary indicators* (own-initiative opinion), OJ C 181, 21.6.2012, p. 14.
Opinion of the European Economic and Social Committee on the *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions: Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance*, COM(2010) 367 final, OJ C 107, 6.4.2011, p. 7.
Opinion of the European Economic and Social Committee on *Beyond GDP — measurements for sustainable development*, OJ C 100, 30.4.2009, p. 53.

([9]) COM(2021) 188 final, *EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal* (OJ C 517, 22.12.2021, p. 72).

3.9. Digitalisation and greening the economy will entail profound changes in the various sectors in terms of both their contribution to GDP and jobs. In order to keep the social cost of these changes as low as possible, policies will be needed to safeguard the labour force, ensuring that the necessary work is distributed fairly among the active population in the medium and long term. On a similar note, as proposed by the European social partners, the EESC considers that steps must be taken to develop a set of indicators for collective bargaining. Collective bargaining protects workers, but it can also promote policies for vocational training programmes which make workers mobile; this will be imperative given the challenges posed by the economic transition. Smart programmes organising working time negotiated by the social partners can ensure that the work available is distributed fairly throughout the economy.

3.10. Major economic changes will require the buy-in of society as a whole. Throughout this difficult process, in addition to statistical indicators, policymakers will therefore need surveys and statistical studies to monitor the degree of understanding and acceptance of these changes by society. The EESC feels that further surveys (along the lines of Eurobarometer surveys) need to be conducted, in order to track society's perception of how the economic model is being changed. The development of initiatives to measure well-being more effectively and analyse the impact of economic activities on the environment (such as the work done by the German research institute ZOE, which has developed the system of indicators 'EU Doughnut by 2030') ([10]) should also be supported by the Member States and the European Commission.

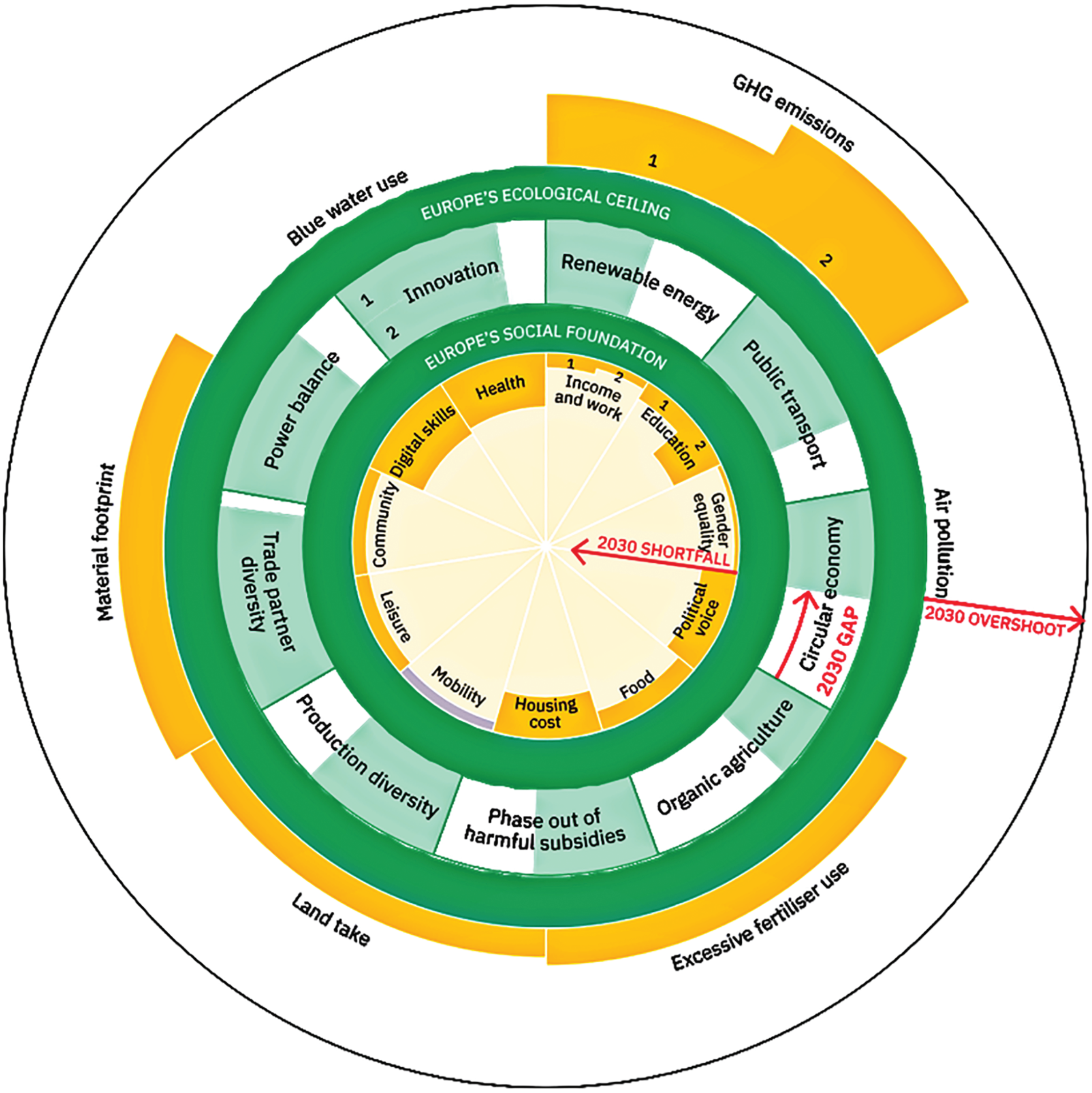
3.11. The EESC believes that the economic transition from a model driven by growth to one predicated on sustainability is inevitable. Given the sheer complexity of and the huge challenges posed by this transition, the proposals for new indicators set out in this opinion are clearly only one example of approaches that could be taken when it comes to tools for measuring the social, economic and environmental situation.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([10]) Report by the ZOE institute: *A Compass towards 2030* (https://zoe-institut.de/en/publication/a-compass-towards-2030/).

ANNEX



A first look at EU Doughnut by 2030.

Opinion of the European Economic and Social Committee on 'The role of corporate taxes in corporate governance'

(own-initiative opinion)

(2022/C 152/03)

Rapporteur: **Krister ANDERSSON**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
	Resolution
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	23.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	223/4/11

1. **Conclusions and recommendations**

1.1. The EESC believes that the response in the private sector to the Recovery Plan and NextGenerationEU will be key to delivering and effectively achieving a greener and digitalised economy. Public policies must therefore provide the appropriate incentives. Economic policies, in particular tax policies and policies impacting on corporate governance, must provide for an efficient decision-making process and efficient allocation of resources, promoting the achievement of social objectives.

1.2. The EESC assesses that, to deliver a sustainable green and digitalised economy, the debt-equity financing distortion in taxation needs to be addressed.

1.3. The EESC urges Member States to make their tax systems more neutral with regard to debt and equity financing. This would encourage diversification of financing sources and make the European economy more resilient.

1.4. The EESC welcomes the initiatives taken by the EU Commission to present measures addressing the debt/equity bias in corporate tax systems by the first quarter of 2022.

1.5. The EESC stresses that for new firms and for investors seeking greener and digitalised investment opportunities, a well-functioning capital market is essential. The EESC therefore calls for further steps toward the completion of the Capital Markets Union (CMU).

1.6. Investment in new, green technology is perceived to be very risky and equity financing is therefore often used. Dividends help increase liquidity in the market, also to the extent that they may be perceived as too short-term, and are an important source of financing.

1.7. The EESC believes that capital markets and private funds can play a crucial role in encouraging the path of companies towards a sustainable greener and digitalised economy. Any policy action by the European legislator concerning taxation, company law and corporate governance should enhance such a role.

1.8. Under the influence of European directives and regulations, the EESC notes that national company laws are an integral part of the judicial system in each Member State, allocating rights and accountability to appropriate levels in the legal structure. Rules need to be country-specific when it comes to the composition of boards of directors, allowing the owners to decide.

1.9. The EESC encourages the European Commission to undertake concrete initiatives to establish similar carbon taxes in the Member States in order to harmonise the efforts to achieve an effective reduction of CO_2 levels. An ideal outcome would create uniform conditions across the EU single market with regard to the emissions/reductions to be taxed, as well as the specific methods and rates of taxation for equal impact on the level of CO_2 in the atmosphere.

1.10. The EESC reiterates that Member States should, in particular, adopt a comprehensive and symmetrical environmental tax policy on the effect of CO_2 on global warming. There is a need to introduce taxes with both positive and negative rates. The revenues raised from CO_2 taxes should be used to finance incentives for CO_2-reduction techniques locally, regionally and nationally.

1.11. The EESC notes that, while the sale of forest products is taxed as income for the owner, it should be recognised that planting trees and the growth of forests reduces CO_2 in the atmosphere and should therefore, in a symmetrical tax approach to global warming, be encouraged by a negative CO_2 tax. This would be an important measure for achieving climate objectives.

1.12. The EESC underlines the need for a universal agreement on, and globally coordinated implementation of, the OECD/G20 tax package. In order to promote digitalisation of the European economy, it is important that unilateral rules in Europe do not prevent further adaptation of new business models.

2. **Introduction**

2.1. The COVID-19 outbreak gave the European economy both a supply shock, disrupting supply chains, and a demand shock, caused by lower consumer demand. As a result, investments by European companies decreased substantially during the pandemic, while the overall amount of bank deposits has risen.

2.2. However, the recovery is gaining momentum and is well underway. In order to reshape the European economy in line with the objectives stated by the Commission to achieve a more sustainable, greener and digitalised economy, investments must support environmental goals while digitalisation contributes to an increase in productivity, taking into consideration the transformation of the labour market. Both private and public initiatives are needed if we are to meet environmental, economic and social objectives.

2.3. The EU's long-term budget, including the *Recovery Plan* and *NextGenerationEU* tools, will implement the largest public stimulus package ever financed in Europe.

2.4. The response in the private sector will be key to delivering and effectively achieving a greener and digitalised economy. Public policies must therefore provide the appropriate incentives. Economic policies, in particular tax policies and policies impacting on corporate governance, must provide for an efficient decision-making process and efficient allocation of resources.

2.4.1. For the funds allocated to Member States as a response to the COVID-19 pandemic, key indicators must be set up to understand how the money invested is spent in each Member State ([1]).

2.5. The international tax landscape is undergoing its largest changes in the last hundred years. Taxable profit from some of the very largest companies will be relocated from the residence country to the country where sales take place and goods and services are delivered. Furthermore, a minimum effective corporate tax rate of 15 per cent has been agreed upon by some 136 countries in the OECD Inclusive Framework. Another important change is that VAT in Europe is to be levied according to a destination-based approach.

3. **The importance of proper incentives**

3.1. To achieve environmental objectives, firms, households and investors must be given proper incentives in the form of prices that reflect scarcity and externalities. Economic policies laying down economic or social objectives should be reflected in the prices with which private and public investors are confronted in the marketplace.

([1]) To be effective, the money must be raised in a cost-effective manner and be well spent in Member States, contributing to investment that would not have been undertaken without the transfers.

3.2. However, corporate tax systems treat debt financing more favourably than equity financing, in that interest payments are tax-deductible but not the cost of equity financing. This result in increased leverage (debt levels) and therefore vulnerability of the firms in times of economic turbulence.

3.3. To deliver a sustainable green and digitalised economy, the debt-equity financing distortion needs to be addressed. Dividends, which face double taxation (first at corporate level and then at shareholder level), are important not only as income for pensioners and for funding research institutions, but in particular as a source of funding for greenfield investment.

3.4. Investment in new, greener investment projects is associated with a high level of risk. Equity financing is therefore the preferred source of financing. A key area for enhancing private sector participation in green and digital investment is the removal of obstacles to sources of new investment capital.

3.5. For new firms and for investors seeking greener and digitalised investment opportunities, a well-functioning capital market is essential. The availability of capital is crucial for a successful outcome. Dividends help increase the liquidity in the market.

3.6. Sustainability is already a market-driven, competitive factor that is key to companies' ability to attract customers, employees and investors. Consideration for sustainability is good for the long-term survival of the company. Regulatory tools must be constructed in such a way as to support the pursuit of these goals in line with the basic principles of how businesses operate.

3.7. While there should be no interference with dividend policies or undue influence on the composition of boards of directors or enforcement of directors' liability toward a company, proper incentives for a greener economy are needed. The governance of a company must take into account corporate social responsibility, relevant European directives and the OECD guidelines for multinationals.

3.8. Global warming is a concern for us all, and companies should be paying the proper market price for emissions and reducing CO_2 in the atmosphere. This means not only taxes on CO_2 emissions but also subsidies for those activities that reduce CO_2 in the atmosphere.

3.9. Another important area for achieving the objectives of a greener and digitalised economy is taxation of increasingly digitalised firms. A global, consensual solution is needed and a comprehensive agreement is expected to be finalised before year end. Taxes on digital services should not harm innovation or disincentivise investments in digital technologies.

4. **Debt/equity bias in corporate taxation**

4.1. The debt/equity bias in the corporate tax systems affects socioeconomic costs as well as firms' leverage and corporate governance. Excessive reliance on debt financing can undermine the achievement of the European Commission's objectives as companies become financially vulnerable, and the possibility of undertaking new and risky green investment projects will be adversely affected. The ability to pay dividends so that investors get to decide on whether to invest in new projects will be restrained.

4.2. The current tax rules make interest paid on loans deductible from the tax base, while that is not the case for equity payments. Equity payments consist of two parts: dividend payments and capital gains. These national rules make financing through debt clearly more advantageous than financing through equity.

4.3. A dedicated allowance intended to give companies more similar tax treatment for equity financed investment than they currently get for debt-financed investment could reduce corporate vulnerability and be a useful means to promote sustainable, greener and digital investment.

4.4. It is worth noting that if statutory corporate tax rates increase, it will be economically better for a company to invest using loans, thereby encouraging companies to focus on debt financing even more than before. A higher inflation rate and higher interest rates would have a similar effect, increasing incentives to invest using loans.

4.5. The EESC urges Member States to make their tax systems more neutral with regard to debt and equity financing. This would encourage diversification of financing sources and make the European economy more resilient.

4.6. In the proposed revised directive on the Common Consolidated Corporate Tax Base from 2016, an allowance for growth and investment (AGI) was introduced to reduce the debt/equity bias and to promote investments in R&D. The AGI would be provided by making the increase in equity deductible from the taxable base, subject to certain conditions ([2]).

4.7. The EU Commission has announced that a draft directive addressing the debt/equity bias will be presented in the first quarter of 2022 ([3]). The EESC is looking forward to seeing a detailed proposal and providing comments on it.

5. **Corporate governance in company law**

5.1. Besides taxes, regulations may enhance or reduce the effect of incentives created by other means. Direct regulations governing ownership and the ability to use funds as investors and corporate boards see fit may create difficulties for responding to some desirable objectives.

5.2. It is important for a well-functioning economy to have proper rules and regulations affecting the operation of businesses and markets. Shareholders should hold the management of a firm accountable if means are used for personal benefit and not for increasing the value of that firm ([4]). A number of laws regulate acceptable corporate behaviour in terms of combatting tax fraud, tax avoidance and money laundering ([5]), as well as extensive agreements on market codes on corporate behaviour in Member States. As announced in the European Green Deal and the Commission's Communication on the (COVID-19) Recovery Plan, it is important for sustainability to be embedded in the corporate governance framework. The Commission issued a public consultation to collect the views of stakeholders with regard to a possible initiative on sustainable corporate governance ([6]).

5.3. The EESC shares the vision of a greener, digitalised European economy in the future, with fairness, growth and effective taxation, thus creating an environment conducive to investment and job-rich growth. To redirect investment flows, it is paramount that capital be available for the new green economy. Availability of investable funds, together with certainty about rules and upholding the rule of law, are important factors for the successful transition of the European economy.

5.4. The EESC shares the Commission's view that companies should contribute to the achievement of a greener, sustainable and digitalised economy, thereby focusing on long-term objectives and a fair distribution between countries and citizens.

5.5. The EESC firmly believes that ultimate control over corporate activities and accountability for them should lie with the shareholders. The owners of a company should be held accountable. The current system of Member States' corporate governance codes and company laws relies indeed on shareholders, who are the owners of the company, and who ultimately exercise control over the company's strategies and priorities by appointing the company's board of directors. This accountability means that shareholders are responsible for the company's finances and conduct and they should lose capital if the company experiences losses. Such a basic well-established principle should not be changed or undermined.

([2]) An amount equal to the defined yield on the AGI equity base increases would be deductible from the taxable base. The defined yield would be equal to the yield of the euro area 10-year government benchmark bond in December of the year preceding the relevant tax year, increased by a risk premium of two percentage points. See the Council directive on a Common Corporate Tax Base, COM(2016) 685 final, 2016/0337 (CNS) (2016).
([3]) Debt Equity Bias Reduction Allowance (DEBRA), Communication on Business Taxation for the 21st Century, COM(2021) 251 final.
([4]) It must be forbidden to use company funds for luxury spending among managers that is not related to business objectives.
([5]) See EESC opinion *Combat tax fraud, tax avoidance and money laundering* (OJ C 429, 11.12.2020, p. 6).
([6]) Consultation on Sustainable corporate governance, period 26 October 2020 — 08 February 2021.

5.6. Long-term objectives and positive social externalities should, of course, be taken into proper consideration by companies both in their daily operations and in their investment decisions. This is increasingly required by the market standards, by sectoral rules regulating production and by investors across the world, which often demand ESG standards within corporations ([7]).

5.7. Under the influence of European directives and European regulations, national company laws are an integral part of the judicial system in each Member State, allocating rights and accountability to appropriate levels in the legal structure. Rules need to be country-specific, also when it comes to the composition of boards of directors. EU governance and recommendations should ensure fair competition and fair values regarding the conduct of a company.

5.8. In order to facilitate the required role of private funds for the Commission's priorities, it is crucial that capital is not locked-in in companies and that funds can easily be invested in EU-defined key sectors.

5.9. A well-functioning capital market in the EU is essential for new investments in particular. The EESC therefore calls for further steps toward the completion of the Capital Markets Union (CMU) ([8]).

5.10. The liquidity of the capital market is important for investments to be undertaken. Dividend payments, also to the extent they may be perceived as too short-term, contribute to the pool of funds available for new investments in the green and digital sectors ([9]). They are therefore crucial for a well-functioning capital market when they are invested, either in new ventures or in the firm paying the dividend. If dividends are paid out to the investor, the investor may always opt to reinvest in the existing company or in another company. However, if earnings are retained, the investor must liquidate shares as the only way to invest in new ventures. It might be good for old companies and investors if retained capital appreciates in value, but it will not make new funds available for new ventures or greenfield investment.

5.11. Dividend payments give investors an opportunity to continuously refine their investment strategy, contributing to green, sustainable, ethical and digital projects. This has already been witnessed in many cases on capital markets and in the private equity field (such as, for example, investing in battery production for electric cars, or carbon free steel production).

5.12. New companies should be fully allowed to grow and seek financing from dividends paid to shareholders of old, existing companies, thereby allowing a new allocation of capital, in line with the Commission's priorities. Tax incentives for new, green investment could be considered.

5.13. The EESC believes that capital markets and private funds can play a crucial role in encouraging the path of companies towards a sustainable greener and digitalised economy. Any policy action by the European legislator concerning company law and corporate governance should enhance such a role.

6. **Incentives for CO_2 reduction**

6.1. To underpin the transformation of the European economy and to achieve climate objectives, taxes should be used ([10]). It is important that firms and households face the same incentives so that a reduction of CO_2 in the atmosphere can be achieved at as low a cost as possible.

6.2. The EESC encourages the European Commission to undertake concrete initiatives to establish similar carbon taxes in the Member States in order to harmonise the efforts to achieve an effective reduction of CO_2 levels. An ideal outcome would create uniform conditions across the EU single market with regard to the emissions/reductions to be taxed, as well as the specific methods and rates of taxation for equal impact on the level of CO_2 in the atmosphere.

([7]) ESG criteria refer to environmental, social and corporate governance factors that are taken into account when investing in a company. Although their origin dates back several decades, they have become a reference for socially responsible investing in recent years.

([8]) See EESC opinion *A Capital Markets Union for people and businesses (new action plan)* (OJ C 155, 30.4.2021, p. 20).

([9]) Whether there is short-termism in dividend policy has been challenged by many researchers, see e.g. *Corporate Governance and Short-Termism: An in-depth Analysis of Swedish data*, (2021) by Martin Carlsson-Wall et al., Stockholm School of Economics. Their empirical findings, based on the years 2000-2019 for 786 unique firms and 7 389 firm-years, show no material indications of financial short-termism.

([10]) See EESC opinion on *Taxation mechanisms for reducing CO_2 emissions* (OJ C 364, 28.10.2020, p. 21).

6.3. Member States should, in particular, adopt a comprehensive and symmetrical environmental tax policy on the effect of CO_2 on global warming. There is a need to introduce taxes with both positive and negative rates. The revenues raised from CO_2 taxes should be used to finance incentives for CO_2-reduction techniques locally, regionally and nationally.

6.4. While the sale of forest products is taxed as income for the owner, it should be recognised that planting trees and the growth of forests reduces CO_2 in the atmosphere and should therefore, in a symmetrical tax approach to global warming, be encouraged by a negative CO_2 tax. This would be an important measure for achieving climate objectives.

6.5. An ideal outcome should create uniform conditions across the globe with regard to the emissions/reductions to be taxed, as well as the specific methods and rates of taxation for equal impact on the level of CO_2 in the atmosphere.

7. **Avoiding disincentives to digitalisation**

7.1. The use of data and new business models have triggered a need to review international taxation principles of how to allocate tax revenues among countries. It is important to reach and implement a global consensus ([11]).

7.2. The tax package includes a proposal for an effective corporate minimum tax of 15 %. The OECD/G20 agreement aims to limit tax competition, in particular from countries with tax rates below the threshold, and it states that 'the MLC (Multilateral Convention) will require all parties to remove all Digital Services Taxes and other relevant similar measures with respect to all companies, and to commit not to introduce such measures in the future. A detailed definition of what constitutes relevant similar measures will be finalised as part of the adoption of the MLC and its Explanatory Statement' ([12]).

7.3. The EESC considers it important for proper rules to be put in place promoting further digitalisation of the European economy, so that the objective of a greener and digitalised economy can be realised.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([11]) See EESC opinion on *Business Taxation for the 21st Century* (ECO/558).
([12]) OECD/G20 Base Erosion and Profit Shifting Project Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, 8 October 2021, p. 7.

Opinion of the European Economic and Social Committee on ‘Volunteers — Citizens building the future of Europe’

(own-initiative opinion)

(2022/C 152/04)

Rapporteur: **Krzysztof PATER**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Employment, Social Affairs and Citizenship
Adopted in section	24.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	214/3/4

1. **Conclusions and recommendations**

1.1. EESC notes that in the debate on the future of Europe policy-makers must be aware that Europe’s future will be shaped not only by politicians and institutions, including civil society organisations, but also by millions of citizens — volunteers who spend their time and energy every day acting in solidarity for the common good within and outside civil society organisations.

1.2. Volunteering involves millions of citizens in the European Union acting, out of solidarity for others, individually or within organised structures (both informal and formal). This movement requires systematic and thoughtful support, at both EU and Member State level, because its impact on social development is many times greater than the potential cost. The EESC would like to see positive qualitative changes in this support in the coming years that better reflect the value of volunteers for the future of Europe.

1.3. The EESC calls on the European Commission to take action to declare 2025 the European Year of Volunteers, considering that this would be:

— a way of paying tribute to the millions of volunteers who have demonstrated their significant social role, especially in recent months through their work to combat the effects of the pandemic,

— a way of further promoting the idea of volunteering in the societies of the Member States, encouraging more people to volunteer and showing that this is an inclusive, universal activity that involves people from all groups and backgrounds regardless of their age and place in society,

— an opportunity to exchange experiences and know-how between the authorities of the Member States on legal and political instruments to support the activities of volunteers,

— inspiration for the European Commission to expand and create new programmes addressing volunteers of all ages,

— a way to promote understanding of critical projects for the future of Europe and its citizens, providing objective data and facts and combating fake and biased information.

1.4. The activity of volunteers has real economic value (amounting in many countries to more than 2 % of GDP); in many social spheres volunteers are necessary to ensure the basic needs of citizens, including their safety; volunteers play a crucial role in implementing all the UN Sustainable Development Goals; and volunteers are present in every social and age group. The EESC therefore thinks it is unreasonable to limit EU-level and EU-funded volunteer support programmes to just young people.

1.5. Following an opinion adopted in 2013 ([1]), the EESC once again calls on the European Commission to take decisive action to draw up detailed rules allowing for comparable data collection on volunteering activity from all the Member States, stressing that without reliable data it is impossible to pursue an effective policy in any field.

2. **The concept of volunteering**

2.1. There is no official EU definition of the term ‘volunteering’, but it is generally understood to embrace all forms of voluntary activity, formal or informal, undertaken by a person by their own choice and without concern for financial gain, and which contributes to the common good.

2.2. The definition of volunteer work published in 2011 by the International Labour Organization in its Manual on the Measurement of Volunteer Work is consistent with the common understanding of volunteering. According to this definition, volunteer work is ‘unpaid non-compulsory work; that is, time individuals give without pay to activities performed either through an organisation or directly for others outside their own household’ ([2]). This definition may be used in international comparative research for measuring formal volunteering (often described as indirect volunteer work) and informal volunteering (called ‘direct volunteer work’ by the ILO ([3])) in various cultural and legal systems. The EESC points out that the *Resolution concerning statistics of work, employment and labour underutilization* adopted by the 19th ILO International Conference of Labour Statisticians in October 2013 ([4]) (which includes a new definition of labour that distinguishes between paid and non-paid labour, and changes to the gathering of labour-related data) should improve the capacity to measure volunteering as separate from other forms of non-paid labour such as care for people in one’s own household.

2.3. Analyses of volunteering are very often based on a distinction between formal and informal volunteering. Formal volunteering, comprising activities within an organisational context, involves people engaging through organised (structured) bodies like NGOs, clubs or public institutions. Informal volunteering refers to unpaid help given by individuals to other people from outside their own households or close family but not in the context of a formal organisation. The EESC regrets that informal volunteering is often not recognised as volunteering by people who offer their assistance, by the beneficiaries of their actions or by the legal frameworks for volunteering in some of the EU Member States. This is one of the reasons why the role of volunteers is currently underestimated.

2.4. Volunteering may take place episodically, in relation to an event or disaster relief, e.g. following a fire or flood. Volunteering can also represent a more ongoing commitment. It may be in ‘people-related’ sectors, e.g. in social services, health, education, sport, etc., or may concern environmental and infrastructure projects such as protection and restoration of natural resources or maintaining public gardens. Episodic volunteering can also happen in these contexts, but these sectors are underpinned by more regular volunteers.

2.5. The EESC stresses that legal frameworks for volunteering in Europe should be supportive and conducive to quality volunteering, and should not create unnecessary barriers to volunteering. Requirements such as volunteer insurance, volunteer agreements and criminal record checks should be carefully implemented, with quality and access as the driving principles.

2.6. In its 2013 opinion the EESC pointed out: ‘On the basis of the data on volunteering currently available, it is not possible to carry out the analysis called for in the documents of the EC, the Parliament, the European Council or the EESC. At present, it is impossible to monitor reliably the economic importance of volunteering or its contribution to EU-level policies. It is not possible to determine the total amount of time devoted to volunteering or its monetary value, and thus to assess how extensive it is in terms of universal economic indicators such as national employment (the number of people

([1]) ECO/343 — Statistical tools for measuring volunteering (OJ C 170, 5.6.2014, p. 11).
([2]) https://www.ilo.org/wcmsp5/groups/public/—dgreports/—stat/documents/publication/wcms_162119.pdf
([3]) Indicator Description: Volunteer Work. ILO.
([4]) ILO International Conference of Labour Statisticians Resolution.

working in the national economy) or GDP'. The EESC has also called for preparatory work, which based on the ILO framework proposal should lead to the framing of detailed rules for conducting research in the EU. The EESC regrets that no progress has been made since in establishing a common system for measuring the value of volunteering in Europe. The Committee therefore again calls on the European Commission to act decisively to implement the EESC recommendations, stressing that without reliable data it is impossible to pursue an effective policy in any field.

2.6.1. The EESC underlines that better data collection, going beyond GDP and economic value to also look at for example time dedicated by volunteers, their age, gender, areas of activity and added value to society more generally, such as health and well-being, quality of life and social cohesion indicators, would be of all-round benefit.

2.6.2. Only a few national statistical institutes have initiated and conducted research into voluntary work based on the ILO methodology, and Poland is the only country whose national statistical institute has already conducted such research twice, in 2011 and 2016, with a further study scheduled for early 2022. The 2011 study calculated the value of volunteer work at about 2,8 % of GDP ([5]), the 2016 study at around 1,2 % of GDP ([6]). This wide discrepancy resulted from certain changes in methodology. One of these was the fact that while in 2011 the questions included voluntary activity undertaken by the respondent for the benefit of family members, but living in another household, in 2016 such activity was not taken into account. Another was that the questions in 2011 concerned activity throughout the whole of 2010, whereas in 2016 only volunteering that had been undertaken during the 4-week period in the first quarter immediately preceding the survey was taken into account. This example clearly shows that it is not possible to obtain comparable data without developing a common methodology at EU level initiated by Eurostat.

2.7. Volunteering has a value for individuals, communities, the environment, the economy and society at large as one of the most visible expressions of solidarity. It promotes and facilitates social inclusion, builds social capital and has a transformative effect on society. The development of a thriving civil society with engaged volunteers can offer creative and innovative solutions to common challenges. Volunteering contributes to economic growth, and as such deserves specific and targeted measurement in terms of both economic and social capital. It also plays an ever-increasing role in environmental protection and is a crucial source of learning for many volunteers. With this in mind, public policies, whilst directly targeted at supporting volunteers, should also reflect the need for a supportive infrastructure for volunteering with sufficient and suitable funding for support measures such as training and insurance costs.

3. **Volunteering activities at EU level**

3.1. The EESC regrets that after the end of the European Year of Volunteering 2011 (EYV2011), volunteering began to gradually disappear from the European agenda. In official documents it featured only sporadically — during the creation of the EU Aid Volunteers and the European Solidarity Corps, and as a priority theme in the Europe for Citizens Programme.

3.2. EESC underlines that only a limited amount of research into volunteering has been carried out in Member States. This has covered various aspects of volunteering (for example the level of participation in volunteering, the demographic profile of people involved and their motivation). It is impossible to use this research for analysis conducted on an EU-wide basis due to the lack of consistency in methodological approaches, including even the scope of the definition of volunteering and differences in research dates. The report carried out in 2010 at the request of the European Commission by the consultancy firm GHK ([7]) is still the latest available comprehensive and valuable source of data despite its limitations in terms of data comparability.

3.2.1. The GHK report showed that 22-23 % of EU citizens aged over 15 were involved in volunteering, defined as an activity undertaken of a person's own free will, primarily within a non-governmental organisation for a non-profit cause.

3.2.2. At the same time the report indicated that due to methodological differences, the deviation in results can often be as much as 30 to 40 percentage points.

([5]) Statistics Poland — Volunteering 2011.
([6]) Statistics Poland — Volunteering 2016.
([7]) GHK report on Volunteering in the European Union, GHK 2010.

3.3. The ad hoc module *Social/cultural participation and material deprivation* ([8]) added in 2015 to the annual Eurostat survey on *Income and Living Conditions* contained a few questions on volunteer activities. Based on data obtained from that survey, it is estimated that about 18,9 % of EU citizens were involved in formal volunteering and about 22,5 % in informal volunteering, a similar level of EU citizen involvement to that shown in the GHK report.

3.4. The Flash Eurobarometer survey 'European Youth' published in April 2015 ([9]) contains the most recent data available on the activity of young EU citizens aged 15-30. The EESC notes that the similarities between the data on young people in this study and the data on all adult EU citizens from other studies clearly show that all age groups are equally involved in volunteering.

3.4.1. According to the 'European Youth' survey, 25 % of young people in the EU have been involved in an organised voluntary activity in the past 12 months, but this proportion varies considerably (from 10 % to 42 %) between individual countries.

3.4.2. The same survey also concludes that: 'There are two main areas of focus for voluntary activities undertaken by young people: charity, humanitarian and development aid (44 %) and education, training and sport (40 %)'. These are also the most common voluntary activities of young people in each of the Member States.

3.4.3. 93 % of respondents indicated that they have never volunteered abroad.

3.4.4. The new European Solidarity Corps, which now includes volunteering in humanitarian aid situations (previously covered by EU Aid Volunteers) should be of sufficient strength and scope so that it leads to more volunteering by young people, especially in other countries, both inside and outside the programme. The necessary resources should be provided to achieve this objective. The possibility should also be explored of extending the programme to support engagement in volunteering among people over the age of 30, or alternatively additional EU resources should be provided to develop a parallel programme without an age restriction.

3.5. In January 2021 the European Commission published its *Green Paper on Ageing*, which highlighted that a large number of older people continue to make an active and valuable contribution to society and the economy, with 20 % of 65 to 74-year-olds involved in formal volunteering, and people aged over 75 also remaining engaged as far as their health permits.

3.6. In September 2020, the Council of the European Union published final conclusions on 'Human Rights, Participation and Well-Being of Older Persons in the Era of Digitalisation' ([10]), in which among other things it invited the Commission to consider setting up a digital platform on 'Participation and volunteering after working life'.

3.6.1. Such a platform could provide information for older people about engaging in voluntary action in countries other than their own. Also, it could inform local authorities and other actors how to involve older people in volunteering and provide guidance and information to people interested in finding volunteering opportunities suitable for older people across Europe.

3.6.2. The EESC strongly supports the setting up of such a platform that would integrate existing platforms and avoid duplication of effort, while underlining that voluntary activity by older people plays an important role both for those supported by their activities and for the volunteers themselves by enabling them to stay active beyond the scope of employment, as it has a substantial positive impact on their mental and physical well-being.

3.6.3. The EESC points out that the European Solidarity Corps for young people and the proposed platform to support older volunteers should provide the basis for a more comprehensive and cross-cutting European volunteering policy that fosters solidarity and responsibility for and between people of all ages who are freely contributing to the future of Europe based on solidarity and European values.

3.6.4. The EESC recommends that this platform gradually include broader age groups of volunteers and be accompanied by greater efforts to reduce barriers to cross-border volunteering such as the loss of rights to public benefits and support systems, residency rights, and associated provisions such as access to mobile phone and internet connectivity contracts.

([8]) 2015 EU-SILC Module on Social/Culture Participation and Material Deprivation.
([9]) Flash Eurobarometer 408 — European Youth.
([10]) Council Conclusions, 9 October 2020.

3.7. Many volunteers across Europe are engaged in activities that are in line with the European Commission's long-standing EU projects (of critical importance for the future of Europe, for example concerning, vaccination, digitalisation, climate issues, financial reforms, the nuclear debate, labour reforms, etc.). As citizens need to obtain a factual and unbiased understanding of the key proposals by EU institutions before they can support them, the EESC calls on the European Commission to actively support those activities carried out by volunteers that can help win citizens' support for key EU projects, including by reducing the risk of fake and biased information.

3.8. The growth of flat-rate and lump-sum financing of projects should enable the contribution of volunteers to be recognised as co-financing for EU grants. However, this is not working well in practice due to the fact that volunteer time contributions cannot generally be included in organisational accounts. In addition, many agencies managing EU grants require that payment receipts be provided for the full amounts of flat-rate and lump-sum payments — something that goes against the intention and spirit of the funding approach as a method of calculation. The EESC reiterates its requests in this regard, set out in opinions adopted in 2006 ([11]) and 2013 ([12]), and regrets that these have not yet been fully implemented. The EESC notes that the funding programmes of the Council of Europe do have a mechanism to include volunteer time as co-financing for their grants.

3.9. The EESC strongly supports the European Volunteering Capital Competition ([13]), launched by the Centre for European Volunteering in 2013 as part of the legacy of EYV2011, which connects local volunteering policies and practices to the European context and European values and policy frameworks. The EESC calls for the initiative to be encouraged and supported by all the EU institutions, but with a particular focus also on the subnational level as a way of bringing citizens closer to EU policy-makers and to demonstrate the EU-level support for solidarity-based activities and active citizens contributing to the future of Europe. The EESC calls on the European Commission to actively support the dissemination of good practices in public policies that support volunteering activities at local level, with particular use of examples from the municipalities that have been candidates and winners in the European Volunteering Capital competition.

4. **Trends in volunteering activity**

4.1. The EESC points out that ongoing demographic changes will have an impact on the activity of volunteers in the coming years.

4.1.1. Europe has an ageing population and lower birth rates. This means that there are more skilled volunteers available for longer, but also more elderly people needing the support of volunteers as they live longer. With declining birth rates, however, younger people might not be there to volunteer and more peer-to-peer projects for adult and older volunteers will be needed.

4.1.2. Europe has increasingly diverse and shifting populations and more will have to be done to ensure social inclusion. Member States cannot pay for all of this from public finances, and even if they had the funds, it is not just about money. A more human and solidarity-based approach is needed for true inclusion. Volunteers acting out of solidarity with one another are required for this. A greater effort is called for to combat loneliness and provide social service support when families are more dispersed across countries and the continent. The EESC believes that public authorities at EU, Member State and local levels should be prepared for this, and that the process must include the creation of favourable conditions for the expansion of voluntary activities.

4.1.3. Less tax is being collected in the Member States and public budgets are being reduced, but at the same time there is higher demand for services. Greater inequality and poverty result in greater need in the population, but this contrasts with a reduction in funding for civil society organisations, which could do much — with the support of volunteers — to improve the situation of individual citizens and families. The EESC points out that a better balance must be reached.

4.2. The EESC underlines that ongoing changes in lifestyle and in the types of activity that produce social recognition, or the need to develop new skills that may be useful professionally for younger generations, may result in a mismatch between citizens' interest in volunteering and real volunteering opportunities, and that the level of volunteering may therefore decrease, despite high 'supply and demand'. This phenomenon must be constantly monitored so that in due course there can be adjustments in public policies.

([11]) SOC/243 — Voluntary activity: its role in European society and its impact (OJ C 325, 30.12.2006, p. 46).
([12]) ECO/343 — Statistical tools for measuring volunteering (OJ C 170, 5.6.2014, p. 11).
([13]) European Volunteering Capital — CEV.

4.3. A shift is being widely observed from traditional, regular, long-term volunteering based on planned and longer-term commitments to episodic volunteering. Many volunteers are ready to undertake episodic activity, even for a one-off event, but do not want to take on any long-term personal commitment. This trend is reflected in the growth of 'voluntourism', where people travel for the specific purpose of volunteering or take up opportunities to volunteer while on holiday. Great care must be taken to ensure that this kind of volunteering has true societal needs at its heart. Where volunteering could do more harm than good, e.g. in institutional settings with children or other vulnerable people (such as orphanages), it should be prohibited.

4.4. Another trend observed in recent years is the emergence of intermediaries such as welfare or educational institutions, religious organisations, family volunteering organisers, local volunteer centres, or employee (corporate) volunteering. These bodies help volunteers find a place of activity, seeking organisations that will directly place volunteers. This provides support for people who are looking for an opportunity to start a voluntary activity. However, there is a risk that the activities of these intermediaries may adversely affect the perception of volunteering in society –especially if their activities become commercialised, for example.

4.5. Advances in online capacity and social media are enabling citizens to more easily self-organise for ad hoc volunteering. This also makes all types of volunteering opportunities more immediately accessible to citizens, with online platforms matching supply with demand. The rapid rise of new technologies has allowed new forms of volunteering to expand, such as online volunteering, which is not dependent on specific times and locations and can be done in any place where the volunteer has online access and a device to connect from.

4.5.1. However, the EESC points out that care must be taken not to exclude those without online access from volunteering.

4.5.2. The EESC emphasises that the legal frameworks for volunteering in the Member States need to keep up with this change and ensure, with respect to data protection for example, that vulnerable people continue to be protected and volunteers are suitably trained, even when volunteering in an informal and ad hoc manner. Policy-makers should not think that there is no need to fund volunteering support and infrastructure organisations when people can self-organise online.

4.6. The EESC sees a need for more cross-sectoral cooperation between the social partners in the framework of employee volunteering. To have the greatest impact, employers and employees should partner with civil society organisations that are experts in the field and/or cause that they want to support, rather than try to implement volunteering programmes directly themselves.

4.7. The EESC recognises that 'voluntourism' is a growing industry in Europe and should be regulated to protect the integrity of volunteering, potential volunteers and local communities.

4.8. 54 % of young people who were respondents in a Eurobarometer survey ([14]) said that they had not incurred any expenses as part of their voluntary activities, while 28 % indicated that they had incurred expenses but have not received any contributions, and 16 % had incurred expenses and received contributions to those expenses. These data must be taken into account by the beneficiaries or the coordinators of volunteers' work, so that expenses do not become a barrier limiting the involvement of young people. The EESC underlines the importance of reimbursing even small expenses for volunteers, and expects national and local authorities in the Member States to promote and support this approach without any unfavourable tax implications for the volunteers or organisations concerned.

4.9. There are inconsistencies in legal frameworks and legal and safety requirements for volunteers and their beneficiaries across Europe. The EESC stresses that steps should be taken to streamline the system for the safety and benefit of everyone. Civil liability insurance for volunteers should be made available in the insurance market in all countries, and government and/or foundation support should be put in place to cover the costs. Criminal record certificates for those volunteering with children or vulnerable people should be mandatory in every Member State and easily and cheaply accessible for potential volunteers. The EESC calls on all Member States to implement these solutions, and urges the European Commission to promote best practices in this area. Such activities will also foster cross-border volunteering.

([14]) Flash Eurobarometer 408 — European Youth.

4.10. The EESC believes that the younger the age at which people can be introduced to volunteering, the more likely it is that they will grow into socially included and engaged adults doing their bit for the future of Europe. Initiatives such as service-learning programmes in schools and family volunteering should be encouraged. If necessary, legal frameworks should be adapted to make it possible for younger people and children to also volunteer. Youth organisations play a very important role in this process and should therefore receive suitable and sufficient support from public authorities.

5. **The role of volunteers in the community**

5.1. There is no doubt that volunteers create substantial economic, environmental and social value. In non-profit organisations volunteers are often essential to ensure effective fulfilment of tasks, being one of the most important resources of these organisations. They are frequently recognised by the outside world as a symbol of those entities' activities. For many, especially young people, volunteering is something special. It is often the first activity in which they are empowered to respond to real social needs and able to quickly see the effects of their actions as engaged citizens, significantly reducing the risk of social exclusion.

5.2. In many cases it is becoming legally more difficult for citizens to organise around issues of common concern and so engage people as volunteers contributing to society without seeking personal gain. The rights of association and public funding and support for civil society organisations should be ensured. The EESC underlines that public funding for civil society organisations contributes greatly not only to their function and role in society but to maintaining their independence and ability to ensure internal democratic processes that allow the wishes of their members to be recognised and represented without outside interference.

5.2.1. A well-functioning civil society is a sign of a healthy democracy and contributes greatly to quality of life and peace and stability. Participatory democracy is complementary to representative democracy and not a threat.

5.2.2. In the case of organisations coordinating the activities of volunteers, public funding allows much greater benefits to be obtained for society, benefits that have real economic value, through a specific leverage mechanism.

5.3. People in Europe are now increasingly likely to commit to short-term volunteering activities, often with a clear personal gain, e.g. volunteering at a festival or concert, rather than making a long-term commitment to address an identified societal need. The EESC would like policy-makers to do more to promote the added value of volunteering as social capital and not simply as a personal opportunity or mechanism for saving on human resource costs. Public authorities must help volunteers and the organisations supporting their activities to better demonstrate their value and impact in order to continue to attract volunteers as citizens are confronted with ever-increasing choice in how they use their free time.

5.4. During the COVID-19 pandemic, many policy-makers and ordinary citizens have been able to see the particular potential and real impact of volunteering — both structured activities, coordinated by a public institution or organisation, and individual ad hoc activities, undertaken spontaneously based on a wish to help out. The EESC paid tribute to hundreds of thousands of volunteers across Europe who assisted people in need in 2020 due to the pandemic by awarding its Civil Solidarity Prize ([15]) to organisations and individuals engaged in voluntary activities linked to the impact of COVID-19.

5.5. Workers with less regular hours and less stable working lives find it more difficult to make long-term commitments to volunteering. For example, shop workers only told with 24 hours' notice if they need to work find it exceedingly difficult to commit to volunteering. The same also applies, for example, to many on-call workers. The EESC points out that volunteering organisations should be supported by know-how, including good practices, about building extra capacity to deal with this changing availability of potential volunteers and develop new ways of managing volunteers.

5.6. Social prescribing ([16]) is a means of tackling poor health without, or alongside, the prescription of pharmaceutical drugs. Volunteering has become an efficient and increasingly popular part of social prescribing schemes. Research proves that volunteering has a positive impact on mental health and that to participate in volunteering activities in the framework

([15]) EESC Civil Solidarity Prize.
([16]) The Healing Power of Social Prescribing and Policy Statement on Volunteering & Social Prescribing — CEV 2019.

of social prescribing is beneficial. The EESC believes that volunteering as a social prescribing practice should be more widely implemented in Europe as part of the recovery from COVID-19, and its impact carefully monitored. It should be ensured that organisations which offer volunteering placements as part of social prescribing schemes respect ethical principles and adhere to quality guidelines for high-impact, needs-led, value-added, voluntary-based actions.

5.7. Bearing in mind the positive effects of the European Year of Volunteering 2011, the great need to create a legal and social framework for the development of volunteering, and the significant changes in the behaviour of volunteers and potential volunteers, the EESC calls on the European Commission to take action to proclaim 2025 the European Year of Volunteers.

5.7.1. A European Year of Volunteers would be a fitting tribute to the efforts and impact of all volunteers during the COVID-19 crisis and highlight their impact and importance to the recovery and the future of Europe based on solidarity, respect, equality and shared values.

5.7.2. The EESC believes that the package of measures coordinated by the European Commission would provide an impulse for the Member States to comprehensively support voluntary activities, taking into account the proposals put forward by the EESC, and that the issue of activities undertaken by volunteers will be a permanent and not an occasional element of European policy.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'How to guarantee decent work for young people and ensure the inclusion of NEETs through the proper elaboration of National Recovery Plans'

(own-initiative opinion)

(2022/C 152/05)

Rapporteur: **Nicoletta MERLO**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
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Section responsible	Employment, Social Affairs and Citizenship
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Outcome of vote	
(for/against/abstentions)	152/13/48

1. **Conclusions and recommendations**

1.1. The EESC welcomes the NRRPs as an unprecedented opportunity to drive change and trigger investments in sustainable growth and creation of quality jobs that must be seized with inclusive governance, requiring dialogue, openness and transparency.

1.2. The Committee notes with regret the lack of meaningful and targeted consultation with the social partners and stakeholders in some of the Member States during the designing of the NRRPs. The EESC urges the Commission to put in place measures that guarantee structured and meaningful involvement of the social partners, organised civil society and youth organisations in the implementation and monitoring of the NRRPs. Protecting and strengthening social dialogue at the national level is crucial in order to guarantee that public money is well spent on an inclusive recovery.

1.3. The EESC suggests evaluating and systematising the collection of best practices from the national level, where the consultation with the social partners and youth organisations via dedicated committees and social dialogue yielded excellent results in terms of youth-specific policies and measures to create quality jobs and career prospects for young people.

1.4. The Committee calls on the Member States to ensure quality and inclusive guidance and counselling for all young people, especially those with disabilities, starting in early school education, in order to provide them with more information on their further education and, subsequently, on career possibilities in the context of the green and digital transition of the labour market.

1.5. The EESC welcomes measures to promote and popularise the role and profile of vocational education and training (VET) as a driver of innovation practices, STEM skills, lifelong learning and effective labour intermediation, as these are key to bridging the existing skills gap. It is also important to improve skills evaluation in order to proactively identify the skills that will be needed in future labour markets in advance. Appropriate arrangements should be made to ensure that VET is also accessible to people with disabilities, based on the recognition of individual abilities and enabling all citizens to acquire vocational skills that are useful for their personal development, while meeting the specific needs of companies as regards unfilled skilled jobs.

1.6. The EESC recommends that personalised support be put in place for targeted groups, especially NEETs. This support should make it possible to deal with all issues that are peripheral for integration into the labour market, such as housing, accommodation, transport and health, in a holistic manner.

1.7. The EESC considers that it is a priority to ensure the efficiency and adequacy of public employment services, key players in active labour market policies (ALMP), through targeted investment and reforms where necessary, so that they are able to support all people, especially the most vulnerable and those furthest from the labour markets, in their search for work or in their reorientation.

1.8. The EESC regrets that the potential of the Youth Guarantee as the main policy tool to fight rising youth unemployment has not been fully realised. The EESC calls on the Member States to step up their efforts to implement the reinforced Youth Guarantee, including quality training that promotes integration into the labour market, and calls on the European Commission to provide an overview of the steps taken to implement the Council Recommendations on the Reinforced Youth Guarantee at the national level and to ensure effective synergies with the NRRPs.

1.9. The EESC welcomes provisions in the NRRPs that support quality training, including apprenticeships or internships, as these are an effective tool for reducing early school drop-out and can ensure better integration of young people (and others) into the labour market, and calls on the Member States to implement the Council Recommendation on a European Framework for Quality and Efficient Apprenticeship ([1]). However, the Committee calls for a ban on unpaid internships. Decent remuneration for all interns should be ensured under the upcoming revision of the Council Recommendation on a Quality Framework for Traineeships. The EESC also suggests that a European Framework for Quality Internships be developed in order to guarantee the educational value of such learning experiences.

1.10. The EESC urges the Member States to use the recovery funds in investments for the creation of quality jobs and upskilling of young people, where needed, with a particular focus on open-ended contracts and decent working conditions that limit the risk of precarity. Additionally, the Committee stresses the need to close the social security gap and encourages the Member States to properly implement the Council Recommendation on access to social protection ([2]) and to introduce a modern scheme to all forms of work that is capable of ensuring the adequate income of future pensioners, especially those who are and will be subject to discontinuous working careers.

1.11. The EESC considers it essential, in order not to subsidise job insecurity, to ensure that hiring subsidies are conditioned by open-ended contracts or stabilisation programmes. In addition, hiring incentives can be effective in creating employment opportunities for ‘disadvantaged’ jobseekers as well as in reallocating workers being made redundant, favouring their transition towards new sectors and occupations.

1.12. The EESC believes that close attention should be paid to the issue of mental health and psycho-social disorders, especially among young people, by reducing the stigma around mental health issues through prevention and awareness-raising work, which must start in schools, and be extended to companies, and by providing adequate funding for service and support providers in this field.

1.13. The EESC notes that persistent gender inequalities in the world of work increase young women’s vulnerabilities to the economic consequences of COVID-19. The Committee welcomes the measures put in place by some Member States to encourage and promote women’s employment and female entrepreneurship, to invest in adequate social infrastructure and to reform childcare systems, particularly early childcare education, and calls for these good practices to be scaled up at the EU level in order to support full employment of women, and young mothers in particular.

2. **Background**

2.1. The COVID-19 pandemic has had and continues to have an enormous impact on our societies and economies. The European Union has taken significant steps towards recovery: for the first time, Member States have opted for European solidarity and convergence instead of austerity to combat the crisis.

2.2. The Recovery and Resilience Facility (hereinafter the Facility), the largest part of Next Generation EU, provides EUR 672,5 billion in loans and grants to support reforms and investments undertaken by the Member States. This unprecedented sum aims to mitigate the economic and social impact of the COVID-19 pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

([1]) A Council Recommendation on a European Framework for Quality and Effective Apprenticeship from 15 March 2018 (OJ C 153, 2.5.2018, p. 1).

([2]) The Council Recommendation on access to social protection — Making social protection fit for the future (OJ C 387, 15.11.2019, p. 1).

2.3. Under the agreement, the national resilience and recovery plans (NRRPs) should devote at least 37 % of expenditure to support climate objectives and 20 % to support the digital transition. Furthermore, all investments and reforms must respect the 'do no significant harm' principle, ensuring that they do not significantly harm the environment. Additionally, the NRRPs are expected to contribute to effectively addressing the relevant challenges identified in the country-specific recommendations under the European semester; however, no minimum threshold or process for monitoring spending on different priorities such as young people is set here.

2.4. Timely and meaningful involvement of the social partners throughout the European semester, at various levels and across all policy areas directly or indirectly affecting employment and labour markets, is key in order to improve engagement in the design of policies, including measures in the NRRPs. Social dialogue is a driving force for successful and fair policy-making if it is able to bring forward effective solutions and mirror the ongoing policy changes and reforms in collective bargaining, where appropriate.

2.5. The Facility complements other activities targeting young people (3) and is closely aligned with the Commission's 2019-2024 priorities, which clearly state that the EU must create a more attractive investment environment and growth that creates quality jobs, especially for young people and small businesses (4). The European Commission's new programme ALMA (5) (Aim, Learn, Master, Achieve), a new Erasmus-style placement scheme targeting NEETs, providing short-term working experience to young Europeans in other Member States, can bring positive results if quality standards, including social protection, guidance and supervision and decent wages, are ensured for its beneficiaries.

2.6. On 22 January, the European Commission published the new guidelines that EU Member States must follow in drafting their NRRPs to access the so-called Recovery Fund, in which it emerges that public policies in favour of young people are no longer just a 'horizontal' objective of the plans, i.e. an aspect to be considered in the achievement of other main objectives, but have become a prerequisite and absolute priority of Next Generation EU and must be included as an entire pillar and not simply a cross-cutting priority.

2.7. EU countries should have officially submitted their NRRPs by 30 April 2021. However, the Commission has prolonged the deadline and agreed that countries can submit their plans up to mid-2022. As of 15 October 2021, the number of submitted plans stands at 26.

2.8. The Facility is a once-in-a-generation opportunity for the Member States, not only to tackle the public health crisis but also to pursue the twin transition to a digital and low-carbon economy, create strong social welfare and foster cohesion. It has a real potential to bring about tangible change for young workers and prevent them from becoming the 'lost' generation without fair opportunities in the future Europe. However, there is a strong need for inclusive governance at national and European level, where social dialogue and engagement with civil society have a strong and meaningful impact.

2.9. The COVID-19 crisis has further increased inequalities, putting workers, especially young workers, at a greater disadvantage. With this own-initiative opinion, the EESC, on the basis of an analysis of the generational measures contained in the NRRPs presented by some Member States and thus identifying any good practices and weaknesses, intends to draw up recommendations on how to guarantee decent work for young people and ensure the inclusion of NEETs by implementing the projects.

3. **General comments**

3.1. European young people are among those most severely affected by the pandemic: schools, universities and social venues have been closed, depriving young people of education, culture and connections; one in six young people lost their job because of the economic consequences of COVID-19 (6); in August 2021, the youth unemployment rate was 16,5 % in the EU (7); in a number of countries, young people have been particularly hard hit, causing unemployment rates to soar — to name just a few: Spain (40,5 %), Italy (29,7 %), Bulgaria (18,3 %) and France (19,6 %). Additionally, a percentage of

(3) EU Youth Strategy (2018) (OJ C 456, 18.12.2018, p. 1); Youth Employment Support Package (2020); A Bridge to Jobs — Reinforcing the Youth Guarantee (2020) (OJ C 372, 4.11.2020, p. 1); ALMA (2021); European Year of Youth (expected in 2022).

(4) https://ec.europa.eu/info/strategy/priorities-2019-2024_en

(5) https://ec.europa.eu/social/main.jsp?catId=1549&langId=en

(6) Young people are usually defined as those between 15 and 29 years old.

(7) Eurostat.

unemployed young people tend to be overlooked in the official data because they either do not apply for unemployment benefits or do not enrol with employment agencies and instead make their living in bogus self-employed work, working for a platform or in the shadow economy. Therefore, it can be assumed that the real figures could be even worse than those reported by Eurostat.

3.2. Moreover, the COVID-19 crisis has further aggravated the situation of NEETs. The number of NEETs in Europe, especially in countries like Italy, Greece, Bulgaria and Romania, is critical and once again on the rise as a result of school drop-outs, a lack of appropriate guidance, job losses and a lack of employment opportunities. This category of vulnerable young people is at a higher risk of marginalisation, poverty and permanent exclusion from employment.

3.3. NEET is a broad category encompassing a heterogeneous population, including the unemployed, school drop-outs, all those discouraged college graduates who still have not found a job, and the other young people inactive for different reasons. The unemployed are only a subgroup of the broader category of NEET and the overlap between the unemployed and the NEET group varies over time and by country ([8]).

3.4. High numbers of NEETs represent a big loss for our economies and societies. The feeling of disenchantment or exclusion of the individuals concerned also bears a high political risk for the stability of our democratic societies. The incapacity of education and social systems to prevent the phenomenon or reduce the number of NEETs points to a failure of broadly supported efficient policies to promote equality of opportunities across Europe.

3.5. This crisis is particularly affecting workers in non-standard and diverse forms of employment ([9]) (casual work, voucher-based work, platform work, gig workers, collaborative employment, etc.) ([10]), and unfortunately there is a predominance of young people in these forms of work. Such jobs can be low paid, with irregular working hours, poor job security, and limited or no social protection (paid leave, pension, sick leave, etc.). Often, such work does not qualify for unemployment benefits or the short-time work schemes implemented by governments ([11]). This type of work can be found mostly in sectors and industries that are particularly affected by the COVID-19 pandemic, such as the tourism, wholesale, retail, accommodation and food sectors ([12]). On the other hand, new forms of work can be an opportunity for young people living in rural or remote areas, or for young disabled people, students and young parents, and decent wages and social security are therefore indispensable.

3.6. Peripheral barriers to employment, such as mobility, digital literacy, health and precarious living conditions, including lack of housing or social security cover, should be identified and taken into account in the NRRPs. The EESC believes that the Member States could monitor these obstacles to the integration of young people into the labour market in qualitative and quantitative terms and make specific proposals to remedy them within their respective NRRPs.

4. **Specific comments**

4.1. The post COVID-19 recovery should be seen as an opportunity. The economy has been shaken, and so has the labour market.

4.2. The NRRPs represent an unprecedented opportunity to drive and support change that must be seized with inclusive governance, requiring dialogue, openness and transparency. The measures financed under the NRRPs should involve local authorities, the social partners and civil society, including youth organisations, in order to create participatory governance that can bring consensus, trust and a sense of justice regarding the NRRPs.

([8]) Konle-Seidl, R. and Picarella, F. (2021), Youth in Europe: Effects of COVID-19 on their economic and social situation, European Parliament, Luxembourg.
([9]) https://www.eurofound.europa.eu/topic/non-standard-employment
([10]) https://www.eurofound.europa.eu/publications/blog/new-forms-of-employment-in-europe-how-new-is-new
([11]) Eurofound (2021), COVID-19: Implications for employment and working life, Publications Office of the European Union, Luxembourg.
([12]) Spasova S., Bouget D., Ghailani, D. and Vanhercke B. (2017), Access to social protection for people working on non-standard contracts and as self-employed in Europe.

4.3. The EESC believes that ongoing consultations with the social partners, civil society and youth organisations in particular should be guaranteed by the Members States when designing, implementing and monitoring measures tailored to young workers and NEETs, in order to assess, from the perspective of the younger generation, whether and to what extent policies are fit for their education and career prospects and provide a smooth entry into the labour market.

4.4. The EESC applauds the initiatives taken to date by the Member States aimed at assessing the generational impact of public policy: in Austria through the 'Youth Check' ([13]), a law in force since 2013, according to which all new legislative and regulatory proposals must be assessed for the potential consequences they could have on children and young people, including through the involvement of the National Youth Council, and in Italy through COVIGE ([14]), a Committee recently established by the Ministry for Youth Policy and made up of managers and representatives of the public administration, university professors and experts in youth policies, including the National Youth Council, which has the objective of assessing the generational impact of all public policies *ex ante* and *ex post* through specific indicators and models, as well as through a comparison with the best practices of other EU countries.

4.5. The EESC recommends that the Member States adopt similar measures or monitor the policies to be adopted and already approved effectively and from the generational point of view, while ensuring the right involvement of young people in the consultation.

4.6. Research ([15]) carried out by Cedefop predicts that almost 7 million jobs in the EU will be lost or not created due to the COVID-19 pandemic by 2022, while some sectors ([16]) such as health, science and innovation, information technology and digital communication will see significant growth and job creation potential. The pandemic has favoured jobs in sectors and occupations that are flexible enough to adapt to the new norms of social distancing and telework. These are likely to persist even after the pandemic, altering the nature of work, which traditionally called for physical space ([17]).

4.7. According to an OECD report ([18]), the pandemic may also affect the learning attitude of children and young people. Interruptions in regular schooling have led many children to make less than expected progress in skill development. In the short term, the pandemic could lead to an increase in school drop-outs, while in the medium and long term, reduced engagement could result in the current generation of students failing to develop positive learning attitudes, at a time of profound structural changes that will require individuals to update their skills throughout their lives. In addition, the report identifies the potential cause of gender inequality in educational opportunities. The report calls for urgent scale-up investment in lifelong learning, helping individuals adapt and become resilient to external shocks.

4.8. In a rapidly changing world of work shaped by globalisation and the consequences of the COVID-19 pandemic, the EESC considers it crucial to prevent skills mismatch, focusing on competences and soft skills by investing adequate resources in education and guidance, in fostering a better connection and transition between the world of education and the world of work, including through the promotion of tools such as school-to-work alternation, traineeships and apprenticeships, and in promoting lifelong learning programmes, involving all key stakeholders and focusing on vulnerable groups, in particular young people, NEETs and those whose jobs are most at risk of transformation. The adequate policy response is an integrated ALMP package with links to public employment services and training systems in order to promote an inclusive and sustainable recovery.

4.9. There is a broad consensus among stakeholders that career guidance has never been more important, especially for young people who are likely to look for work as soon as they leave secondary school. The EESC adds its voice to those calling for strong investments in career guidance ([19]) as evidence points to the valuable role that career guidance has to play in preparing students to deal with a fast changing job market that might not live up to their expectations or match their previously acquired skills.

([13]) https://national-policies.eacea.ec.europa.eu/youthwiki/chapters/austria/54-young-peoples-participation-in-policy-making
([14]) https://www.giovani.gov.it/it/comunicazione/notizie/comitato-per-la-valutazione-dell-impatto-generazionale-delle-politiche-pubbliche/
([15]) https://www.cedefop.europa.eu/en/news-and-press/news/coronavirus-impact-jobs-eu-sectors-and-occupations-skills-forecast-analysis
([16]) https://ec.europa.eu/eures/public/four-job-sectors-high-demand-result-covid-19-pandemic-2021-02-19_en
([17]) Cedefop skills and jobs forecast.
([18]) https://www.oecd.org/skills/covid-19-pandemic-highlights-urgent-need-to-scale-up-investment-in-lifelong-learning-for-all-says-oecd.htm
([19]) https://www.oecd.org/education/career-readiness/Investing%20in%20Career%20Guidance_en.pdf

4.10. A horizontal reference to young people can be found in the NRRPs in relation to vocational education and training. Work-based training and learning, such as apprenticeships and internships, which are usually critical entry points for young people, have also been heavily disrupted during the crisis, even though the extent varies greatly by industry and region. As a long-standing advocate for modernisation of VET, the EESC welcomes national efforts to seek and promote alternative solutions to provide practical skills training, such as work-linked training and learning contracts, and expanding distance learning. Some countries have also adopted new policy measures to ensure that technical and vocational education and training (TVET) systems are better prepared for future shocks ([20]).

4.11. The outreach strategies are crucial parts of the recovery plans that need targeted investment in youth service providers and public employment services. Recent findings show that nearly half of NEETs are unaware of the government support measures available to them ([21]).

4.12. Under the NRRPs the investment in youth service providers has to be strengthened and horizontal cooperation should be encouraged between youth service providers and public employment services (PES). Efficient and effective PES have an important role to play in supporting people facing barriers to employment and ensuring smooth job transitions, but the outreach to more vulnerable NEETs will require cooperation between PES and a variety of local actors, from associations and educational establishments to specialist counsellors trained in mental health issues. This requires effective and appropriate information and data sharing, and means that PES operators and counsellors will need to spend more time managing these partnerships ([22]).

4.13. The Youth Guarantee, newly financed by the ESF+, with an obligation to spend a minimum of 12 % of the funds in the Member States with a higher NEET rate than the EU average ([23]), remains the main tool for combatting youth unemployment in the EU. The Council Recommendation on how to strengthen the programme, adopted in October 2020 ([24]), includes a list of measures on how to ensure the quality of what is offered under the programme, how to improve outreach and how to strengthen the monitoring of the outcome for better evaluation of the programme. The NRRPs must therefore take stock of the national implementation plans of the Youth Guarantee and build links with the NRRPs. Not doing so will result in missed opportunities and the creation of measures that will fail to deliver solutions for NEETs.

4.14. The EESC notes that the last update of the National Implementation Plans of the Youth Guarantee dates back to 2014 and that, so far, not all EU Member States have started to update their national youth strategies to take account of the Reinforced Youth Guarantee ([25]). The Member States have to step up their efforts, integrate the lessons learnt and strategically mobilise EU funding in order to make this instrument truly effective and functional.

4.15. With a focus on young workers, specific recovery measures must be developed to combat youth unemployment and precarious work ([26]) among young people by creating quality jobs, as well as to protect the large number of workers ([27]) who lack adequate social security coverage. In addition, specific measures for young self-employed people should be considered in order to support and increase youth entrepreneurship and start-ups.

4.16. Research ([28]) into the changes made to social protection systems by EU Member States during the pandemic has shown that the majority have made income support measures for employees, such as short time working schemes, unemployment benefits and similar measures, more accessible, particularly by increasing their value, relaxing eligibility conditions and extending their duration. Whilst these measures do not specifically target youth, they will help support

([20]) Skills development in the time of COVID-19: Taking stock of the initial responses in technical and vocational education and training, International Labour Office — Geneva: ILO, 2021.

([21]) Moxon, D., Bacalso, C, and Şerban, A. (2021), Beyond the pandemic: The impact of COVID-19 on young people in Europe, Brussels, European Youth Forum.

([22]) PES partnership management, Eamonn Davern (September 2020).

([23]) https://ec.europa.eu/social/main.jsp?catId=1099&langId=en

([24]) Council Recommendation on A Bridge to Jobs — Reinforcing the Youth Guarantee and replacing the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (OJ C 372, 4.11.2020, p. 1).

([25]) Konle-Seidl, R. and Picarella, F. (2021), Youth in Europe: Effects of COVID-19 on their economic and social situation, European Parliament, Luxembourg.

([26]) European Parliament Resolution of 4 July 2017 on working conditions and precarious employment (2016/2221(INI)) (OJ C 334, 19.9.2018, p. 88).

([27]) International Labour Office. World Social Protection Report 2020–22: Social Protection at the Crossroads — in Pursuit of a Better Future. Geneva: ILO, 2021.

([28]) ETUI (2021), Non-standard workers and the self-employed in the EU: Social protection during the Covid-19 pandemic.

young people, who are more likely to be unemployed and are often excluded from social protection, such as unemployment benefits, due to a lack of work history.

4.17. For these reasons, and taking into account the fact that all of the changes made are temporary, with many already having come to an end, leaving young people once again faced with a social protection gap, the EESC believes that it is vital that policy-makers focus on building a universal social protection scheme ensuring that all workers (standard and non-standard, young and adults) are equally covered by social protection. Addressing these gaps would ensure that young people are protected from poverty, as well as from any future labour market shocks.

4.18. The EESC believes that it is also important to support young people with regard to social security and therefore encourages all Member States to properly implement the Council Recommendation on access to social protection for workers and the self-employed ([29]), which recommends that the Member States provide access to adequate social protection for people in all forms of work.

4.19. More effort needs to be made to find ways of reconciling employment security and job quality within a dynamic labour market, and strengthening social dialogues is key to finding effective measures. Best practices can be found in countries such as: 1) Portugal, where the government is holding regular discussions with the social partners and youth organisations. Measures such as a quota for NEETs in companies with a large number of internship placements or reduced hiring subsidies for short-term contracts ([30]) have contributed to boosting youth employment in the country; and 2) Spain, where social dialogues led to social security coverage being extended to include traineeships ([31]).

4.20. The uncertainty, worry and anxiety that can lead to depression among young people surged at the onset of the crisis, and continues to increase in some countries. The temporary closure of educational institutions and social, cultural and sport activities weakened the social connections that help maintain good mental health. The mental health support provided in schools and universities has been heavily disrupted in many countries and young people are increasingly using other platforms for support, such as phone lines and youth centres, and mental health services are offering teleconsultations and remote forms of care in order to maintain continuity of services. At the same time, the providers of those services were also heavily affected by the lockdowns and many were not able to resume their activities due to a lack of financial and human resources. The EESC considers it essential to support this sector, which is heavily dependent on volunteering and project funding, through more sustainable funding, as they have proved to be a crucial element of our social fabric during the crisis.

4.21. More can be done to address the gender dimension in the NRRPs, particularly when it comes to NEETs, the rates of whom are generally higher among young women than among young men. In 2020, female NEET rates were on average 1,3 times higher than male NEET rates, and that of inactive female NEETs was as much as 1,7 times higher. The share is particularly high in eastern European countries (Bulgaria, Romania, Hungary, Czech Republic, Slovakia and Poland) and in Italy ([32]). The majority of NEETs in these countries are in this group due to family responsibilities or are young people with disabilities. A higher proportion of young women spend time caring for children and other family members. Young women spend almost three times as much time on unpaid care and domestic work than young men. The Committee welcomes the measures put in place by some Member States to encourage and promote women's employment and female entrepreneurship, to invest in adequate social infrastructure and to reform childcare systems, particularly early childcare education, and calls for this good practice to be scaled up at the EU level in order to support full employment of women, and young mothers in particular, and calls for a robust system to monitor annually the progress and the budgets allocated and used for gender equality in the context of RRF, including relevant indicators.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([29]) The Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed (OJ C 387, 15.11.2019, p. 1).
([30]) https://www.iefp.pt/apoios-a-contratacao
([31]) 121/000066 Draft law on the guarantee of the purchasing power of pensions and other measures for strengthening the financial and social sustainability of the public pension system (congreso.es).
([32]) https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_training

ANNEX

The following amendments, which received at least a quarter of the votes cast, were rejected in the course of the debate (Rule 59(3) of the Rules of Procedure):

AMENDMENT 3

Tabled by:

HOŠTÁK Martin

POTTIER Jean-Michel

VADÁSZ Borbála

SOC/689 — Decent work for young people and inclusion of NEETs through NRPs

Point 4.17

Amend as follows:

Section opinion	Amendment
For these reasons, and taking into account the fact that all of the changes made are temporary, with many already having come to an end, leaving young people once again faced with a social protection gap, the EESC believes that it is vital that policy-makers focus on building ***a universal*** social protection ***scheme*** ensuring that all workers ***(standard and non-standard, young and adults)*** are ***equally*** covered by social protection. Addressing these gaps would ensure that young people are protected from poverty, as well as from any future labour market shocks.	For these reasons, and taking into account the fact that all of the changes made are temporary, with many already having come to an end, leaving young people once again faced with a social protection gap, the EESC believes that it is vital that policy-makers focus on building ***strong and effective*** social protection ***schemes*** ensuring that all workers are ***adequately*** covered by social protection. Addressing these gaps would ensure that young people are protected from poverty, as well as from any future labour market shocks.

Reason
We fully agree that the NRRPs could be used to enhance and support Member States' ambitions and efforts to implement the Recommendation on access to social protection for workers and the self-employed, respecting their national socioeconomic conditions and practices. Any call for a universal social protection scheme is not compatible with the purpose of this opinion.

Outcome of the vote:

In favour: 74

Against: 101

Abstention: 19

AMENDMENT 4

Tabled by:

HOŠTÁK Martin

POTTIER Jean-Michel

VADÁSZ Borbála

SOC/689 — Decent work for young people and inclusion of NEETs through NRPs

Point 1.9

Amend as follows:

Section opinion	Amendment
The EESC welcomes provisions in the NRRPs that support quality apprenticeships or traineeships as these are an effective tool for reducing early school drop-out and can ensure better integration of young people (and others) into the labour market, and calls on the Member States to implement the Council Recommendation on a European Framework for Quality and Efficient Apprenticeship [1]***. However, the Committee calls for a ban on unpaid internships and for decent remuneration for all interns*** to ***be ensured under*** the upcoming revision of the Quality Traineeship Framework. [1] A Council Recommendation on a European Framework for Quality and Effective Apprenticeship from 15 March 2018.	The EESC welcomes provisions in the NRRPs that support quality apprenticeships or traineeships as these are an effective tool for reducing early school drop-out and can ensure better integration of young people (and others) into the labour market and calls on the Member States — to implement the Council Recommendation on a European Framework for Quality and Efficient Apprenticeship [1]; — to ***use*** the upcoming revision of the Quality Traineeship Framework ***to assess, in cooperation with the Member States and in particular through EMCO, and in consultation with social partners, how the recommendations on working conditions, training objectives applied and whether an allowance or compensation is provided to the trainee by the traineeship provider, to avoid unfair practices***. [1] A Council Recommendation on a European Framework for Quality and Effective Apprenticeship from 15 March 2018.

Reason
We recommend splitting the text in two parts and not mixing apprenticeship, traineeship and internship. The first part is about the apprenticeship. The EU framework is operating well and no revision is in consideration. The second part is linked with the revision of the EU Framework on traineeship and it can be an opportunity to check the implementation and progress in the Member States.

Outcome of the vote:

In favour: 69

Against: 112

Abstention: 15

AMENDMENT 5

Tabled by:

HOŠTÁK Martin

POTTIER Jean-Michel

VADÁSZ Borbála

SOC/689 — Decent work for young people and inclusion of NEETs through NRPs

Point 1.11

Amend as follows:

Section opinion	Amendment
The EESC considers it essential, in order not to subsidise job insecurity, to ensure that hiring subsidies are conditioned by open-ended contracts or ***stabilisation programmes***. In addition, hiring incentives can be effective in creating employment opportunities for 'disadvantaged' jobseekers as well as in reallocating workers being made redundant, favouring their transition towards new sectors and occupations.	The EESC considers it essential, in order not to subsidise job insecurity, to ensure that hiring subsidies are conditioned by open-ended contracts or ***by contracts which form part of a career path leading to this type of contract***. In addition, hiring incentives can be effective ***in complementing the employer's training effort*** in creating employment opportunities for 'disadvantaged' jobseekers, as well as in reallocating workers being made redundant, favouring their transition towards new sectors and occupations.

Reason
The hiring subsidy can help young people to be hired, and employers to reach prospective workers, but both sides need the flexibility to develop a training and career plan leading to a more stable form of contract. This depends on skills, performance, engagement and other objective criteria. Recruitment grants also cover forms of dual employment contracts which form part of a training and vocational pathway. It is therefore appropriate to focus the proposal on conditionality of sustainable employment in order to promote the integration of jobseekers, particularly for NEETs.

Outcome of the vote:

In favour: 69

Against: 120

Abstention: 16

The following paragraph of the section opinion was amended to reflect the amendment adopted by the assembly, but received more than one quarter of the votes cast (Rule 59(4) of the Rules of Procedure):

AMENDMENT 2

Tabled by:

BABRAUSKIENĖ Tatjana

SOC/689 — Decent work for young people and inclusion of NEETs through NRPs

Point 1.9

Amend as follows:

Section opinion	Amendment
The EESC welcomes provisions in the NRRPs that support quality apprenticeships or ***traineeships*** as these are an effective tool for reducing early school drop-out and can ensure better integration of young people (and others) into the labour market, and calls on the Member States to implement the Council Recommendation on a European Framework for Quality and Efficient Apprenticeship ([1]). However, the Committee calls for a ban on unpaid internships ***and for decent*** remuneration for all interns ***to*** be ensured under the upcoming revision of the Quality ***Traineeship*** Framework. ([1]) A Council Recommendation on a European Framework for Quality and Effective Apprenticeship from 15 March 2018.	The EESC welcomes provisions in the NRRPs that support quality ***training, including*** apprenticeships or ***internships*** as these are an effective tool for reducing early school drop-out and can ensure better integration of young people (and others) into the labour market, and calls on the Member States to implement the Council Recommendation on a European Framework for Quality and Efficient Apprenticeship ([1]). However, the Committee calls for a ban on unpaid internships***. Decent*** remuneration for all interns ***should*** be ensured under the upcoming revision of the ***Council Recommendation on a*** Quality ***Framework for Traineeships. The EESC also suggests that a European*** Framework ***for Quality Internships be developed in order to guarantee the educational value of such learning experience***. ([1]) A Council Recommendation on a European Framework for Quality and Effective Apprenticeship from 15 March 2018.

Outcome of the vote:

In favour: 127

Against: 62

Abstention: 8

Opinion of the European Economic and Social Committee on 'Non-standard employment and platform cooperatives in the digital transformation of industry'

(own-initiative opinion)

(2022/C 152/06)

Rapporteur: **Giuseppe GUERINI**

Co-rapporteur: **Erwin DE DEYN**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Consultative Commission on Industrial Change (CCMI)
Adopted in section	10.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	219/0/10

1. **Conclusions and recommendations**

1.1. The digital platform economy is a rapidly expanding phenomenon which goes beyond the borders of the European Union itself. As this phenomenon has grown, the forms of employment relationships for people working through these platforms have also multiplied. Examples are self-employment, discontinuous working relationships and individualised employment contracts. In this context, workers' cooperatives can be a useful means of making employment relationships set up through digital platforms more stable.

1.2. Given the scale of this market, the EESC considers that the European Union and the Member States could and indeed should coordinate the implementation of appropriate rules in order to strike a balance between the needs of innovation and safeguarding the rights of digital platform workers, as they are doing for consumers and users in the draft regulations DSA and DMA.

1.3. Digital platforms are promoting the development of new types of business which provide a greater range of options for many people to participate in the new digital markets. Out of all these various types of business, cooperatives are particularly suited to supporting inclusive participation in the governance of digital platforms.

1.4. The cooperative model allows for the development of businesses established by self-employed workers aspiring to maintain their autonomy and creativity while at the same time improving their income, working conditions and access to social protection, avoiding non-standard forms of work.

1.5. The EESC notes that the cooperative model can combine the features of digital platforms with the organisational model of cooperatives; where conditions allow, it also enables cooperative workers to retain the status of employee, with all the safeguards provided for workers by collective labour contracts.

1.6. The EESC urges the European Commission, the EU Member States and the social partners to provide for initiatives promoting the development of platform cooperatives which, through the new technologies, support entrepreneurship by bringing young workers and entrepreneurs together in a cooperative.

1.7. For these initiatives to be implemented effectively all stakeholders must be involved: thus, social dialogue can play a key role and the EESC is ready to play a part in promoting platform cooperatives.

1.8. Digital platforms know no land borders. Moreover, the country of origin principle applies in our European territory. The success of these initiatives depends on a common understanding and application of these issues. The EESC calls for attention to be paid to the risk of fragmentation of the internal market, which would penalise both the platforms and their employees.

1.9. The EESC considers that the European strategy for the digital transition should make provision for initiatives supporting the setting-up of cooperatives managing digital platforms. This would foster collective ownership of digital services, data and technological infrastructure, thereby encouraging greater economic diversification and promoting economic democracy.

1.10. The EESC notes that cooperatives, as autonomous entities comprised of people who have chosen to come together to meet their common social, economic and cultural needs through a democratic and interactive form of organisation, provide a useful solution to the problems of the governance and democratic oversight of digital platforms.

1.11. The EESC calls for the European Commission's proposals for regulating digital platform workers to focus on and be open to innovation, in a way that helps support businesses' competitiveness without losing sight of the protection of workers' rights. In particular, it must be ensured that people working for digital platforms are trained and enabled to be able to better understand and control how algorithms governing the hiring of workers are applied.

2. **Introduction and background**

2.1. In the process of rapid transformation of the economy and businesses, digitalisation has taken on a key strategic role, to the point of becoming pervasive across all sectors of activity, and affecting the entire cycle of the product and service value chain, involving both large companies and small and micro enterprises. The consequences for the world of work, in terms of new opportunities and new challenges, are significant as regards both their nature and the speed of change.

2.2. New ways of working and new forms of business organisation are emerging as a result of the fast digital transformation. Platform work requires new, flexible solutions that the current legal frameworks are not always able to regulate.

2.3. The rapid transformation underway has revealed gaps in legal certainty, which is why social dialogue and collective bargaining are important as a framework for negotiating new rules for work on digital platforms. Many Member States have taken steps to clarify the employment status of a person working through digital platforms. To this end, the Commission should regulate the matter in a way that encourages agreements that can both adapt to labour market changes and, at the same time, provide the essential safeguards for the social protection of workers.

2.4. While the phenomenon of digital platforms covers a wide variety of models that can include social networks, e-commerce sites, financial intermediation websites and access to and management of resources and data, this opinion will take a specifically work-related angle and refer in particular to businesses operating through applications or websites. In particular, we will look at the specific case of digital platforms in the form of cooperatives.

2.5. The European Commission is exploring the implications for the conditions of platform workers through a consultation, the first stage of which opened on 24 February 2021, with the second phase running from 15 June to 15 September 2021. Through these consultations, the Commission has asked the social partners to give their views on whether legislative action is needed. The consultation sets out seven areas in which action could be envisaged: 1. employment status, 2. working conditions, 3. access to social protection, 4. access to collective representation and bargaining, 5. the cross-border dimension, 6. algorithmic management, and 7. continuous training and job opportunities for people working through platforms.

2.6. Digital platforms build a 'virtual space' in which interactions and exchanges take place that involve much more than simply matching supply and demand, and which can exert an increasingly refined power of control and influence vis-à-vis workers, suppliers and users, offering new services for customers and new choices for employment. This is made possible through profiling systems and the extensive use of data, using artificial intelligence systems and algorithms determined by those who run the platforms.

2.7. By means of a sophisticated marketing policy that makes people who interact with the platforms think that they are key players in a horizontal peer-to-peer process, platforms present and define themselves as meeting spaces for a direct and unmediated relationship, but in reality they are never fully decentralised or neutral; rather, they themselves are active players in the intermediation, with a well-established but often not obvious hierarchy.

2.8. Although there is a comprehensive body of EU and national legislation governing the various forms of employment, it is not always easy to apply these legislative frameworks to platforms. Information, social dialogue and mutual learning should be encouraged in order to facilitate and support the sound, sustainable development of digital platforms, with a view to increasing cooperation and trust between digital market players. Social dialogue and collective bargaining are more effective at regulating rapidly changing situations than rushed legislation that could hamper innovation.

2.9. It is, in any case, clear that a good regulatory framework must accommodate the major innovations that can come from digital technologies, along with recognition of workers' rights in these new forms of work organisation. Intervening in these changes means actively steering the development model, which, as we see it, must have a specific focus on the environment and society.

2.10. In the context of the digital transformation taking place worldwide, consideration must be given at all levels to the measures needed to support the development of a sustainable digital transition regulated by an appropriate European regulatory framework that is clear to digital market players, and particularly those involved in platforms. The European institutions have started to tackle this issue from a number of angles ([1]) and the EESC has already adopted several opinions regarding the tax issues ([2]), regulation of the digital market ([3]), and the issues that arise in the labour sphere ([4]).

2.11. In a general context of changing working conditions, ever-increasing numbers of people are in the position of providing services through self-employment via digital platforms, as shown by the impact assessment published in January 2021 by the European Commission ([5]). The lack of a proper regulatory framework could encourage inappropriate forms of self-employment, which, as such, must meet certain criteria including: autonomy, free expression of the parties' willingness to participate, self-determination in the organisation of work, and independence.

2.12. The European Commission's analysis shows that people working through platforms may not have enough information or understanding with regard to how algorithms are applied to reach certain decisions that could have an impact on their working conditions. This lack of understanding and information can be problematic, particularly in the context of digital surveillance and data management when algorithmic design and management affect working conditions. This is why social dialogue is essential.

2.13. Businesses and workers alike have to be made aware of, and given legal certainty regarding the employment contracts of platform workers, guaranteeing decent pay and access to social protection and collective bargaining. Clarity is also required when it comes to the criteria for being classified as entrepreneur and self-employed. The EESC has given its views on this issue in the SOC 645/2021 opinion on *Fair work in the platform economy*, requested by the German presidency of the Council of the EU in the second half of 2020.

([1]) https://www.eurofound.europa.eu/data/platform-economy/dossiers
([2]) EESC opinion on (additional opinion) (OJ C 364, 28.10.2020, p. 62).
([3]) EESC opinion on the Digital Markets Act (OJ C 286, 16.7.2021, p. 64).
([4]) EESC opinion on the Working Conditions Directive (OJ C 283, 10.8.2018, p. 39).
([5]) Initial impact assessment, *Collective bargaining agreements for self-employed- scope of application of EU competition rules*, 6 January 2021. See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12483-Collective-bargaining-agreements-for-self-employed-scope-of-application-EU-competition-rules_en

2.14. As the Commission itself acknowledges, in the digital platform economy cooperatives have managed to create models which allow for the successful combination of entrepreneurship, social rights and decent working conditions ([6]).

3. **General comments**

3.1. The profound and rapid changes brought about by the digitalisation of the economy and social life are creating a new need for flexibility and swift adaptation and expanding the number of options available in terms of self-employment. On occasion, however, they lead to new forms of fragmentation and parcelling out of work, not only as a process broken down into stages (such as in classic assembly lines), but also subdivided in terms of space and time, often blurring the work-life distinction for the people involved in certain stages of these processes.

3.2. This is part of a complex phenomenon, involving even highly qualified professionals, who are tasked with parts of the production process through independent or freelance contracts. For example, consider the world of computer programmers, data analysts and application developers, and all of the providers of complementary services that are increasingly decentralised.

3.3. The COVID-19 crisis has shown that the proper implementation of national and EU rules, recognising the need to safeguard workers with non-standard contracts ([7]), is still a challenge for many Member States.

3.4. The emergence of digital platforms as a tool for hiring workers has in many cases resulted in the use of self-employment type contracts, even when the workers concerned did not actually work autonomously and independently. There have also been cases in which this approach was intended more to keep down the cost of work than to maximise autonomy in the organisation of work. The number of legal disputes in various European countries has therefore risen. It is clear, however, that such a fast-changing phenomenon cannot be regulated through the courts and litigation, but requires feasible solutions that properly capture and interpret the profound changes under way.

3.5. Against this backdrop, cooperatives enable the development of enterprises made up of self-employed workers (such as independent workers' cooperatives), which aspire to maintain the workers' autonomy and creativity while at the same time improving their income, working conditions and access to social protection. Moreover, the more traditional form of cooperative (workers' cooperatives) can combine the features of digital platforms with the organisational model of cooperatives, which is underpinned by a democratic structure and the safeguards provided for employees in national employment contracts.

3.6. A platform cooperative is a business in the form of a cooperative that is democratically governed in a way that involves participating stakeholders, which organises the production and exchange of goods and services through an IT infrastructure and protocols that interact with different devices, both fixed and mobile.

3.7. Like any cooperative, platform cooperatives belong to and are governed by those who are most dependent on them, in this case the workers, users and other stakeholders. Of course, this is done with due regard for the proper contractual treatment of cooperative workers, whether they work as employees or as self-employed workers.

3.8. The cooperative model, as well as characterising the form of the business and the relationship between the stakeholders, has a decisive influence on the decision-making flows of the operating algorithm, and also helps to 'better distribute benefits amongst producers/service providers, and include citizens/consumers in governance, decision-making and benefit-sharing', as recently argued in opinion CESE NAT/794 ([8]).

([6]) The cooperatives affiliated to the CoopCycle federation are a prime example here. These are cooperatives of bike couriers/delivery workers (who are members and workers in their own cooperatives). They in turn link up with other such cooperatives in other cities, pooling the software used for the transactions and to match up workers, suppliers and users: https://coopcycle.org/en/.

([7]) The concept of non-standard work has been gaining traction at political level, particularly in the last few decades. For instance, see the All For One study: https://cecop.coop/works/cecop-report-all-for-one-reponse-of-worker-owned-cooperatives-to-non-standard-employment

([8]) EESC opinion on Digitalisation and Sustainability — status quo and need for action in civil society perspective (OJ C 429, 11.12.2020, p. 187).

3.9. With this in mind, encouraging the emergence of new businesses, which group these workers together in cooperatives, can help to develop new forms of enterprise. Joining forces in this way is beneficial for those involved in these activities, both in terms of expanding business opportunities (both between themselves and externally) and in terms of pooling the costs and benefits. Often, where national legislation so allows, such cooperatives make it possible for their self-employed workers to have access to existing social protection systems.

3.10. A spirit of enterprise, entrepreneurial skills and business start-ups are key levers for growth. However, starting up a business on your own is difficult, particularly if you are a young person. It therefore makes sense to develop these forms of cooperatives, which, thanks to the new technologies, can harness budding entrepreneurship by pooling young workers in cooperatives regardless of their legal status (employed or self-employed).

3.11. Labour laws and social security systems that developed in line with standard employment do not now seem able to meet the needs of workers employed on non-standard contracts, who nevertheless need social protection and appropriate forms of collective bargaining. Many of the challenges posed today by the transformation of work and digitalisation have encouraged cooperatives to respond to the needs of workers that are not being met by the current institutional arrangements. At the same time they seek to increase the workers' self-fulfilment by encouraging the workers themselves to be part of the ownership.

3.12. With regard to workers who want their autonomy guaranteed (thus leaving aside the phenomenon of the 'bogus self-employed'), new cooperative models have recently appeared in response to the significant increase in new forms of work. These new forms of cooperative could be an excellent tool for fostering a wider dissemination of entrepreneurial skills and pooling the costs and benefits. Specifically, thanks to the new technologies, some form of new economy such as the platform economy could harness cooperatives as a way of enabling many self-employed workers to also have ownership of these platforms and thus steer away from the negative trends of dispersion ([9]).

3.13. The basic idea of platform cooperatives is clear: new business models based on the internet and on-line platforms can be combined with the cooperative model by giving ownership and controlling power to the very people who use and work through on-line platforms. These innovative forms of enterprise can increase good-quality employment in the platform economy and make the digital economy more participatory.

3.14. Digital platforms in the form of cooperatives thus create a business model that uses digital technologies, websites and distributed mobile applications, and operates on the basis of democratic decision-making and shared stakeholder ownership.

3.15. In this way, the legal form of a cooperative, operating on a digital platform, also lends itself well to the format of data exchange and sharing agencies, which could increasingly be used by companies, and in particular SMEs, which can find it more difficult to set up intermediaries for data management and exchange, enabling SMEs in clusters, for example, to maintain the governance of these structures.

3.16. The potential here has not escaped the European Commission, which indeed, in Article 9 of its proposal for a Regulation on European data governance (Data Governance Act), published on 25 November 2020, expressly provides for the possibility of organising 'services of data cooperatives', as also highlighted by the EESC in its opinion INT/921 ([10]).

3.17. On the role that cooperatives can play in democratising the digital economy, an important reference can also be found in the UN Digital Economy Report 2019 ([11]) and in a recent ILO report ([12]).

3.18. It is important to provide people working through platforms with the tools to guide their careers and give them access to professional and skills development. As noted by the Commission, regardless of the employment status of people working and/or providing services through digital platforms, these people should be supported with continuous training and reskilling as well as in accessing social protection and, in particular, protection of health and safety at work.

([9]) https://cecop.coop/works/cecop-report-all-for-one-reponse-of-worker-owned-cooperatives-to-non-standard-employment
([10]) EESC opinion on Data governance (OJ C 286, 16.7.2021, p. 38).
([11]) https://unctad.org/system/files/official-document/der2019_en.pdf
([12]) https://www.ilo.org/global/research/global-reports/weso/2021/lang–en/index.htm

3.19. The digital platform model, including in the form of cooperatives, can be applied to develop and improve accessibility to distance learning, which can facilitate personalised learning.

3.20. The broad dissemination of tools for digitalisation not only of work activities but also of many aspects of daily life requires widespread training in basic digital skills to be available. The social partners and the European institutions should encourage the exchange of best practices in this field with a view to promoting mutual learning and raising awareness of the potential generated by digitalising the economy. Continuing training for employed workers must be promoted first and foremost through social dialogue and collective bargaining.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on how REIIs (Resources and Energy Intensive Industries) can take advantage of the EU Recovery Plan in their socially acceptable transition towards de-carbonisation and digitalisation

(own-initiative opinion)

(2022/C 152/07)

Rapporteur: **Andrés BARCELÓ DELGADO**

Co-rapporteur: **Enrico GIBELLIERI**

Plenary Assembly decision	25.3.2021
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(for/against/abstentions)	151/0/4

1. Conclusions and recommendations

1.1. The EU recovery facility and the related National Recovery and Resilience Plans (NRRP) must contribute to a just transition for the EU resource and energy intensive industries. They must lead to the creation and maintenance of quality jobs in these industries, involve social partners in the implementation of the NRRPs and support labour transitions through reskilling and upskilling.

1.2. The EESC encourages the Commission and the other EU institutions to guarantee a level playing field within the single market, to avoid unbalanced advantages to industry depending on each Member State's approach.

1.3. The EESC believes that the industrial transition will not be achieved if the energy transition is not implemented. For that, the availability of sufficient, affordable low-carbon energy sources that make low-carbon industrial production possible will be key. The EU legislators and Member States should balance the availability of energetic vectors together with their cost, in order to allow REIIs to make the industrial transition and to compete in the international arena. Additionally, technological neutrality will be key for ensuring the proper implementation of National Recovery and Resilience Plans (NRRP) while complying with the EU's 2030 and 2050 climate objectives and the UN Sustainable Development Goals (SDGs).

1.4. Automatisation and digitalisation in the industrial transition are among the cross-cutting fundamentals of this transformation process. However, the role of digitalisation in the Resource and Energy Intensive Industries (REII) must not be misunderstood: it is a tool, not an end goal in itself.

1.5. The EESC welcomes the seven flagship areas defined by the Commission in its guidance to Member States on the NRRPs and the need to devote at least 37 % of the total budget to actions in the field of climate investments and at least 20 % in the field of digitalisation. It encourages the EU institutions to closely monitor the deployment of the allocated funds in order to fulfil those requirements.

1.6. The time needed for REII companies to make the industrial transition will extend beyond the duration of the Recovery and Resilience Facility (RRF). The EESC encourages the EU institutions to take that into account and to set up new and suitable financial instruments and regulations, in order to achieve the complete transition to a low-carbon industry, beyond 2026.

1.7. As REII companies need special attention with regard to R & D&I activities, the EESC urges the EU institutions to put in place specific measures to address the challenges REII companies face on their path to a carbon neutral industry.

1.8. Building renovation will ensure a substantial share of the energy efficiency needed to reach a carbon neutral society in 2050. The EESC supports works and projects devoted to improving energy efficiency in buildings through the renovation of their envelope and installations.

1.9. The EESC strongly defends the development of a proprietary EU cloud system that brings technological independence to the EU.

1.10. Management of the talent inside EU industry is key if successful industrial transformation is to be achieved. The Commission therefore needs to monitor whether the programmes and activities developed to improve new skills will contribute to a successful transformation in this respect.

2. **Background**

2.1. The COVID-19 pandemic has resulted not only in a worldwide health emergency, but also in an economic and social crisis. This severe situation has required European policymakers to implement major policy measures to stabilise the economies of all European Member States.

2.2. The European Union has set up several mechanisms under the NextGenerationEU programme (NGEU), with the aim of supporting Member States to emerge stronger from the crisis with the largest stimulus package ever seen. It will provide EUR 1,8 trillion in a long-term budget which will be deployed through different instruments focused on modernisation, research, climate transition and social protection.

2.3. One of the NextGenerationEU instruments is the RRF, which will focus on repairing the immediate economic and social damage caused by the COVID-19 pandemic and promoting the 'twin transition' to a decarbonised and digital society.

2.4. The facility comprises a total sum of EUR 672,5 billion, which will be distributed as loans (EUR 360 billion) and grants (EUR 312,5 billion), available to support reforms and investments made by Member States with a view to sustainable recovery.

2.5. This funding will be allocated under the Member States' NRRPs, which will include the reforms and investments required as well as reflecting the relevant country-specific recommendations made by the Council as part of the European Semester governance framework, in order to contribute to the EU's 2021 Annual Sustainable Growth Strategy.

2.6. The European Commission has defined the main flagship areas where the specific lines of action need to be defined by each Member State:

1. POWER UP — clean technologies and renewables;

2. RENOVATE — energy efficiency of buildings;

3. RECHARGE and REFUEL — sustainable transport and charging stations;

4. CONNECT — rollout of rapid broadband services;

5. MODERNISE — digitalisation of public administration;

6. SCALE UP — data cloud capacities and sustainable processors;

7. RESKILL and UPSKILL — education and training to support digital skills.

The main flagship areas have been defined to allow the actions undertaken to make a substantial contribution to an EU green and digital transition.

The RRF, through the development areas promoted by Member States, aligned with the specific country recommendations from the European Semester, will give the necessary breathing space to the organisations which have been hit by the economic situation caused by the pandemic. It will especially help the economic sectors, such as the REIIs, which were already in a tough situation (due to the high regulatory burden and the unfair competition from some third countries) and have been severely affected by the current circumstances.

2.7. The recovery strategy, building on the EU industrial strategy and its 2021 update, will serve to help to achieve the objective of the European Green Deal, the 2050 climate neutrality objective and the revised 2030 GHG emission reduction target. The RRF will play a key role in addressing the huge investments to be made by REIIs, in order to reach those goals. The efforts required to build a stronger single market for the EU's recovery must be supported by strong partnerships between the EU, Member States, social partners, industry and other relevant stakeholders. The recovery strategy will also strengthen the Just Transition Mechanism, which supports regions reliant on REIIs and undergoing structural change.

3. **General comments**

3.1. The EU Recovery Plan comprises a key aspect in the sustainable transition towards a decarbonised and digitalised economy and highlights the fact that the EU's twin transition aspiration requires political responsibility, in addition to political commitment and/or golden rules. The EESC agrees with the proposed main flagship areas, which will focus the investment on some of the most relevant areas for achieving the United Nations Sustainable Development Goals (SDG) while ensuring the achievement of the climate targets established by EU legislation for 2030 (greenhouse gas (GHG) emissions reduction of at least 55 % compared to 1990) and 2050 (net-zero GHG emissions).

3.2. The pandemic has created the need to forge a common pathway where the rules are globally defined and homogeneously applied by all regions, thus addressing the potential fragmentation risk derived from the miscellaneous allocation of resources. The crisis arising from the pandemic and the need for a transition to a sustainable, resilient and flexible economy could provide a great opportunity to define the rules guaranteeing a level playing field in the EU.

3.3. To this end, the REIIs' current precarious situation needs to be properly assessed, along with the impact that the ongoing nature of these conditions could have on the European economy as a whole. The REIIs' contribution to the European Union's Gross Domestic Product (GDP) should be borne in mind, along with the fact that they are leaders in innovation, are responsible for the creation of high-quality employment and contribute to long-term wellbeing for society as a whole. A strong public service needs drive from the private sector. However, the EESC is concerned about the lack of precision that some already approved NRRPs show with regard to REIIs, as investments are sometimes diverted to other economic sectors.

3.4. In addition, the impetus that REIIs can provide in terms of R & D needs to be considered, as it constitutes a key area where innovation will be scaled up from laboratory to industrial scale.

3.5. The REIIs are potentially one of the biggest contributors to the industrial transition that will ensure a low-carbon Europe. Industry should intensify its efforts to develop and roll out low-carbon production processes and promote them along the complex supply chains. Without this indoor and outdoor work, it will be hard to achieve the essential but ambitious goals defined in the Paris Agreement and the goals set by the EU.

3.6. Automatisation and digitalisation will play a key role in the achievement of this industrial transition. However, concepts should not be confused: transformation is the goal; digitalisation is the tool. Implementing digital solutions will streamline the way people think, make decisions and perform: while digitalisation needs to be a priority for the RRF, the focus should be on how these tools will enable a more efficient approach to the challenges we are facing.

3.7. Digital transformation will require the development of technologies proven at pilot or laboratory scale on an industrial scale. For that, public and private partnerships should focus on research, development and innovation. Investment should focus on technology which demonstrates early on the scalability, feasibility and reliability of the innovative solutions in the upper parts of the value chains, while being in line with sustainability goals. Additionally, it will be necessary to plan a conversion period where innovative solutions can be properly scaled up to industrial scale.

3.8. In order to be able to handle this situation effectively, the transition should be focused on the know-how acquired, the resources already available and the potential synergies that may arise. Transformation involves innovation, invention, design, construction and, in fact, development; but this should not mean new creations *per se*.

3.9. The EESC is aware of the investment this transition will require. The RRF and NGEU should not be seen as the panacea. The REIIs transformation to cope with the twin transition will require a massive investment plan, mobilising many additional sources of funding (e.g. state aid, important projects of common European interests, new own resources for the EU budget, future EU ETS revenues, private investments, etc.). To this end, it is essential to reconcile industrial and energy policies with climate policy, in order to mobilise all of the huge investments made necessary by the transition to a zero-carbon economic model.

3.10. The EESC believes that efforts should be made to coordinate the support given through the RRF to transform the REIIs with existing public-private funding programmes such as SPIRE or the Clean Steel Partnership. Industry Alliances should be used as platforms to foster long-term synergies between projects funded through the RRF and existing EU programmes, to catalyse the transformation of the REIIs.

3.11. The need to accompany the financial support provided through the RRF with an ambitious tax reform has been identified. This should be aligned with the OECD agreement to ensure that highly profitable corporations will be subject to an effective corporate tax rate of 15 % as of 2023.

3.12. The main goal of the disbursement of grants to companies should be to keep the international competitiveness of EU industry while complying with the EU's social, economic and environmental standards, to ensure the twin transition will benefit European citizens.

3.13. As stated above, the EU Recovery Plan will be key for the transformation of the REIIs, while contributing to the metamorphosis of other economic sectors with regard to the twin transition. This broad conversion will require long-term adaptation and transition periods, especially in all matters related to human capital. The EESC strongly suggests that investment mechanisms be extended beyond 2026 and that tough and clear interlinks between each be well defined.

4. **Specific comments**

The EESC invites the Member States and industry to put forward investments and reforms with the biggest transformational impact, in terms of achieving the final goals set, in the main flagship areas defined by the Commission. It cannot be ignored, that the costs involved in achieving the goals associated with this twin transition must be affordable for society as a whole.

4.1. **POWER UP — clean technologies and renewables**

4.1.1. The industrial transition will not be achieved if the energy transition is not implemented. Industry decarbonisation will rely directly on the availability of sufficient, affordable low-carbon energy sources that make low-carbon industrial production possible. Securing sufficient generation of decarbonised energy in a reliable way will be crucial to reaching the climate and digital targets. Similarly, massive investment is needed to develop or create the infrastructure required to transport, store and distribute these unprecedented volumes of low-carbon energy. The implementation of the National Recovery Plans, and notably the proposed reforms, should focus on ensuring competitive, stable and predictable energy prices, limiting the impact high-energy prices will have on inflation, which may jeopardise the recovery of REIIs and society in general.

4.1.2. The EESC agrees that technological neutrality is a must while implementing the National Recovery Plans: all low-carbon technologies (renewable energy, green hydrogen, fusion reactor, etc…) must be included in this transition provided that they are in line with the 2030 and 2050 climate objectives as well as with the UN SDGs. No technologies should be pre-emptively or arbitrarily excluded. The resource allocation criteria should focus on ensuring competitive energy prices for end consumers regardless of the technology itself.

4.1.3. For that, it may be necessary to consider not only combining different competitive renewable energy sources, but also combining them with Carbon Capture Storage and Use Technologies, without forgetting the role the energy interconnection between different MS will hold. Sufficient, homogeneous regulation must be in place to create the business case for investments and enable these technologies to be implemented.

4.1.4. In addition to the availability of affordable energy and technological solutions, energy efficiency must be properly considered. All scenarios identified by the EU long-term emissions reduction strategy for achieving the 2050 climate neutrality objectives ascribe an important role to energy savings ([1]). Shifting to a more circular economy also has a major role to play in reducing energy and resource consumption by REIIs.

([1]) https://knowledge4policy.ec.europa.eu/publication/depth-analysis-support-com2018-773-clean-planet-all-european-strategic-long-term-vision_en.

4.1.5. Regarding the risk of unfair competition mentioned above, and with the aim of trying to prevent and mitigate the risks carbon leakage may involve, this must be properly handled under the RRF. It is important not to overlook the measures or systems which have worked in reducing emissions, but to reinforce them with additional or complementary (not alternative) mechanisms when necessary.

4.1.6. After assessing all the potential key factors that will need to be handled under the POWER UP flagship area, the main doubt that arises is how the EU is going to be able to supply the unprecedented amount of energy required by society.

4.2. **RENOVATE — energy efficiency of buildings**

4.2.1. Improving the energy efficiency of existing and new buildings will require smart materials and equipment, which will contribute to a sustainable transition. We understand smart materials to be green materials or sustainable production processes to achieve them.

4.2.2. The EESC trusts that, for the purpose of holistically contributing to the goals defined by the European Commission, smart materials (and their associated sustainable production processes) will be promoted beyond business as usual. Equipment shall not be forgotten: energy efficiency will not be achieved if we only focus on the building envelope; equipment and systems must be properly assessed, renewed and interconnected. This could lead to smart materials markets taking off, with public procurement processes as a possible practical starting point.

4.3. **RECHARGE and REFUEL — sustainable transport and charging stations**

4.3.1. The European strategy must make a great effort to define a clear roadmap for decarbonising sectors that are hard to electrify (long-distance and heavy road transport, aviation, maritime transport, etc.).

4.3.2. A renewable and low-carbon fuels strategy and a renewable and low-carbon fuels value chain alliance will help to decarbonise the aviation and maritime transport sectors, while complementing the efforts to decarbonise road transport through electrification, among other alternatives. In this way, access to affordable mobility for all will be guaranteed. The decarbonisation of transport will be done based on a life-cycle and cost-benefit assessment, replacing the most impactful ways of transport as a first approach, while ensuring sufficient transition periods for low-income users through low-carbon sustainable fuels.

4.4. **CONNECT — rollout of rapid broadband services**

4.4.1. The EESC is aware of the importance of automatisation and digitalisation in the industrial transition we are facing, as they are among the crosscutting fundamentals of this transformation process.

4.4.2. Enough resources need to be available for the industry so that automatisation of the systems is improved. Quality information can then be provided through digital tools to make decision-making processes more efficient.

4.4.3. This will require investment not only in technology, but also in training workers and society in general in digital skills, adoption of digital thinking and providing appropriate regulation and tools to guarantee cybersecurity, among other things.

4.5. **MODERNISE — Digitalisation of public administration**

4.5.1. The EESC understands the relevance of the fact that the digitalisation of the public administration may have to combat excessive administrative burdens that industry frequently suffers from. However, this digital transition needs to be based on a real cost-benefit analysis, where resources are properly assigned based on technical criteria (this analysis must be considered above the target itself).

4.6. **SCALE UP — Data cloud capacities and sustainable processors**

4.6.1. Proper data management will lead to a turning point in accurate decision-making, the development of business intelligence, efficient problem-solving and optimisation of resources, all of which are key to ensuring a successful transition. Enough resources need to be allocated to ensure the involvement of all types of organisations in the deployment of this initiative, guaranteeing equitable data resources that will lead to an equitable transition.

4.6.2. With regard to strategic independence, the EU should develop its own cloud capacities that allow technological sovereignty, avoiding technological dependence on third countries.

4.7. **RESKILL and UPSKILL — Education and training to support digital skills**

4.7.1. The transition we are facing will not be possible if it is not based on the needs and expectations of current and future society, and based on the concept of a just transition.

4.7.2. The main competitive advantage of the European Union is our human capital. Europe lacks raw materials, our living standards are the highest in the world and our regulatory framework is quite demanding: this means that our biggest advantage is high productivity, driven by our human capital and rich diversity.

4.7.3. Capability building and projects to define key skills will be essential in order to ensure an effective industrial transition that focuses on equality and does not leave anyone behind. To this end, training in the new challenges that will arise needs to be promoted at all levels of society (from currently active to future employees).

4.7.4. Innovative thinking will be key for future decision-making processes. These capabilities must be part of the training programmes. In addition, there will be a huge demand for digital skills in the near future. Human resources need to focus on trying to fill these gaps, with the aim of ensuring competitive organisations staffed by people who are also fit for purpose.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Anticipation of structural and sectoral change and reshaping industrial cultures — up to new borders of recovery and resilience in the different parts of Europe'

(own-initiative opinion)

(2022/C 152/08)

Rapporteur: **Norbert KLUGE**

Co-rapporteur: **Dirk JARRÉ**

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(for/against/abstentions)	143/1/2

1. **Conclusions and recommendations**

1.1. At least 55 % reduction of CO_2-emissions by 2030: this is the challenging binding figure of the 'Just Transition' to be enacted by the politics of the EU and the governments of its Member States, by companies in the regions where European citizens live and work. Right now, this ambition requires common efforts to anticipate the impacts on economic and social life and to map-out corresponding strategies and measures.

1.2. The EESC is convinced that the EU's Updated Industrial Strategy and the Fit for 55 package presented by the European Commission will support the 'Just Transition'. In this regard, the EESC welcomes the new Social Climate Fund for balancing social disadvantages as part of the package. COVID-19 has also illustrated the need for more speed in the transition towards a more sustainable, more digital, and more robust social, economic, and industrial model. In particular, the EESC notes that regional differences and social inequalities play an important role in this.

1.3. All these issues are already part of the policy agenda (e.g. green deal, circular economy, just transition, structural programmes, etc.), but are not dealt with in an integrated manner. The EESC therefore recommends taking into account the experiences from different policy fields, nations and regions, which have to be considered in their differences and specificities.

1.4. The development of a level playing field in economic competition is a prerequisite. This needs to take into account the social dialogue between social partners and civil dialogue for co-creation. This should favour the creation of a set of EU champions that can in turn enhance the EU's economic sovereignty.

1.5. There will be no green deal without an integrated 'social deal' ([1]). Consequently, the EESC advocates strengthening the implementation of the European Pillar of Social Rights ([2]). It is viewed as the compass of the EU and its Member States in cushioning the social effects of industrial change. This is essentially based on social dialogue and collective agreements, which form the basis for company decisions where workers are adequately informed and their interests are taken into account through consultation and, where appropriate, participation in company supervision and management.

([1]) 'No Green Deal without a social deal', EESC-Opinion adopted 9/10.6.2021 (OJ C 341, 24.8.2021, p. 23).

([2]) We refer in particular on the three headline targets: at least, 78 % of people aged 20 to 64 should be in employment; at least, 60 % of all adults should participate in training every year; the number of people at risk of poverty or social exclusion should be reduced by, at least, 15 million.

1.6. The EESC points out that economic and environmental successes are primarily achieved and implemented where people live. This is where challenges from climate protection are anticipated and jointly shaped. This is where new ideas arise and are transformed industrially into globally competitive products and services.

1.7. 'Transition pathways', as conceptualised in the EU's Updated Industrial Strategy and discussed by the EU Industrial Forum, provide EU citizens with support and guidance. However, the specific starting points at regional level vary enormously and different strategies are needed to achieve the overall goal. The EESC therefore calls on the European Commission to pay particular attention to these different requirements when setting the framework and measuring the EU industrial strategy, in order to be able to respond flexibly to regional and sectoral needs.

1.8. Subsidiarity must be viewed in its capacity to create a strong resource for the 'Just Transition'. Regions and metropolitan areas know their problems and opportunities best. For this reason, the EESC recognises that the binding objectives and principles of European industrial policy agreed jointly at EU level should be clearly defined. It is important to be aware that the implementation in regions and metropolitan areas must be based on the principle of subsidiarity.

1.9. Situations and capabilities for approaching the climate, social and environmental aims are highly divergent. While some industries and companies may meet the goal more easily, others may have more difficulties moving forward. Weaker regions and certain industries therefore require special attention and specific support. Since the overall goal applies to the entire value chain, it is important to first concentrate on faster effects and further-reaching changes.

1.10. The EESC notes that this is the principle by which companies can regain their economic and sustainable competitiveness, with the help of committed entrepreneurs and managers and well-trained and skilled workers. SMEs play an important role here. A human capital agenda is a prerequisite for the successful transition of companies

1.11. Member States should reinforce, with the logistic and financial support of the European Union, structural and process-oriented public investments through services of general interest targeted towards the continuous improvement of enabling conditions for industrial and social development that can enhance the capacities of regions and at local level to effectively deal with environmental, technological, economic and social challenges.

1.12. The EESC advocates that the EU industrial strategy should anticipate and counterbalance increasing poverty and inequality as the Green Deal must be accompanied by an integrated 'social deal'. Thus, resources should be channelled where they are most needed. A comprehensive EU sustainability policy has to do more for justice and participation in the economy, for the benefit of people and regions ([3]). Civil and work life in Europe should follow the requirement of creating sustainability based on inclusive and sustainable growth, decent work and social justice ([4]).

1.13. The EESC supports the transition towards a circular economy that stops the wasteful use of non-renewable resources and reduces international dependencies. This should also be a major part of the EU Industrial Strategy. Consequently, framework conditions should be modified to create competitive advantages for companies that adhere to the principles of a circular economy.

2. **Just transition as an opportunity for industrial recovery and growth**

2.1. The Green Deal sets a clear and politically binding goal: a 55 % reduction in greenhouse gas emissions overall should be achieved in Europe by 2030. This was operationalised by the Fit for 55 measures presented by the European Commission in July 2021. There is no more room for interpretation here. A fair international trade system needs to make sure that businesses can remain globally competitive while meeting the aims of the Green Deal. This includes a cross-border and transcontinental carbon adjustment system. This creates incentives for trading partners to enter the club of nations that respect the planet's limits.

([3]) EESC proposals for post-COVID-19 crisis reconstruction and recovery, 11.6.2020 (OJ C 311, 18.9.2020, p. 1).
([4]) EESC resolution on the 2022 EU Commission Work Programme, 9.6.2021 (OJ C 341, 24.8.2021, p. 1).

2.2. Countries outside the EU with weak environmental regulations increase the pressure on the EU, which has comparatively strong environmental regulations. These global interactions must not lead to environmental dumping.

2.3. The global situation may trigger the development of new sustainable technologies capitalising on Europe's strengths, such as its ability to implement incremental and radical innovation so as to supply world markets with products leveraging traditional competences to address new challenges. This requires careful and visionary anticipation of the nature and extent of change and a substantial increase in public and social services to cope with social problems like possible increased poverty, homelessness, exclusion of persons with disabilities and minorities, reduced opportunities for women and reduced training to facilitate re-entry into the labour market.

2.4. A static analysis may conclude that acting according to the European Green Deal would — in the short term — give competitors in countries with less ambitious climate targets a cost advantage vis-à-vis European companies that are already in transition. A dynamic perspective would emphasise that companies will be given incentives to incrementally innovate by making their production systems more energy-efficient, to switch to renewable energy sources and to adopt appropriate innovations. While the EU is clearly a frontrunner in aiming to effectively combat the climate crisis, the rapid use of renewable materials requires a more ambitious implementation of the circular economy and the resilience of raw materials. The resulting transition will only work if enough attention is paid to the social dimension of this process. The just transition principles of the Paris Climate Treaty and the ILO Guidelines for a just transition ([5]) offer guidance in this respect. The just transition principles thus act as a compass for recovery measures by setting clear responsibilities for all stakeholders to respect human and social rights, democratic values and the rule of law with the intention of not leaving anybody behind.

2.5. Last but not least, changes on this scale and lessons learned from past transformations suggest that a co-creation process is required involving politicians, administrations, social partners, civil society organisations, companies and members of the public at all governance levels in the EU and within companies. Tapping into the as yet unexploited creativity and innovative potential of people living in Europe will create the solutions needed to meet the challenges ahead. Diversity of ideas is an invaluable source for innovation in all sectors of the economy that will significantly advance techno-scientific progress.

2.6. Past experiences have shown that successful and lasting economic and social changes have the highest chances of being implemented if the objectives are clearly spelled out, the responsibilities of the various actors involved in the transformation process are determined in a precise strategy and the whole project is agreed upon, endorsed and supported by the major forces of society. Consequently, political forces, economic stakeholders and civil society have to act together in a system of effective social dialogue, collective agreements and mutual information sharing, consultation and genuine participation in decision-making and co-creation processes.

2.7. Social dialogue among social partners and civil dialogue involving societal stakeholders can play a particularly important role in projects aiming to balance social, ecological and economic interests. Thus, the concrete implementation of the European Pillar of Social Rights is indispensable.

3. **Regions are key places of work, life and anticipation of socioeconomic change — not just ecosystems**

3.1. The COVID-19 pandemic has had different impacts on different ecosystems, as the European Commission acknowledges in its communication on the EU's New Industrial Strategy. It also further accelerated existing trends towards digitalisation and decarbonisation, increasing the risk of deepening the fragmentation between regions due to different levels of economic wealth and resources with which to invest in the transformation of industries. It is therefore essential that the Industrial Forum, and the foreseen transition pathways, take these different effects into account.

3.2. It is in European civil society's interest to develop good prospects for jobs and incomes for citizens in regions affected by industrial transformation. For this, we need to understand the different starting points of the various regions and how positive interactions can be generated from existing industrial competences. Integration into globally significant value chains and, in particular, the various aspects that contribute to such value chains play an important role in this. The European Commission's ecosystem approach is based on a macro-political approach that classifies all industries globally.

([5]) https://www.ilo.org/global/topics/green-jobs/publications/WCMS_432859/lang–en/index.htm

This approach does not take into account the divergent situations or the interdependencies that exist in the various ecosystems. It can hardly do justice to the diversity of requirements in the various regions and must be supplemented by a regional political perspective.

3.3. The European Commission is currently developing KPIs that are intended to show the success of the EU Industrial Strategy ([6]). At the moment, the Commission is mainly focused on economic growth and is neglecting the goals set out in the European Green Deal, the changes that the transition to a circular economy requires, and the social dimension of the transformation process. It is of paramount importance that the EU Industrial Strategy clearly recognises and appreciates the value of regionally available industrial skills, potential and competences. This has to be taken properly into account. Otherwise, too narrow of a focus on economic growth and the measures and instruments associated with it may lead to the climate targets and the opportunities associated with industrial transformation being missed, and may undermine the circular economy.

3.4. Formulating industrial strategy and policy under these premises must take into account uncertainty and unpredictability. Policies and divergent pathways tailored to individual situations must be flexible and need to be based on all the competences available within a region or to a region through exchanges with other regions and countries. Openness as an important strategic resource is required to ascertain what is missing and what is required immediately.

3.5. Industrial change for the purpose of climate protection will cause severe social problems if the goals of the Green Deal are to be achieved in the short remaining time. Consumption of environmentally harmful resources is an issue to be addressed and investigated in order to find a socially and societally just solution.

3.6. The circular economy contributes positively to industrial change, within regions and along supply and value chains. Although the highest added value can be found in regions with the most advanced industries, in locations with a less knowledge-based and more energy-intensive economy, material is produced and processed that is brought into the circular economy. Weaker regions can clearly benefit more from the circular economy and can become major players in this area.

3.7. The focus on succeeding with industrial change at regional level clearly implies the need for strong interconnections, close collaboration and competence sharing with other regions, including across the national borders of the EU Member States. There is a comprehensive system of interactions, which clearly includes local SMEs interacting with cross-border companies.

3.8. Existing regional industrial competences on their own are not fully effective in the context of socio-ecological change. However, they must and can be further developed by investing in knowledge, equipment and personnel and must and can become productive under the changed conditions. This will serve to create new products, services, technologies and opportunities. This, in turn, will provide for economically stable companies with attractive jobs in regions. This is precisely the goal that the European industrial strategy needs to aim for.

3.9. A region is widely defined by its industrial structures, its companies, its workforce, the competences of citizens, its R & D capabilities and the specific products that its companies manufacture or process. Industrial competences show a wide range of historical particularities.

Supply and value chains have very different regional effects throughout Europe. The global context is as important as the organisation within Europe but has different effects. Industry 4.0 and digitalisation as well as information and communication technologies will have a significant but highly divergent impact on Europe's industries and economies in general. In this sense, innovation and development funds will become even more pivotal in mitigating regional differences.

3.10. Providers enabling industrial change, including start-ups and SMEs, can be linked to their customers even from less central regions and attractive jobs can be created even in such places. In particular, knowledge-based companies can make their contributions to value chains largely independently of their proximity to customers. Moreover, the machinery of larger-scale factories can often be managed remotely.

([6]) See INT/935 (2021) EESC opinion on the NEW EU Industrial Strategy, (not yet published in the OJ).

3.11. The European Commission's ecosystem approach does not cover all relevant levels and aspects. It clearly emphasises the importance of also viewing transition developments from a regional perspective, and of ensuring that companies — including those from the social economy — serve as the foundation for the whole political operation. It is important to show how this relates to value chains and how the various components of individual ecosystems correspond to those of different ecosystems.

4. **Options for transition pathways following a holistic approach for socioeconomic industrial development**

4.1. While innovation is widely associated with new technologies or breakthroughs in scientific research, opportunities also exist to use existing competences as a basis for better or new products and services. New technologies are interwoven with existing traditional technologies. There are further clear examples for this interlinkage between well-established traditional ways of manufacturing and incremental innovation and modernisation of industries: the use of new and lighter material from aircraft in vehicles, the use of lighter automotive materials, and the application of biotechnology in the design of new medical instruments or services.

4.2. Advanced ICT infrastructures act as drivers for introducing new opportunities and helping to create innovative and sustainable solutions that tie in with regionally existing peculiarities. For instance, the use of 3D printers provides opportunities to develop and design a product in one location and make it physically available where it is required at a number of different locations. This helps to reduce transportation-related environmental impacts.

4.3. Social economy concepts can play an important role in socioeconomic change by creating new learning, living and employment opportunities, as well as alternative service and support infrastructures in local communities, especially for disadvantaged groups and persons at risk. In conjunction with services of general public interest, these concepts have considerable potential to competently and effectively prepare societal and economic actors for the requirements and consequences of innovation and change, particularly at a regional level.

4.4. Public structures have great responsibility in creating the enabling conditions for change and development by providing services of general interest that are accessible to all economic actors.

4.5. This is also part of the progress required with services of public interest, such as organising continuous further training agencies for the necessary upskilling of the workforce, aiming to improve workers' competences, and helping companies to cope with innovation and change. Consequently, skilled workers will also become more rooted in the region and will contribute to shaping the ongoing — and green — structural change.

4.6. For energy-intensive industries, there are many shared solutions for decarbonisation and thus the possibility of shared investments (e.g. clean hydrogen, reuse of carbon capture and storage). Increased circularity and industrial symbiosis are also important aspects in decarbonising industry and in preparing for a future with efficient companies with strong productivity.

5. **The importance of regional labour markets providing for decent work in sustainable manufacturing and service companies**

5.1. There is a need to understand and use a granular analysis of regions, companies and their economic performance with regard to their fundamental competences in industries and in terms of workforce. This also includes infrastructure, location, resource endowment, entrepreneurial spirit and institutional setup. This is important for enabling a highly qualified workforce and for anticipating future skill demands to avoid skills deficits (e.g. engineers).

5.2. Collaborations with universities, including those specialising in applied science, and research institutions may be instrumental in creating new industrial opportunities that can result in new workplaces in established businesses, multinational companies, SMEs and start-ups.

5.3. At human level, regions that easily welcome and integrate new arrivals into well-functioning socioeconomic structures are in an advantageous position.

5.4. Regions where a skilled workforce is deeply rooted in the socioeconomic structures and feels at home can also become the home of high value-added and dynamic industries and companies based on effective formal and informal competence networks. Consequently, labour constitutively contributes to defining the innovative industrial competences of a region and fundamentally helps to support modernisation and transformation processes.

5.5. The skills and specific competences of employees and their continuing improvement can provide the basis for restructuring and changing business models, including future growth and new markets. Not recognising and benefitting from regional development opportunities often results in a continuing outward migration of workers, which always weakens the capabilities and competences required by regions to develop and seize the opportunities created by the European Green Deal.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'A strong transatlantic partnership based on the common values of democracy and the rule of law, key in tackling global challenges and preserving the international order'

(own-initiative opinion)

(2022/C 152/09)

Rapporteur: **Christian MOOS**

Co-rapporteur: **Peter CLEVER**

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1. **Conclusions and recommendations**

1.1. An international order where the rule of law prevails rather than the rule of the strongest is inextricably linked to the principles of democracy and the rule of law.

1.2. Democracy and the rule of law are not possible without the involvement of a pluralistic, independent and vibrant civil society that includes autonomous social partners. This is why it is so important that the recommendations in this opinion on transatlantic civil society, in particular to promote a transatlantic platform, are put into practice.

1.3. Within the EU, the democratic foundation of some Member States has become more fragile.

1.4. The geopolitical changes over the past two decades have caused serious harm to the multilateral international order and significantly weakened key international organisations. China in particular, but also Russia and, closer to home, Turkey, pose particular challenges that Europe can only face through a renewed transatlantic partnership, while conversely the USA also depends on its democratic allies in the world, particularly Europe.

1.5. The European Economic and Social Committee (EESC) supports the idea of an Alliance of Democracies and recognises, in a spirit of self-criticism, that a greater commitment to defending universal values and rights is urgently needed. Together, the EU and the US should be an anchor for democracy, peace and security around the world, the rule of law, and human rights for all.

1.6. The hasty withdrawal of US armed forces and their allies from Afghanistan paints a dire picture of just how much the free world depends on the security assurance provided by the USA.

1.7. The EU must speak with one voice in foreign and security policy and reconsider its ambiguous concept of 'strategic autonomy' in favour of strategic capacity.

1.8. There must be no equidistance between Europe and the world's major powers. The EU, together with the USA and in the framework of the Alliance of Democracies, should defend the liberal international order and, in particular, pursue a 'strategy of cooperative containment' towards China.

1.9. The OSCE is a key pillar of the pan-European security architecture and as such should be consolidated for dialogue with Russia. The Nord Stream 2 project should be put on hold for as long as Russia continues to violate international law in Ukraine, otherwise Moscow will gain greater leverage over eastern European countries.

1.10. The European security architecture must be strengthened together with NATO; there should also be a dialogue on values within NATO.

1.11. Civil society cooperation needs to be further strengthened in the transatlantic context. The joint dialogue on citizens' rights, resilience to disinformation, media freedom, climate action, social rights and consumer protection, and on supporting democracy, as guaranteed by the EESC in the EU, is particularly important in this connection. In the long term, the transatlantic partnership can give way to transatlantic integration.

2. **The rule of law and liberal international order**

2.1. The EESC notes that there is an inseparable link between a liberal international order and a foundation of democracy and the rule of law at home. If those democratic entities governed by the rule of law lose power in relation to authoritarian or totalitarian players, it will be impossible to uphold a liberal international order. By analogy, if mercantilism and protectionism replace rules-based free trade, this will encourage those forces that question rule-of-law-based liberal democracy within countries too.

2.2. The EESC believes a liberal international order to be the prerequisite for a rules-based, fair and sustainable trading system, and the achievement of the Paris climate targets, of the United Nations sustainable development goals as well as of social justice, equal opportunities, gender equality and non-discrimination. An international order based on the law of the jungle, isolationism, efforts to be self-sufficient, and hierarchical power-based trade relations can neither cultivate and consolidate creative and innovative entrepreneurship that produces long-term economic success nor realise ambitious environmental and social policy objectives.

2.3. The EESC therefore favours strengthening fundamental rules that govern interaction between states through the United Nations and its subsidiary agencies, and welcomes the idea of an Alliance of Democracies. It was only thanks to the democratic influence of the United States that the international institutions could be set up at all after the second world war, and they only have a future with a United States on board that is democratic and open to the wider world.

2.4. In a spirit of self-criticism, the EESC observes that after the end of the Cold War, not just European political players, but also organised civil society in Europe assumed for too long that the universal values of democracy and the rule of law were guaranteed. However, there are powerful actors in the world who, although bound by these values under international law, have, in practice, fundamentally ignored them. The preservation of our value-based order cannot be taken for granted.

2.5. The values that guide countries and alliances based on democracy and the rule of law are values that characterise the multilateral order that the EU continues to uphold, though its own power to do so remains limited. These values are rooted in the separation of secular and religious power, the Magna Carta, habeas corpus, and the Universal Declaration of Human Rights proclaimed by the UN General Assembly. They constitute a prerequisite for liberal democracy and the rule of law. The EU, the USA and friendly liberal democracies share these values. Article 30 of the United Nation's Universal Declaration of Human Rights expressly states that: 'Nothing in this Declaration may be interpreted as implying for any State, group or person any right to engage in any activity or to perform any act aimed at the destruction of any of the rights and freedoms set forth herein.'

2.6. Common to liberal democracies is that their existence is inextricably linked to a pluralistic, independent and vibrant civil society.

3. **The importance of transatlantic relations for Europe's place in the world**

3.1. The geopolitical changes over the past two decades have caused serious harm to the liberal international order and significantly weakened key international organisations. The dominant forces have been an increasingly aggressive ruling elite in the People's Republic of China and a dangerous heightening of isolationism on the part of the United States.

3.2. Given its own social tensions and the global nature of the challenge, the United States cannot manage the task of preserving a liberal international order alone. The US population regards costly military operations in distant parts of the world with great scepticism. As Afghanistan so grimly illustrates, there is an urgent need for a new, credible strategy among liberal democracies and for greater European involvement, in order to relieve the burden on the USA. This must not be limited to military capabilities, albeit these will play a role.

3.3. In 2011 the US turned away from a destabilised Middle East, disillusioned. The resulting vacuum was filled initially by the Islamic State movement. When the latter was largely wiped out in Iraq and Syria, it was Russia in particular that filled the gap. During the same critical year, the then US Secretary of State Hilary Clinton declared that the political future would be determined in Asia, not in Afghanistan or Iraq. Europe and the Middle East had become peripheral to US interests and American strategy. In the light of Afghanistan, this policy, which is dangerous for Europe's stability and security, seems set to continue under President Biden.

3.4. Europe is still not the focus of US foreign policy. The USA is directing its full attention and resources to the unchecked rise of China, which has possibly been accelerated by the pandemic. Added to this, the situation in Latin America has become difficult once again, with authoritarian and corrupt regimes, not to mention failed states. Latin America is closer to the USA than Europe or, say, Africa because of the population displacements taking place there. Africa, with the world's fastest growing population, hardly receives any American attention at all. Neighbouring Europe, on the other hand, does show an interest in Africa but it lacks a strategy, unlike China which is very active in the region.

3.5. China's rapid economic expansion unleashed in the late 1980s by Deng Xiaoping has continued, and since Xi Jinping took office, the country has increasingly boldly asserted its claim to be a new global power. From a developing country ruled by a dictatorship with a peaceful foreign policy, China has turned into a surveillance state with an overbearing, at worst aggressive, military stance in Asia and a (once again) pervasive totalitarian presence at home. The EU does not have a visible strategy for dealing with China, and during the German Presidency forced through a politically fuelled bilateral investment agreement that requires too little from China, including on the implementation of fundamental rights such as freedom of association, and that at best serves European interests only superficially. The EESC is very concerned about possible consequences, particularly as regards disinformation and influence, as the agreement also opens up the news, media and entertainment sectors to Chinese investment.

3.5.1. China is massively increasing its military capacity. The country has now become an openly bellicose new world power, threatening ever more starkly a possible invasion of Taiwan, seeking control of key global maritime trade routes, violating all the commitments it itself entered into to protect democracy and freedom in Hong Kong, and repressing Muslim populations in its north-western regions with extraordinary brutality. The latter does not prevent the Chinese Communist Party (CCP) from immediately offering good relations to the Taliban at the moment of the Afghan collapse, since the Western failure in the Hindu Kush serves to empower the CCP in its preference for a multilateral, but unfree, international order. The concept of multilateralism, which has hitherto been viewed favourably, is thus being re-evaluated.

3.5.2. Chinese influence in Europe has become a factor that cannot be ignored economically or politically. Beijing is patiently pursuing its Silk Road project, occupying strategic positions step by step, making countries in Africa and Asia politically dependent on it by offering large loans that are only outwardly bounteous, but that in reality leave them shackled. Beijing has also already achieved control over key infrastructure in south-eastern Europe. Examples in the EU are the port of Piraeus in Greece, the construction of motorways in Montenegro and the roll-out of 5G.

3.5.3. Parts of the European economy, including German companies in particular, have now become dangerously dependent on the Chinese market, which initially made itself available to European industry in the role of subcontractor but without really opening up. Some companies are rightly reconsidering their supply chains, which are far too one-sided and ultimately dependent on the potentially arbitrary behaviour of Chinese leaders.

3.5.4. Even since China joined the WTO, Chinese markets have been difficult to access or closed. There is certainly no question of fairness or reciprocity. The country is distorting global competition with its subsidies and stubbornly refuses to reduce overcapacity. The CCP-dominated state has always systematically conducted industrial espionage and exacted knowledge transfer through joint ventures. The country now only allows access to those foreign investors whose know-how it needs itself, continuing to protect its businesses from any risk in a way that distorts competition. All this is incompatible with a mutually accessible and fair market system.

3.6. Since Vladimir Putin's memorable speech in 2007 at the Munich Security Conference, Russia has regrettably departed more and more radically from its cooperation with the West. Moscow began using its neighbours' dependence on natural gas supplies as a means of exerting pressure early on. Where that was no longer enough and the former Soviet Republics were becoming too close to the EU and thus to the West, or sought greater independence, the Russian leadership conducted covert or open warfare on its borders or in the former sphere of influence of the Soviet Union, annexing Crimea in violation of international law and Ukrainian territory in breach of Russia's own assurances made under international agreements. The Kremlin took ruthless advantage of the instability that followed the short Arab Spring of 2011. It also wages cyber warfare against free democratic nations, conducts targeted misinformation campaigns, supports extremist movements and parties, and has demonstrably influenced votes in those democracies, notably the Brexit campaign and the 2016 US presidential election. It pursues its critics around the world, carrying out attacks on them, including within the European Union.

3.7. Despite the agreement on refugees, Turkey has, under the rule of Recep Tayip Erdogan, not only moved far away from the EU politically, but also distanced itself more and more from the fundamental consensus of democratic states, making the country an increasingly problematic NATO partner. Tensions deliberately stoked in the eastern Mediterranean around the Greek islands and drilling off the coast of Cyprus, as well as Turkey's role in parts of northern Syria occupied by Kurds, and in the Libyan war, have taken it further and further from the EU. Turkey's withdrawal from the Istanbul Convention on protecting women from violence is a worrying political signal. Although EU accession — in any case a challenging and, at best, very long-term prospect — has receded ever further into the future, efforts are again under way to update the customs agreement, meet established criteria as a condition for progressive visa liberalisation, maintain high-level consultations and boost civil society contacts. It is worth noting that recent surveys show strong pro-European opinion among the Turkish public. But none of these things can happen until the Turkish government takes permanently effective action to underpin the desired de-escalation and rapprochement.

3.8. These developments, which affect Europe in particular, have taken place within just over a decade: increasingly aggressive Putinesque revisionism, the turning away from Europe of a Turkish president pursuing neo-Ottomanist fantasies, the breakdown of order in large parts of the Near and Middle East, and Europe's increasingly one-sided economic enmeshment with China. This has been accompanied by the decrease in Europe's importance for US policy and a mutual political distancing following the 'War on Terror' after 2002. The United States and the EU nevertheless always have been, and still are, each other's closest partners by far — politically, culturally and economically. The EU has a lot to offer in this transatlantic partnership, which is vital for the liberal international order.

3.9. Until around 2010, the USA played an active role in supporting democracy in the new EU Member States. By 2010, the countries of Central Eastern Europe seemed to have developed into stable democratic market economies from the point of view of the United States, despite persisting problems of corruption, particularly in south-eastern Europe. However, the return to power of the Hungarian Prime Minister Viktor Orbán in 2010 marked the beginning of a transformation into an 'illiberal democracy'. Hungary was the first EU Member State to take this path for a variety of reasons. A few years later, Poland also embarked on the path towards authoritarian democracy, with media pluralism and freedom and independence of the judiciary from government influence falling by the wayside. Other EU countries are showing varying degrees of tendency in this direction, leading increasingly to tensions with the USA.

3.10. The stability of the democratic order is currently no longer guaranteed in several EU Member States. Certain governments are shifting towards authoritarian models and methods of governance that are completely incompatible with fundamental EU values. In addition, third countries seeking to destabilise Europe are making large-scale attempts to exert influence.

3.11. Certain European NATO members, including Germany, the largest EU Member State in terms of population and economic performance, have not invested adequately in their defence capabilities over many years, thus failing to meet their contractual commitments under the alliance, and in Brussels have effectively advocated a stance of equidistance in relation to the major powers of the 21st century. It is obviously neither an effective nor a future-proof 'concept' for the EU to see the United States as a security partner, Russia as a source of raw materials, China as an economic El Dorado and Europe as a moral superpower, without actually having to develop its own foreign and security policy capability to defend stated interests and also to be able to robustly promote stability where this is necessary. Europe weakens its position to some extent by responding to attacks on the liberal international order, democracy and the rule of law with hesitancy, rather than with the necessary clarity. In doing so it leaves itself vulnerable and opens up scope for third countries to exert influence, including in the Western Balkans, which must be an integral part of the EU in the future.

3.12. The EU seems to be adhering to a concept developed during the Trump era, referred to in Brussels as 'strategic autonomy', which is misleading to say the least. Strategic autonomy in foreign and security policy would not be in the spirit of a strong transatlantic partnership. Many politicians in the EU continue to dream about maintaining an equidistance in relation to the United States, Russia and China. Widespread sentiment among the population, including in parts of organised civil society, follows the same line. However, Europe is much closer to the USA than to China or Russia. There can be no question of maintaining the same distance to those powers.

3.13. Together, the EU and the US should be an anchor for world democracy, peace and security, the rule of law and human rights for all. Yet, they have failed completely in Afghanistan. The hasty military withdrawal of Americans and their European allies from Afghanistan attests to just how much the free world, and thus Europe, depends on US power projection. In this situation, the EU reveals its alarming strategic weakness and lack of common foreign and security policy.

4. **Recommended action**

4.1. The EU should take up and support US President Biden's proposal to set up an Alliance of Democracies, and should encourage the US to resolutely take the lead once again in upholding human dignity, freedom, democracy and the rule of law.

4.2. Membership of this Alliance of Democracies must be conditional on there being no reason to doubt that a member's governance is democratic and based on the rule of law.

4.3. The EU should stand shoulder to shoulder with the world's democracies and the USA to form a strong and credible global force and pursue a 'strategy of cooperative containment' ([1]) towards China. Cooperative containment of China, unlike containment during the Cold War, means the Alliance of Democracies honouring and safeguarding legitimate Chinese interests, while at the same time delivering a clear and robust diplomatic response when, as in the case of the Uighurs, serious human rights breaches occur or, as in the case of Hong Kong, China even violates international agreements it has entered into. These values must also be reflected when dealing with any EU-China investment agreement, and the EU should keep such an agreement on hold as long as the massive violations of human rights persist and fundamental rights such as freedom of association are not implemented.

4.4. The OSCE is a pillar of the pan-European security architecture. It should be consolidated, especially for dialogue with Russia, in order to avoid further escalation of open and simmering conflicts (such as the one in Transnistria) and to lay the groundwork for future re-engagement subject to recognition of the international legal order. The results of strong-arm politics that breach international law must not be recognised, be it in Ukraine, Belarus or elsewhere. This must be a consistent, integral part of the common transatlantic strategy and the policy of the Alliance of Democracies.

4.5. The EU should put the near-complete Nord Stream 2 project on hold until a solution is found to the conflict in Ukraine and as long as other fundamental breaches of international law are occurring — such as the deliberate suppression of the democratic opposition through persecution and arrests, as in the Navalny case. When it comes to energy supply, the EU must consistently work to realise the objectives of the Green Deal so as to diversify its energy sources. The legitimate interests of the EU Member States situated in the former Soviet sphere of influence must be fully taken into account with respect to gas contracts with Russia.

4.6. It is true that NATO and the EU do not have exactly the same members, but NATO is the military alliance that provides security for the democracies in North America and Europe. Neutrality is only feasible for European countries in its presence and thus also in practice under its protective umbrella. EU countries should therefore agree on joint security policy structures that are compatible with consolidating the North Atlantic Alliance or that strengthen it for the long term.

4.7. The EU countries that are members of NATO must comply with the contributions and commitments they agreed to under the alliance, specifically including the 2 % target, which was reaffirmed at the NATO summit in Wales in 2014. NATO is not synonymous with the proposed Alliance of Democracies, which also embraces the Pacific region. It has, and always has had, members with undemocratic systems of governance. However, NATO also needs to strengthen and clarify the process of discussing its values internally. Disregard for democracy and the rule of law should also have consequences in the NATO alliance. The security policy challenges of the future now lie not just in asymmetric threats from terrorist forces, but also and especially in the challenging of the international legal order, a system that is inseparably linked to the constitutional liberalism of the countries that belong to it.

4.8. It is not without reason that Henry Kissinger asked for Europe's phone number. The EU must improve the coordination of its external and security policy and in future pass responsibility for policy to the European Parliament and to an executive body that is controlled and legitimised by Parliament. Questions of external and security policy must be adopted by qualified majority in the Council. EU Member States must recognise that speaking with different voices divests them of all leverageable sovereignty. Sovereignty can only be created if power is pooled and instruments shared.

([1]) Christian Moos & Peter Clever: *China* 'kooperativ eindämmen' (cooperative containment of China), Frankfurter Allgemeine Zeitung, 30 April 2021.

4.9. The EU must rethink its concept of 'strategic autonomy', which is misleading to say the least. The EU is far from autonomous politically or militarily. Nor is autonomy desirable in a multilateral order that must be based on free, fair and sustainable trade. Strategic autonomy cannot and should not mean equidistance in relation to other powers. As an indisputable constitutional democracy based on the rule of law, the United States is and remains Europe's indispensable economic and security partner that, despite all the conflicting interests, shares fundamental values on important matters of detail. While Beijing explicitly praises the enigmatic European concept of strategic autonomy, the reactions of many transatlantic partners clearly show that they either reject it or perceive it as ambiguous. But ambiguity is poison in a strategic partnership.

4.10. Instead of strategic autonomy, the EU should pursue the goal of strategic capacity. The EU is now working on the concept of 'assertiveness', which is a step in this direction. However, it should set aside the rhetoric of superlatives that have characterised its 10-year plans at least since the Lisbon Strategy. To date the EU has not managed to achieve any critical goal it set out in those plans. It would do well to be more modest while acting more decisively and pre-emptively. It is not possible to simply declare or decide that one has the capacity to act or assert oneself. This has to be based on demonstrable facts.

4.11. The EESC believes that bilateral trade and investment agreements should be framed in such a way that they can be integrated into a new world trading system. They must not stand in the way of a liberal, multilateral international order, but must secure and promote it. The transatlantic partnership must also be the basis for a renewed world trade order. The EU and the USA must show joint responsibility and leadership in the WTO and advocate for an effective model of multilateral relations, with a modern trade agenda that takes into account environmental and social aspects.

4.12. A reliable transatlantic partnership is the key condition for maintaining an international legal order and peace. Any attempt to defend this outside of a close alliance with the United States is destined to fail, because Europe alone does not have the heft to prevent a hierarchical power-based international order that would have China at its centre.

4.13. Together with the USA, the United Kingdom, Canada, Japan, South Korea, Australia and the world's other liberal democracies, the EU can also safeguard democracy and the rule of law within its own borders and help to restore them where they have been eroded.

4.14. The EU should promote and support the setting-up of a transatlantic platform of organised civil society with contact points in North America and Europe, as is currently being pioneered by EESC members with the involvement of non-EU Member States such as the United Kingdom. Only a vibrant civil society can create enthusiasm for shared values and safeguard them.

4.14.1. A transatlantic dialogue forum on the future of democracy and a joint rule of law dialogue should be launched as a matter of urgency. Shared support for democracy, in Europe, the USA and other friendly countries, must be right at the top of the common transatlantic policy agenda.

4.14.2. Transatlantic civil society should open a joint civil rights dialogue to raise awareness of things that have gone wrong and to influence politics on both sides of the Atlantic, building on best practice examples.

4.14.3. Particular importance should be given to a transatlantic civil society dialogue in order to increase resilience against disinformation. In this connection, joint steps must be taken to defend media freedom in liberal democracies and to restore it in those places where, for whatever reason, it has been damaged, as it is a cornerstone of democracy and the rule of law and a direct expression of common transatlantic values.

4.14.4. Similarly, climate action and shared efforts to slow global warming should also be the subject of a transatlantic civil society dialogue with a view to jointly identifying sustainable solutions that are open to technology.

4.14.5. Another key theme for joint civil society dialogue on both sides of the Atlantic is the new social issue in the context of climate policy and digitalisation. How to secure social rights worldwide and improve opportunities and access, particularly the rights of independent entrepreneurs and of workers, is a matter in urgent need of shared answers, especially with regard to the future of liberal institutions and the stability of the liberal international order.

4.14.6. With a view to future trade agreements and the pursuit of a strengthened multilateral order, the existing forms of transatlantic dialogue should be strengthened and, where necessary, reinstated. The recently established Transatlantic Trade and Technology Council is of particular importance in this connection, but it must be subject to the principles of full transparency.

4.15. Europe will have to play its part and do more to pay its own way and shoulder its responsibilities. To achieve this, it will first have to resolve the issue of diverse positions on external and security policy and stop oscillating between excessive moralising and opportunism. The European Union must support the rule of law in international relations with a clear strategy in which external and security policy is conducted with a single voice and actively contributes to stabilisation of the multilateral order.

4.16. In the long term, the transatlantic partnership should be further developed to bring in other economic partners, including Canada, the United Kingdom and other European countries that are not, or not yet, members of the EU. Transatlantic forums for dialogue with civil society in all its diversity, as exemplified by the EESC in Europe, are an important prerequisite for this, as is enhanced parliamentary dialogue.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Aligning food business strategies and operations with the SDGs for a sustainable post-COVID-19 recovery'

(own-initiative opinion)

(2022/C 152/10)

Rapporteur: **Andreas THURNER**

Co-rapporteur: **Peter SCHMIDT**

Plenary Assembly decision	25.3.2021
Legal basis	Rule 32(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	25.11.2021
Adopted at plenary	9.12.2021
Plenary session No	564
Outcome of vote (for/against/abstentions)	209/0/02

1. **Conclusions and recommendations**

The European Economic and Social Committee (EESC):

1.1. acknowledges that food businesses across the supply chain (including European farmers and fishers, cooperatives, agri-food companies, retailers and wholesalers and other types of company) are already working to make progress on sustainability and to offer consumers healthy and sustainable products in line with the European Green Deal. Nevertheless, to get on track to achieve the Sustainable Development Goals (SDGs) more needs to be done;

1.2. stresses the need for an enabling framework for innovation to support business operators with adequate tools and solutions in their transition towards more sustainable business practices. Barriers for innovation must be eliminated;

1.3. notes that business operators nowadays often experience sustainability requirements as complex and burdensome rather than as an opportunity, and therefore recommends developing a more easily understandable language (a 'Grammar for Sustainability') to change this;

1.4. identifies the reduction of food losses and food waste, sustainable sourcing, improved packaging and logistic systems, circular and resource-efficient food chains, as well as bioeconomy solutions, as effective entry points towards greater sustainability;

1.5. emphasises the important role of the consumer in this context. Information and education measures in combination with transparent food labelling practices will empower the consumer to opt for the more sustainable choice [1]. The European Commission (EC) should also introduce measures to support the affordability of healthy and sustainably produced, processed and distributed food;

(1) EESC opinion on Promoting healthy and sustainable diets in the EU (OJ C 190, 5.6.2019, p.9).

1.6. welcomes the EU code of conduct on responsible business and marketing practices. Most involved parties generally consider the development of the voluntary code to be a valuable process that has brought the partners of the food supply chain closer together. The initiative marks a starting point and should continue to serve as a collaborative platform for responsible and sustainable business practices. In particular, the EESC:

— highlights the limitations of a voluntary approach and calls for the adoption of regulation and legislation to ensure a swift transition to sustainability;

— recommends that the code of conduct should be stronger when it comes to the social dimension, collective bargaining and social protection. The social partners must be involved;

— stresses the need for a sound review process for the implementation of the code of conduct on the ground and the need to monitor whether or not the individual commitments and pledges for the aspirational targets are delivered, because experience shows that only what is measured and monitored gets done. Overall, greater involvement of civil society and social dialogue will also be crucial for success;

— takes note that, so far, it is mainly larger and multinational companies that have signed up to the code of conduct and emphasises the need for an enabling environment, in particular for Small and Medium-sized Enterprises (SMEs), to support and facilitate stronger engagement with the SDG agenda. While larger companies often have their own sustainability departments in place, it seems that SMEs often have only limited resources and capacities to embed sustainability in their businesses;

1.7. highlights the importance of the swift implementation of the EU directive on unfair trading practices (UTPs) and of other support policies by Member States to foster more sustainable and resilient food systems ([2]);

1.8. welcomes the initiative of the EC to develop a framework legislation for a sustainable EU food system and to integrate sustainability into all food-related policies ([3]). There is clearly a need for regulation and a certain level of standardisation and harmonisation to ensure credibility and a level playing field;

1.9. repeats the request to the EC to ensure policy coherence between the various sector policies (amongst others climate, environment, trade, competition) ([4]). This would make it easier for food business operators to make sustainable business decisions. The legislative framework should provide a true level playing field;

1.10. reiterates its recommendation to explore the option of a multi-stakeholder and multi-level European Food Policy Council, which could, among other things, facilitate civil society's involvement in monitoring the Code of conduct;

1.11. points out that sustainability is based on three main pillars: economic, environmental and social. Due to the different framework conditions, it has to be acknowledged that a 'one-size-fits-all'- approach will not work. A framework legislation should therefore allow and facilitate tailor-made solutions e.g. through self-assessment and benchmarking mechanisms;

1.12. recommends an easily understandable framework based on rules, guidance and incentives. The legislation on sustainable finance (taxonomy), which is currently being developed, must not be overly complex.

2. **Introduction**

2.1. The Farm to Fork (F2F) strategy ([5]) is at the heart of the European Green Deal. It addresses comprehensively the challenges of sustainable food systems and recognises the inextricable links between healthy people, healthy societies and a healthy planet. The strategy is also central to the EC's agenda for achieving the United Nations' Sustainable Development

([2]) EESC opinion on Towards a fairer food supply chain (OJ C 517, 22.12,2021 p. 38).
([3]) Sustainable EU food system — new initiative.
([4]) EESC opinion on Towards an EU strategy on sustainable consumption (OJ C 429, 11.12.2020, p. 51).
([5]) F2F Strategy.

Goals (SDGs). For years, the EESC has been at the forefront of promoting a comprehensive EU food policy. It was the first European institution to call for a holistic approach [6], paving the way for the F2F strategy.

2.2. The F2F strategy acknowledges that food processors, food service operators and retailers play a role in shaping the market and influencing consumers' dietary choices through the types of food they produce, their choice of suppliers, production methods and packaging, transport and marketing practices. To promote this, the EC has developed an EU code of conduct for responsible business and marketing practices [7], accompanied by a monitoring framework, which was launched on 5 July 2021.

2.3. At international level, the UN Food Systems Summit [8], convened by the UN Secretary-General in September 2021, set the tone with regard to the importance of sustainable food systems for the years to come. It aims to launch bold new actions to transform the way the world produces and consumes food.

2.4. Food businesses can make a substantial contribution to more sustainable, equitable and secure food systems if they operate in line with the SDGs and the Paris Agreement on climate change. Many food business leaders have already taken significant steps in this direction, but much more is needed. The necessary changes are complex and will require shared, holistic, collaborative and cooperative long-term strategies involving all actors across the food chain, as well as ancillary sectors.

2.5. European fishery, farmers and agri-food companies are already working to make progress on sustainability and to offer consumers products contributing to healthy and sustainable diets in line with the European Green Deal. This transition requires investment and, in some cases, time to deliver results. Once targets are set, companies should be given flexibility to develop their contribution to achieving these targets, without questioning the targets. Moreover, the necessary green transition must be compatible with the economic situation of European citizens, especially in the aftermath of the COVID-19 crisis.

2.6. A recently published report by the Joint Research Centre [9], together with other recent studies, concludes that the implementation of the targets laid down in the F2F Strategy would have substantial impacts on agricultural production in the EU. These findings underline the need for robust, scientific *ex-ante* impact assessments, covering sustainability from the economic, social and environmental dimensions as part of any legislative proposals under the F2F Strategy. An adequate enabling framework (including, among other aspects, access to finance, innovation and digitalisation) will be key to supporting farmers in order to achieve the F2F targets.

3. **Key areas of action**

3.1. *Promoting innovation and easier access to innovation for SMEs*

3.1.1. Research and innovation can be useful to bring about more sustainable use of inputs and raw materials (e.g. through precision farming and new breeding techniques and better use of agro-ecological practices), for more sustainable internal processes (e.g. adoption of renewable energy in producing, transforming or delivering food) and to reduce externalities (e.g. through sustainable packaging). Innovation is needed not only in the area of environmental issues but also with regard to social aspects (health, gender, child and forced labour, occupational health and safety, freedom of association and collective bargaining, fair living wages and income). It is also needed to be able to produce a fair rate of return in a reasonable time span [10].

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(6) EESC opinion on Civil society's contribution to the development of a comprehensive food policy in the EU (OJ C 129, 11.4.2018, p. 18).
(7) Code of Conduct for Responsible Business and Marketing Practices.
(8) UN Food Systems Summit.
(9) European Commission Joint Research Centre report, '*Modelling environmental and climate ambition in the agricultural sector with the CAPRI model*'.
(10) Good practice examples of innovation include: Irritec Corporate, one of the world leaders in the smart irrigation sector; Micronizzazione Innovativa SRL, an innovative start-up that has produced an innovative product promoting water retention and rapid plant growth; Igloo, an innovative start-up that focuses on developing new technologies to support agriculture (hydroponics); and Agrorobotica, which deals with precision agriculture.

3.1.2. Besides technological innovation, organisational and social innovation are also key for more sustainable businesses (reshaping organisational structures and internal processes by, for example, giving more attention to anti-discrimination and equity policies), and in order to create new relationships with stakeholders (e.g. taking advantage of digital marketing). To promote such innovation, digitisation and growth in internal organisational culture are crucial. Sustainability also needs to be integrated into organisational and governance processes.

3.1.3. Food businesses are often fragmented, small and lack horizontal and vertical integration. Therefore, it is difficult for them to have access to the innovation ecosystem. Public investment in water, logistics and digital infrastructure, together with more R&D resources, are necessary to make this access possible and to allow — also small and medium-sized — businesses to take full advantage of their innovation paths.

3.1.4. Furthermore, new mechanisms to ease the relationship between businesses and innovation centres and to promote co-creation (e.g. living labs and lighthouses) are crucial, together with new professional figures able to act as a liaison between businesses and research and innovation centres (such as innovation brokers). A strong correlation between National Recovery and Resilience Plans, European Structural and Investment Funds indicators and SDGs indicators is key in order to foster such investments and should be also a priority in the future.

3.1.5. Partnerships between the private sector, institutions, academia and innovation centres, more widespread co-creation and greater focus by financial institutions can lead to fruitful innovation ecosystems. Such partnerships can also be useful for promoting place-based innovation, which is particularly promising in food systems, given consumers' focus on food production and transformation being linked to local contexts and culture. Innovative, successful companies can be valuable as examples of new sustainable solutions and to foster dissemination of good practices among operators.

3.2. *Fostering circular and resource-efficient food chains and strengthening the bioeconomy*

3.2.1. Optimised circular and resource-efficient food chains will play a major role in the transition towards more sustainable food systems. There are many entry points, such as efficient use of natural resources, limitation of waste, recyclable, reusable and compostable packaging or the avoidance of single-use plastics, just to highlight a few. The European Circular Economy Stakeholder Platform ([11]) provides a good network for inspiration, innovative ideas and solutions in the field.

3.2.2. A circular bioeconomy is a win-win approach ([12]). Valorisation and reuse of biomass makes productions more sustainable, and can create new businesses and income opportunities for farmers, fisheries and the entire food system. For this reason, great attention needs to be paid to the entire biomass management cycle (production, processing, valorisation and reuse, creation of multi-output production chains connected to the medical field, materials, biorefineries and energy, creation of a market for outputs). This involves many actors, including not only farmers and fishers, food processors and retailers but also citizens, local authorities, foresters, waste management companies, composters, technologists, innovators and energy companies.

3.3. *Sustainable sourcing*

3.3.1. Leading food chains should continue to promote the adoption of environmentally, socially and economically sustainable practices by suppliers. For this, a due diligence approach can be useful. Leading companies should be frontrunners and adopt a policy commitment on sustainable sourcing and integrate it into their management system ([13]). They should also assess the actual and potential impact of their sourcing chain and establish related objectives. To this end, they should adopt a methodology (including indicators, metrics and targets) to measure value chain performance and ensure that it is consistent with internationally recognised standards. They should also properly disclose planned targets and achieved results.

([11]) ECESP.

([12]) EESC opinion on Bioeconomy — contributing to achieving the EU's climate and energy goals and the UN's sustainable development goals (OJ C 440, 6.12.2018, p. 45).

([13]) Good practice examples include Unilever, which adopts an internal policy to ensure sustainable sourcing from its suppliers.

3.3.2. The EC has committed to promote sustainable food systems in Europe and internationally. This can only be achieved if the legislative framework provides a true level playing field between EU companies producing sustainable food and third-country companies, to enable strong, resilient and sustainable production. EU trade policy must ensure that imports are held to Europe's high standards with regard to social and environmental sustainability. Trade agreements are instrumental in ensuring a level playing field between the internal market and imports, in safeguarding the competitiveness ([14]) of European sustainable food producers and in guaranteeing a fair income.

3.4. *Role of well-designed supply chains: improving packaging and logistics systems to achieve climate neutrality goals*

3.4.1. In the context of largely global supply chains, local sourcing, including through diversified suppliers, is important to reduce the environmental impact of food value chains, not least in terms of logistics, and promotes local economies. As a consequence of the COVID-19 pandemic, local food is increasingly being seen as synonymous with quality and consumers are focusing more on this aspect. Furthermore, a good balance between imported and locally produced food would appear to be an appropriate strategy to achieve more robust and resilient food systems.

3.4.2. Sustainable packaging consists of the use of biodegradable and reusable materials, promoting recycling among consumers. New findings by the chemical industry and integrating these findings into business practices are generating innovative solutions to environmental problems. Families of completely biodegradable and compostable bioplastics already exist, generated from agricultural biomass, which create a completely circular flow. Sometimes biodegradable materials also contribute to a longer shelf life, resulting in even greater added value.

3.4.3. Reducing indirect emissions from the food chain can also be achieved by shifting to low-impact logistics vehicles, developing more efficient, better organised and, where appropriate, shorter supply chains, strengthening local grocery shops, more widespread digitisation and improving logistics infrastructure.

3.5. *Promoting education and transparent labelling*

3.5.1. More responsible consumption and greater attention on the part of public authorities, businesses and consumers to sustainable and healthy diets, such as the Mediterranean diet, are key to achieving more sustainable food systems ([15]). It is also about better understanding the ecological relationships and the 'value of food': the impact of food losses and waste, the role of regional economic circles, transport logistics, importance for strategic food self-sufficiency, etc.

3.5.2. In order to promote such change, education systems are fundamental ([16]). Food companies can also play a significant role if they commit themselves to educating consumers, and children in particular, on the importance of sustainable food production and consumption. They need to continue their efforts towards more sustainable and healthier products ([17]). They should also adopt responsible codes of conduct for marketing practices. Food companies can also promote healthy and sustainable lifestyles through their labels, marketing campaigns, social media, company canteens and corporate communication policies. Labelling practices should highlight the contribution of each product to a healthy and sustainable diet. In this context, a transparent labelling framework for food products would support the consumer in making informed and more sustainable buying decisions.

([14]) 'In order for a comprehensive European food policy to be truly relevant for European consumers, it is essential that the food produced sustainably in the EU is competitive. This means that the European agri-food sector is able to deliver food for the consumers at prices that include extra costs for criteria such as sustainability, animal welfare, food safety and nutrition but also a fair return to the farmers, and at the same time maintains its position as the preferred choice for the vast majority of consumers.' Opinion *Civil society's contribution to the development of a comprehensive food policy in the EU*, paragraph 5.8 (OJ C 129, 11.4.2018, p. 18).

([15]) EESC opinion on Promoting healthy and sustainable diets in the EU (OJ C 190, 5.6.2019, p. 9).

([16]) EESC opinion on Promoting healthy and sustainable diets in the EU (OJ C 190, 5.6.2019, p. 9).

([17]) EESC opinion on Promoting healthy and sustainable diets in the EU (OJ C 190, 5.6.2019, p. 9).

3.6. *Rethinking finance*

3.6.1. Food systems need to be analysed by financial institutions with perspectives in line with the specific features of the sector. Food businesses cannot be treated with the same criteria as those used for other sectors, as has been the case for a long time, because access to credit and ROI does not reflect long-term sustainability criteria. This is even more important if we consider the average size of food businesses and the growing relevance of sustainability. For SMEs, it is more difficult to have access to finance and report on sustainability achievements.

3.6.2. With regard to Sustainable Finance for SMEs, it should be highlighted that bureaucratic and complex technical screening criteria for the taxonomy could prove to be a barrier for companies — in particular for SMEs — to enter or continue on the sustainability pathway.

3.7. *Targeting small companies*

3.7.1. Accountability frameworks and monitoring mechanisms are usually well-suited to large companies. This is also the case in the field of sustainability.

3.7.2. European food systems are mainly made up of SMEs. This means that *ad hoc* support is needed to assist food companies through the transition phase. Support includes introducing self-assessment tools, promoting networking between companies, educational programmes on entrepreneurship and sustainability, creating communities of practice, promoting good practice, easier access to innovation ecosystems, fiscal and financial incentives for becoming larger, and easier access to markets and to market information.

3.7.3. Providing support and guidance, including on IT hardware and software technologies, can foster the development and consolidation of SMEs in the supply chain and a better integration of the SDGs in their strategies.

3.8. *Benchmarking: self-assessment, monitoring, engagement, dialogue*

3.8.1. For any company, self-assessment tools are crucial for alignment with Agenda 2030. Such tools need to support companies of any size, without penalising the smallest companies.

3.8.2. For larger companies, more comprehensive and more standardised approaches are needed, able to allow for comparisons. For smaller companies, *ad hoc* support needs to be ensured. Given the peculiarities of the sector, close dialogue among different actors in the food system (businesses, institutions, investors, consumers, innovators, investors) is fundamental.

3.9. *Citizens' engagement*

3.9.1. Given the social role of food and its impact on environmental and social sustainability, citizens should be consulted when European, national and regional policies, and also businesses' strategies, are being defined. Citizens' engagement is particularly crucial at local level in order to connect food closely to the life of cities and regions ([18]). Local food policies also help to achieve this, as they can take a holistic approach to food, harnessing local features and stimulating co-creation initiatives.

3.9.2. The example of LEADER ([19]) shows that Local Action Groups (LAGs) can efficiently contribute in this regard. The establishment of Food Policy Councils is another example showing that citizens' engagement leads to more sustainable solutions.

([18]) EESC opinion on Civil society's contribution to the development of a comprehensive food policy in the EU (OJ C 129, 11.4.2018, p. 18), and EESC opinion on 'Farm to Fork': a sustainable food strategy (OJ C 429, 11.12.2020, p. 268).

([19]) https://enrd.ec.europa.eu/leader-clld_en

4. **A 'Grammar for Sustainability** [20]**' — finding the right language to talk about sustainability when implementing the SDGs in the food industry**

4.1. Consumers, public opinion, regulators, investors, policymakers and civil society are asking food companies to improve their performance with regard to sustainability. Sustainability also represents a good market opportunity for businesses. Therefore, the issue is not if, but how to align the food industry with the Agenda 2030 and the Paris Climate Agreement.

4.2. However, it is not yet easy to assess performance, as in the food sector a single comprehensive indicator for sustainability does not exist. Furthermore, one solution does not fit all, as there are differences between subsectors and the size of the company matters when taking a formal approach to sustainability. As a consequence, smaller companies often see sustainability as a possible source of new administrative burdens rather than an opportunity.

4.3. Given the difficulties of finding precise measures of alignment with the SDGs, at the current stage assessments tend to focus on the comprehensiveness of processes being implemented and the degree of disclosure more than on concrete results. In any case, a self-assessment helps a company find areas for improving both its alignment with the SDGs and its planning systems. It also helps to spread the culture of sustainability within the company.

4.4. Once objectives are planned, food businesses should define coherent indicators, metrics and concrete sustainability targets to be achieved in the short and long terms, and define procedures for disclosing results. However, because of the differences between accountability frameworks, target setting and related measurement processes are still not easy to compare.

4.5. When it comes to SMEs in particular, self-assessments should be conducted in a constructive way, with the aim of familiarising people with the 'Grammar of Sustainability' rather than setting benchmarks.

4.6. Companies should also integrate flexible sustainability metrics and targets into their governance and management systems. Without references to sustainability targets in budgeting cycles, key performance indicators (KPIs), monitoring mechanisms and career paths, it is very difficult to improve sustainability performance. Integration of this kind is not an easy task, especially for SMEs. At the same time, it is a good opportunity to review and strengthen these systems.

4.7. Companies successfully engaged in sustainability should promote their good practices. This helps to show that for a food company, and an SME in particular, it is both possible and profitable to be sustainable, and might encourage other businesses to follow their example. At the same time, doing this can give a company a lot of visibility and valuable market opportunities.

4.8. The Sustainable Development Solutions Network (SDSN) Fixing the Business of Food initiative [21], after an accurate analysis of the most widespread global sustainability standards, frameworks, and initiatives, has defined a framework for analysis based on four pillars of alignment with the SDGs for a company. The pillars are:

— products and strategies promoting healthy and sustainable diets;

— sustainable business operations and internal processes;

— sustainable supply and value chains;

— good corporate citizenship.

4.9. Each pillar is divided into a number of different topics. These topics have been derived from an iterative process involving research on the sustainability reports of major global food businesses, multiple interactions with large, medium-sized and small businesses and associations (in the form of interviews, workshops and surveys), and analysis of sustainability best practices.

[20] The "Grammar of Sustainability" is a term coined by Elliot M Tretter in his book Shadows of a Sunbelt City.
[21] Fixing the business of food.

4.10. The framework has led to the design of a self-assessment tool that companies can use to identify areas for improvement.

4.11. The Fixing the Business of Food initiative is also the basis for a digital platform highlighting good practices. The four pillar framework presents concrete examples of objectives, targets, indicators and metrics specifically selected for food businesses, aligned with Agenda 2030. Furthermore, it can help businesses identify their KPIs, investors monitor actions and progress made by food businesses, and those drawing up sustainability reports shape their reports. Given the peculiarities of specific subsectors, the framework has been adapted for small agri-businesses, aquaculture businesses and wine producers.

5. **Policy framework for food business alignment with the SDGs**

5.1. The EESC welcomes the EU code of conduct on responsible business and marketing practices as an important element for the implementation of the F2F Strategy. Most involved parties consider the development of the voluntary code overall as a valuable process which has brought the partners of the food supply chain closer together. The initiative marks a starting point and should continue to serve as a collaborative platform for responsible and sustainable business practices.

5.2. However, the EESC, also based on feedback from companies and stakeholders, highlights the limitations of a voluntary approach and stresses the need to adopt regulation and legislation to ensure a swift transition to sustainability. This also includes a review of the competition rules to further promote cooperation and sustainability across the supply chain.

5.3. Furthermore, the EESC stresses that the code of conduct is weak when it comes to the social dimension and regrets that there is no mention of collective bargaining. Social dialogue is very important and the social partners should be involved across the chain. The pathway to sustainability should also have a positive impact on wages and working conditions.

5.4. The Code also lacks actions to increase the affordability of healthy and sustainable food. Affordability of healthy and sustainable food would help consumers in adopting a healthy and sustainable diet.

5.5. The Code of Conduct lacks a robust monitoring mechanism to assess the relevance, implementation, and impact of the commitments. A sound review process for implementation of the code of conduct on the ground must be put in place to monitor whether or not the individual commitments and pledges for the aspirational targets are delivered. The experience shows that only what is measured and monitored gets done. Overall, a stronger involvement of civil society (social dialogue) will also be crucial for the success. A multi-stakeholder and multi-level European Food Policy Council, as proposed by the EESC in previous opinions ([22]), could among others facilitate civil society's involvement in monitoring the Code of conduct.

5.6. So far, it is mainly larger and multinational companies that have signed up to the code of conduct. An enabling environment has to be created to support and facilitate stronger engagement with the SDG agenda for SMEs to become a priority for EU food policies. While larger companies often have their own sustainability departments in place, it seems that SMEs often have only limited resources and capacities to embed sustainability in their businesses.

5.7. The EESC points to the conclusions from its previous opinions calling for a fairer food supply chain and recognising the exceptional functioning of the food supply chain across Europe ensuring access to high-quality food for all citizens, every day. Swift implementation of the EU directive on unfair trading practices (UTPs) and of other support policies by the Member States is necessary to foster more sustainable and resilient food systems ([23]).

([22]) EESC opinion on Civil society's contribution to the development of a comprehensive food policy in the EU (OJ C 129, 11.4.2018, p. 18), and EESC opinion on 'Farm to Fork': a sustainable food strategy (OJ C 429, 11.12.2020, p. 268).
([23]) EESC opinion on Towards a fairer food supply chain (OJ C 517, 22.12.2021, p. 38).

5.8. The EC has recently adopted its roadmap towards a framework legislation for a sustainable EU food system and to integrate sustainability into all food related policies [24], as provided for in the F2F Strategy. The EESC welcomes this initiative as a step forward, as there is clearly a need for regulation and a certain level of standardisation and harmonisation to ensure credibility and a level playing field, and points to its recommendation to foster a comprehensive EU food policy.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

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[24] Sustainable EU food system –new initiative.

III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

565TH EESC PLENARY SESSION – INTERACTIO, 8.12.2021–9.12.2021

Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions European Commission Guidance on Strengthening the Code of Practice on Disinformation'

[COM(2021) 262 final]

(2022/C 152/11)

Rapporteur: **Thierry LIBAERT**

Referral	European Commission, 1.7.2021
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	18.11.2021
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	198/3/6

1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) recognises both the quality of the guidance on strengthening the European Code of Practice on Disinformation and the European Commission's determination to constantly improve its action against disinformation.

1.2. The EESC recommends that the European Commission continuously ensure that the fight against disinformation cannot be used as a pretext for limiting public freedoms, in particular freedom of expression.

1.3. The EESC recommends that action to combat disinformation be given high priority, by focusing more on tackling the emergence of disinformation rather than on moderating its content. This would encourage a more preventive and proactive approach, which requires more resources, particularly for skills.

1.4. The EESC welcomes the European Commission's emphasis on countering the monetisation of disinformation. It recommends that, in addition to voluntary commitments by online advertisers, the Commission should consider a range of more binding economic, legal or financial instruments.

1.5. The EESC recommends ongoing and determined discussions with digital platforms, specifically with a view to clarifying and advancing methodologies for processing information. Facebook is particularly relevant here, not least because 78 % of the EU population — more than 300 million Europeans — are users of it.

1.6. The EESC recommends that more resources be concentrated on small platforms that are less well-known to the general public and sometimes much less transparent as regards the flow of information.

1.7. The EESC recommends continuing efforts to coordinate the fight against disinformation. The topic has been disjointed for too long; only common action can tackle the issue.

1.8. The EESC supports the importance of a European media literacy plan, while noting that the subject of media content is the responsibility of the Member States. It is an essential precondition for our democracies that everyone, particularly our youngest citizens, is able to distinguish between true and false information.

1.9. The EESC recommends that the subject of fighting disinformation be opened up broadly to all stakeholders and those who could have a role in this fight. This is particularly the case for researchers and all civil society organisations.

1.10. The EESC recommends that measures to combat disinformation should not be too focused on English-speaking content, particularly for countries bordering Russia.

1.11. These actions should also ensure accessibility for and understanding of people with disabilities, especially sensory, psychosocial and intellectual disabilities, who are particularly vulnerable to false information.

1.12. The EESC recommends a more forward-looking and proactive approach in order to consider possible new ways to convey disinformation. The technological capacity to spread deep fakes has shown the extreme speed at which new risks emerge.

1.13. More fundamentally, the EESC believes that disinformation is a threat to our democracies and to the European Union. However, the increase in disinformation is not only a consequence of the power of social media, but it is also a sign of mistrust of official messaging. The EESC recommends increasing opportunities for exchanges and dialogues between all stakeholders in order to better understand and combat the root causes of disinformation.

2. General comments

2.1. The COVID-19 crisis has starkly illustrated the threats and challenges disinformation poses to our societies. The ‘infodemic’ — the rapid spread of false, inaccurate or misleading information about the pandemic — has posed substantial risks to personal health, public health systems, effective crisis management, the economy and social cohesion. The debates on the COVID-19 vaccination have illustrated the sometimes extreme consequences of disinformation in the area of health. Despite the considerable efforts made to date, there is an urgent need to step up efforts to fight disinformation ([1]).

2.2. In 2018, the European Commission reported on an action plan on disinformation to strengthen the EU’s capacity and cooperation in the fight against disinformation. It also published a document titled *Tackling online disinformation: a European approach* ([2]), presenting a collection of tools to tackle the spread of disinformation and ensure the protection of EU values.

2.3. From its inception ([3]), the EU approach to countering disinformation has been based on two strands. First, the protection of freedom of expression and other rights and freedoms guaranteed under the EU Charter of Fundamental Rights. In line with those rights and freedoms, the EU strategy aims to make the online environment and its actors more transparent and accountable, making content moderation practices more transparent, empowering citizens and fostering an open democratic debate ([4]).

2.4. The second strand focuses on the threats, particularly external threats, that can undermine our democracies, especially in times of elections. The East StratCom Task Force set up in March 2015 reflects this growing aim of combatting organised and planned institutional disinformation operations.

([1]) Joint communication, *Tackling COVID-19 disinformation — Getting the facts right* (JOIN(2020) 8 final).

([2]) Communication, *Tackling online disinformation: a European Approach* (JOIN(2018) 236 final).

([3]) Action Plan against Disinformation (JOIN(2018) 36 final).

([4]) While online platforms’ terms and conditions may also cover content which is harmful but not illegal, when disinformation constitutes illegal content (e.g. hate speech or terrorist content), the relevant legislative remedies apply.

2.5. The Code of Practice on Disinformation [5] is a text on self-regulation and a centrepiece of the EU's efforts to work with private actors to reduce digital disinformation. It has been in force since October 2018 and its signatories now include the main online platforms operating in the EU, as well as the major trade associations representing the European advertising industry, among others.

2.6. The Code of Practice published in 2018 has led to several significant advances. One of the most useful encouraged online platforms at the beginning of the COVID-19 pandemic to make information from reliable sources more easily visible. It also raised issuers' awareness of false information through specific warnings. The Commission Communication on tackling COVID-19 Disinformation also established a monitoring and reporting programme on the actions of platform signatories to tackle COVID-19 disinformation.

2.7. However, the Commission's evaluation of the Code of Practice in 2020 [6] revealed significant shortcomings, including inconsistent and incomplete implementation of the Code across platforms and Member States, limitations intrinsic to the self-regulatory nature of the Code and gaps in the coverage of the Code's commitments.

2.8. In 2020, the Commission presented a European Democracy Action Plan (EDAP), setting out additional measures to tackle disinformation, including those relating to the obligations and responsibilities of online platforms in the fight against disinformation.

2.9. It then implemented a COVID-19 monitoring and reporting programme, and after setting up (in June 2020) the European Digital Media Observatory (EDMO), the Commission launched a call for projects to gain insight into the actors, tools, targets and methods at work in disinformation practices.

2.10. Stepping up the fight against disinformation, the Commission's proposed legislation on digital services [7] sets out a co-regulatory framework through codes of conduct to address the systemic risks of disinformation.

2.11. On 3 June 2021, the European Court of Auditors [8] found the European Union's strategy to be insufficient, although it did not take into account the more robust action plan of 26 May 2021. It considered that while the European Commission's plan was well designed, it remains incomplete, particularly with regard to the rapid alert mechanism and the obligations incumbent on online platforms.

2.12. On 29 July 2021, the European Commission and the digital platforms that are signatories to the European Code of Practice on Disinformation launched a joint call to encourage more actors to sign up to the Code.

3. **Commission proposals**

3.1. The European Commission is constantly improving its strategy to combat disinformation. The new guidance on strengthening measures contains several reinforcement approaches, which are worth highlighting.

3.2. The guidance on strengthening action to tackle disinformation builds on the Commission's experience to date in monitoring and evaluating the Code and on the Commission's report on the 2019 elections. It also contributes to the Commission's response to the December 2020 European Council conclusions. In order to gather input for the guidance, the Commission organised multi-stakeholder discussions and a workshop for Member States.

3.3. The guidance identifies the need to improve the quality and detail of reporting by EU Member States.

3.4. The guidance states that the fight against disinformation cannot work without measurement indicators.

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(5) https://ec.europa.eu/digital-single-market/en/code-practice-disinformation.
(6) SWD(2020) 180 final.
(7) COM(2020) 825 final.
(8) European Court of Auditors, Special Report No 9/2021, *Disinformation affecting the EU: tackled but not tamed* (OJ C 215, 7.6.2021, p. 6).

3.5. The guidance recognises that fact-checking is not sufficiently shared between EU States. This means that information known to be false in one country can circulate in another.

3.6. The guidance notes that the fight against disinformation must be stepped up with regard to the monetisation of disinformation through the choice of advertising placements on the digital sphere, notably Google Ads.

3.7. The Code reiterates the issue of political advertising. The identity of the issuer of political advertising is too often opaque and the transparency of the advertisements broadcast needs to be improved. This is in line with the proposals in the Digital Services legislation ([9]) (Article 30). New legislation for more transparency in political advertising will be proposed by the Commission.

4. **Specific comments**

4.1. The EESC welcomes the quality of the European Commission's work in the fight against disinformation, and in particular the gradual strengthening of its action.

4.2. The EESC notes that the fight against disinformation must always take into account the need to protect freedom of expression.

4.3. Discussions between all stakeholders are now being structured, in particular through a broad appeal to academics. The EESC recognises that the focus on the online advertising sector was a necessity that has now been taken into consideration.

4.4. The EESC's main criticism of the guidance on strengthening the code on disinformation practices is that it focuses too much on content and its moderation and not enough on those who propagate it. The content is constantly changing and the platforms that are used evolve, but the main actors remain basically the same and the motives do not change. The approach must be one of prevention rather than cure, and the Commission's work must focus on the causes rather than the consequences.

4.5. Behind the image of a few ideologues, sects or fanatics, there is a real and extremely profitable business of disinformation. Unwittingly, European companies spend more than EUR 400 million on disinformation sites ([10]). As it is recognised that the major sources of disinformation have financial objectives, notably through a referrals system that enables them to obtain large sums of money from online advertising, but also through specific statutes allowing them to claim public subsidies, the Commission should encourage an arsenal of economic and financial tools to fight disinformation at its source.

4.6. The EESC notes that many platforms do not publish enough about their methodology for dealing with disinformation and that this penalises all European players in their fight against disinformation practices. At the same time, the EESC is pleased to see that some platforms (YouTube) seem to have taken the problem seriously.

4.7. The power of the main platforms (Facebook and Twitter) should not hide the fact that the most effective disinformation is concentrated on tools that are less well known to the general public, such as VKontakte, Rumble, Odysee, Gab and Parler. These smaller platforms have smaller audiences but can more easily target specific groups by region, age or any other parameter. These platforms also lack the financial means to fight against the disinformation they propagate or do not consider important, hiding behind the banner of freedom of speech. Disinformation often originates on more confidential platforms before quickly reaching a wider audience ([11]).

4.8. The EESC considers that European action is too compartmentalised and lacks coordination. The structures appear to be too separate, particularly where the two main bodies, the EDMO and European StratCom, are concerned. The creation of a permanent working group involving the European Regulators Group for Audiovisual Media Services (ERGA) should facilitate information-sharing. The EESC fears, however, that its resources for action are too limited, given the scale of the phenomena.

4.9. Better cooperation between the Member States is needed urgently. At the same time, the EU must take into account that media freedom, which is inseparable from freedom of expression, is currently at risk in several Member States. The same applies with regard to their legal systems. This will inevitably have a negative impact on the ability of these countries to cooperate successfully, for example in the field of fact-checking and in accordance with the values of the EU and more precisely the principles of the rule of law. Any effort to tackle disinformation can have very significant consequences for fundamental rights, which must be guaranteed and defended in all Member States.

([9]) COM(2020) 825 final. European Commission *Proposal for a Regulation on a Single Market for Digital Services*, 15 December 2020.

([10]) Claudia Cohen, *Des marques financent, malgré elles, la désinformation*, [*Brands that unwittingly finance disinformation*] Le Figaro, 5 August 2021.

([11]) Institute for public relations, *Combating foreign disinformation on social media*, Rand corporation, 28 July 2021.

4.10. The European Union must acquire more capabilities to be able to fight effectively against disinformation, which is systematically spread by hostile powers, often driven by governments of certain third countries, among which, most notably Russia, as well as China. To respond to this threat, it will not be enough to work on codes of conduct. National authorities need more support from intelligence services and it would make sense for governments to share their knowledge, while taking into account the problems in some Member States mentioned above.

4.11. These actions should also ensure accessibility for and understanding of people with disabilities, especially sensory, psychosocial and intellectual disabilities, who are particularly vulnerable to false information.

4.12. Civil society appears to be insufficiently involved. The main partners in dialogue cited by the Commission as being able to act are the platforms, the media, researchers and fact-checkers. Businesses in particular must be given a major role in the fight against disinformation, because they can lose a lot of money or their reputation as a result of disinformation practices, but also trade unions and associations. Civil society organisations have considerable legitimacy that can be harnessed to combat disinformation.

4.13. The EESC notes that the fight against disinformation mainly tackles English-language content. This is not least due to the fact that most platforms are of English-speaking origin. While some States appear to be heavily concerned (such as the Czech Republic, Poland and the Baltic States), it would like to see more action on content in languages other than English.

4.14. Overall, the EESC recommends more preventive and proactive action. Because new networks are emerging all the time (including Clubhouse), because disinformation uses increasingly sophisticated means (such as 'deep fake'), and because some applications straddle the line between a platform and a private messaging service (such as Telegram), action must be taken as soon as a new type of risk is detected.

4.15. As the European Court of Auditors noted with some disappointment in its report of 3 June 2021, the EU still lacks a media literacy strategy enabling civil society to better decipher information, whether disseminated by traditional media or online. This plan, which falls under Member State competence, must be implemented from an early age, so that younger people are quickly able to distinguish the true information from the fake information that they receive.

4.16. The EESC notes that, too often, many media outlets, in particular audiovisual media outlets, accept personalities on their platforms who claim to have scientific expertise in order to increase their credibility. In particular, it recommends more thorough verification of the academic credentials of those invited to speak as experts in the media.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Report on Competition Policy 2020'

(COM(2021) 373 final)

(2022/C 152/12)

Rapporteur: **Giuseppe GUERINI**

Referral	European Commission, 28.10.2021
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	18.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	225/0/7

1. **Conclusions and recommendations**

1.1. The EESC underlines the importance of adapting and reshaping EU competition policy in line with the rapid social and economic changes we are witnessing. It is imperative to continuously adjust the regulatory framework and enforcement priorities to keep them up to date.

1.2. The EESC appreciates the fact that, thanks to the flexibility granted by the Commission in the area of State aid, the European economy has been able to cope with the COVID-19 crisis by relying on significant public support at state level.

1.3. The EESC considers that the Commission managed to strike a good compromise between the unprecedented urgent need to make State aid rules flexible and the concurrent necessity to ensure a minimum base layer of regulation, as well as overall Commission oversight to curb excessive disparities in the internal market, arising from Member States' differing capacities to provide financial support to their national economies.

1.4. With reference to the interaction between the antitrust rules (Article 101 TFEU) and the pandemic crisis, the EESC welcomes the fact that the Commission swiftly adopted a communication encouraging cooperation projects between companies aimed at reducing the shortage of supply of essential products and services during the pandemic. That was an example of a quick and useful adaptation of the Commission guidelines on horizontal cooperation agreements to the specific social, economic and health context that emerged in 2020.

1.5. The EESC also welcomes the fact that the European Competition Network (ECN), which seeks to coordinate the actions of the national competition authorities and DG COMP, was able to express a common position on the application of competition rules during the COVID-19 health crisis, in order to prevent possible opportunistic and exploitative behaviour, especially harmful in times of crisis.

1.6. The EESC considers the Commission's legislative proposals regarding competition on digital markets to be very useful in terms of achieving harmonised rules that are able to instil confidence in citizens, consumers and SMEs (especially micro-enterprises) with regard to proper safeguarding of the competitive structure of the markets, on the one hand, and the protection of personal data, on the other. Such data and their use should be understood both in terms of the protection of individuals and their freedoms, and as competitive factors of crucial strategic importance.

1.7. The EESC welcomes the Commission's intention to clarify whether or not competition rules apply to collective bargaining by service providers involved in the digital economy and digital platforms, which do not always fall within the categories of employment traditionally developed by labour law. This clarification is required in order to prevent possible adverse outcomes for service providers stemming from the application of competition law.

1.8. With reference to the judgment of the Court of Justice of the European Union in the Tercas case, the EESC points out that guarantee schemes for privately funded banks not subject to the dominant influence of the state must be regarded as exempt from EU State aid rules, since they do not constitute intervention by the state in the economy, but rather the manifestation of a private scheme of mutual solidarity between credit institutions involving private funds and not State resources.

1.9. The EESC hopes that the Commission might coordinate its competition policy with other policies strategically relevant to European businesses, such as international trade policies. That would be a positive development, since third country companies often enjoy a competitive advantage over European businesses, stemming from unfair State subsidies and from the adoption of production models incompatible with the values and principles enshrined in the EU Treaties and legislation.

2. **Introduction**

2.1. The European Commission’s 50th annual report on competition policy, covering the year 2020, focuses heavily on the initiatives taken to curb the social and economic impact of the global COVID-19 pandemic.

2.2. This is the first competition policy report following the renewal of the European Parliament and the completion of Brexit, as well as the first report published by the Commission led by President Ursula Von der Leyen.

2.3. Enforcement of EU competition rules has made a decisive contribution over the years to the pursuit of a social market economy, as provided for in the founding Treaties of the EU, which is thus capable of combining the European values of growth and competitiveness with the equally important values of fairness and solidarity within a single market that is both competitive and inclusive.

2.4. The rapid and unexpected changes in the health, social, technological and economic spheres in recent years underline the importance of having competition policy that can be constantly updated and evolve in line with changes, adjusting the regulatory framework and enforcement priorities to keep them up to date.

2.5. 2020 saw one of the worst global crises in history and it is now clear that the action taken by the EU and its capacity to respond helped European businesses and individuals to cope with an unprecedented crisis by relying on significant public support at state level, thanks to the flexibility granted by the Commission in the area of State aid. Competition policy thus showed a considerable ability to adapt to unexpected and extreme circumstances.

2.6. The EU also managed to put in place a proper stimulus plan to spur national economies towards robust recovery conducive to restoring confidence in the markets, combining the injection of resources into states with close monitoring aimed at avoiding excessive market distortions and detrimental effects on the economy.

2.7. With a view to ensuring effective and responsive competition policy in the future, the European Economic and Social Committee (EESC) welcomes the strengthening of private antitrust enforcement highlighted in the Commission’s report, which follows the adoption of the 2014 directive.

2.8. The EESC also supports the Commission’s ongoing assessment of the case for revising the State aid rules applicable to services of general economic interest (SGEIs), with particular regard to health and social services of vital importance for social cohesion across the EU.

2.9. The EESC hopes that the Commission might coordinate its competition policy and enforcement of State aid rules with other policies impacting European businesses, such as international trade policies. That could be particularly useful considering that third country companies often derive competitive advantages over European businesses from unfair State subsidies, and production models that are incompatible with the European values and sustainability principles expressed in the Treaties.

3. **Competition policy and the pandemic crisis**

3.1. The EESC welcomes the flexibility provided by the European Commission with regard to the State aid rules after the emergence of COVID-19, with the approval of a special Temporary Framework (March 2020), which was revised five times up to January 2021 as the pandemic crisis progressed.

3.2. The EESC appreciates the fact that the Commission first clarified what measures could be taken without prior notification on the basis of the current rules, while at the same time implementing a temporary and flexible regulatory framework, which has allowed unprecedented State aid to be granted within a simplified procedural framework.

3.3. Under that legal framework, the Commission's Directorate-General for Competition (DG COMP) authorised a remarkable number of national aid schemes in a very short time frame, as required by the pandemic emergency, demonstrating extraordinary operational capacity.

3.4. The EESC believes that the Commission managed to strike a good compromise between the unprecedented urgent need to make State aid rules flexible and the simultaneous need to ensure a minimum base layer of regulation, as well as overall Commission oversight, both aimed at curbing excessive disparities in the internal market arising from Member States' differing capacities to provide financial support to their national economies.

3.5. The range of aid measures for businesses governed by the Temporary Framework — including direct grants, public guarantees for bank credit, subsidised loans and equity investments in companies — and the considerable generosity of the permitted aid ceilings, particularly following the Commission's most recent corrective measure in January 2021, proved up to the task of dealing with the crisis and have constituted a leap forward in quality compared to the previous temporary framework adopted in the wake of the 2008 financial crisis.

3.6. With regard to the interaction between public intervention in the economy and State aid rules, the EESC stresses the importance that competition rules may assume when it comes to Member States using the EU funds made available to them and properly implementing the national recovery and resilience plans, without creating distortions.

3.7. With regard to the interaction between the antitrust rules laid down in Article 101 TFEU and the pandemic crisis, the EESC welcomes the fact that the Commission swiftly adopted a communication encouraging cooperation projects between companies aimed at reducing the shortage of supply of essential products and services during the pandemic, adapting its traditional guidelines on horizontal cooperation agreements to the specific social, economic and health context that emerged in 2020.

3.8. At the same time, the EESC deems particularly useful the implementing regulations approved by the Commission in April 2020 temporarily relaxing the scope of competition rules in the agricultural sectors most severely affected by the COVID-19 pandemic. The regulations allowed farmers and inter-branch organisations to take temporary collective actions to stabilise certain agricultural sectors.

3.9. The Report on Competition Policy 2020 also describes the Commission's merger control activities, with 361 notified transactions and 352 decisions adopted, resulting in significant interventions in 18 cases. This means that 76 % of all transactions notified in 2020 were authorised by means of a simplified procedure in 'phase 1', demonstrating that the procedural rules are working well, which is particularly helpful given the upturn in merger and acquisition activities globally, facilitated by the current high level of liquidity.

3.10. Finally, the EESC considers it very significant that the European Competition Network (ECN), which seeks to coordinate the actions of the national competition authorities and DG COMP, was able to express a strong common position on the application of competition rules during the COVID-19 health crisis, with a view to preventing possible opportunistic and exploitative behaviour that would be particularly reprehensible and harmful in times of crisis.

4. **The digital transition and competition**

4.1. The digital transition and the development of the economy based on new information and communication technologies are bringing to the fore new and important issues from the point of view of competition. For this reason, the EESC considers it important for the European institutions to intervene with suitable rules.

4.2. The EESC has already commented on the three main legislative proposals adopted by the Commission proposing regulatory measures for the digital economy: on the proposal for a regulation of the European Parliament and of the Council on fair and contestable markets in the digital sector (Digital Markets Act) [1]; on the proposal for a regulation of the European Parliament and of the Council on a single market for digital services (Digital Services Act) [2]; and on the proposal for a regulation of the European Parliament and of the Council on European data governance (Data Governance Act) [3].

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(1) OJ C 286, 16.7.2021, p. 64.
(2) OJ C 286, 16.7.2021, p. 70.
(3) OJ C 286, 16.7.2021, p. 38.

4.3. The common theme running through the three EESC opinions on these issues is the need for the EU to adopt harmonised rules that can instil confidence in citizens, consumers and SMEs (especially micro-enterprises) as regards proper safeguarding of the competitive structure of the markets, on the one hand, and the protection of personal data, on the other. Such data and their use should be understood in two ways, i.e. both in terms of the protection of individuals and their freedoms, and as competitive factors of crucial strategic importance.

4.4. In this respect, properly competitive and effectively contestable markets are crucial to avoid abuses of market power by digital platforms acting as gatekeepers in order to ensure the development of new and future digital companies, benefiting innovation, growth and ultimately consumer welfare.

4.5. The EESC believes that the legislative proposals put forward by the Commission in 2020 constitute an appropriate starting point on which to build a legislative framework that will need to be improved over the years by constantly updating the regulation of the sector and the competition rules in relation to the market structure that is gradually emerging with the development of the digital economy.

4.6. In this regard, it is essential to ensure a level playing field in terms of access and ability to compete for the various players active in digital markets both to enable a better functioning of the single market and to avoid distortions of competition in order to protect European consumers and businesses, while also taking due and greater account of the social implications of the regulatory framework applicable to the digital economy.

4.7. With this in mind, the EESC particularly welcomes the following passage on page 30 of the Commission's report: 'The social market economy is a foundation the EU is built upon and EU competition policy underpins it. Individuals and businesses thrive when the economy works for them.' It would like to see this principle play out tangibly in the analysis and evaluation involved in implementing competition policy.

5. **Competition and collective bargaining**

5.1. The development of the digital economy and digital platforms has significant implications, not only on the structure of markets, but also on the contexts and ways in which people work, creating new employment and development opportunities. At the same time, as we know, this also entails possible problems related to the working conditions of service providers who might benefit from the ability to organise themselves and act collectively.

5.2. The EESC therefore welcomes the European Commission's intention to clarify effectively whether or not competition rules apply to collective bargaining by service providers involved in the digital economy and digital platforms, who do not always fall within the categories of employment traditionally developed by labour law.

5.3. While the non-applicability of competition rules to collective bargaining between employees and undertakings was clarified some time ago by the case-law of the Court of Justice, there are still a number of uncertainties as to whether and to what extent the competition rules apply to collective bargaining involving self-employed service providers.

5.4. It would therefore be helpful to attain greater legal certainty and predictability in this area, in order to remove regulatory uncertainties potentially leading to inefficiencies and compliance costs, while at the same time considering the benefits of service providers organising themselves effectively in order to obtain better conditions and a framework of greater protection in which to conduct their activities.

6. **Competition and the climate and environmental goals**

6.1. The ambitious EU climate change agenda and the strategic agenda driven by the European Green Deal will be difficult to pursue unless certain necessary adjustments are made to competition policy, and in particular the rules on State aid, incentive programmes and funding for green innovation.

6.2. Competition policy can therefore play an active role in achieving the EU's climate and environmental objectives. The Commission report provides details of its activities in the area of State aid control, whereby it has assessed and authorised state measures promoting the circular economy, renewable energy and energy efficiency, which the EESC welcomes and supports.

6.3. The EESC therefore endorses this approach, but at the same time recommends that when assessing the various measures their social impact be taken into account. In many cases, investments in the circular economy and in renewable energy are opportunities to create new jobs, including through instruments that promote inclusion of the weakest and most vulnerable groups.

6.4. With regard to the issue of renewable energy, we would like to draw attention here to the role played by energy communities and renewable energy communities promoted by European sectoral directives, which, through the creation of horizontal networks, often in a cooperative form, promote direct participation by individuals in the production and sharing of energy, including renewable energy.

6.5. The EESC considers the involvement of these stakeholders to be useful in creating a broader landscape of players with access to energy markets, with a dual function of ensuring business pluralism and generating greater competition in the energy and renewable energy markets.

7. **Competition and banking**

7.1. The Report on Competition Policy 2020 states that there were no new cases of State aid to banks and financial institutions. The Commission goes on to report that it extended certain existing national support schemes, under which Member States may intervene, if necessary, to facilitate the orderly management of difficult situations or crises in small credit institutions.

7.2. The EESC points to the importance of local and regional banks in bringing the necessary corporate biodiversity to the banking sector and as market players close to households and businesses in remote areas, and welcomes the Commission's approval of the extension of schemes where it is necessary to manage the orderly market exit of banks of all sizes to protect savers and confidence in the economic and financial framework.

7.3. With reference to the judgment of the Court of Justice of the European Union in the Tercas case, which upheld the General Court judgment with similar conclusions, the EESC points out that guarantee schemes for privately funded banks not subject to the dominant influence of the state must be regarded as exempt from EU State aid rules.

7.4. Such guarantee schemes do not constitute intervention by the state in the economy, but rather the manifestation of a private scheme of mutual solidarity between credit institutions and self-organisation using their own resources aimed at safeguarding the confidence of depositors and savers in the banking system, including in the event of specific crises.

8. **Competition and tax regimes**

8.1. The outcome of the various legal disputes which have seen the European Commission before the Court of Justice of the European Union concerning selective tax advantages and national tax rulings originally considered not to comply with Article 107 TFEU underlines the Commission's rightful desire to ensure that tax rules are effectively harmonised in Europe through all the instruments available, including decisions implementing the State aid rules.

8.2. However, the varying outcomes in these decisions before the European courts underline the need to achieve greater effectiveness and harmonisation when it comes to Europe's tax rules by implementing the relevant action plan approved in this area by the Commission in early 2021 and thus by adopting appropriate legislative initiatives in the field of taxation to protect the internal market and its consolidation.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/53/EU on the harmonisation of the laws of the Member States relating to the making available on the market of radio equipment'

(COM(2021) 547 final — 2021/0291 (COD))

(2022/C 152/13)

Rapporteur: **Christophe LEFÈVRE**

Referral	Council of the European Union, 30.9.2021
	European Parliament, 4.10.2021
Legal basis	Article 114 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	18.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	231/0/6

1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) takes note of the Commission's proposal to act swiftly to impose the USB-C standard: a consistent and uniform standard for chargers for mobile phones and similar devices.

1.2. Since 2009 and, more recently, since 2014, the voluntary initiatives have not fully met the EU's policy objectives of reducing electronic waste (e-waste), increasing consumer convenience and avoiding fragmentation of the charging devices market. In 2018, discarded chargers were estimated to be responsible for 11 000 tonnes of e-waste.

1.3. The European Parliament passed a resolution in January 2020 ([1]) with the aim of drafting more binding legislation, which the EESC fully endorses.

1.4. The EESC fully supports the European Commission's draft directive, which was requested by the European Parliament.

1.5. The EESC would like to go further than the Commission's proposal by recommending that this obligation for chargers for mobile phones and similar devices be extended to all radio, electronic, connected and rechargeable devices, and also to chargers for laptops: the aim is also to enable users to recharge a mobile device with a 65W USB-C-type computer charger instead of a 2,1 W charger, and to avoid users having to carry several different chargers when on the move.

1.6. The EESC notes that low-power (2,1 W) USB sockets for charging mobile devices are increasingly being made available to users with or without cables in buses, aeroplanes, shopping centres, conference rooms and other public spaces. These are not always sufficiently powerful, however, to charge some of the devices covered by the directive.

1.7. In order to facilitate fast charging and to encourage users to share USB-C cables on short journeys or for a short period of time, the EESC proposes recommending that, in future, such locations be equipped with ultra-fast chargers. This would meet one of the needs expressed in one of the European Commission's surveys.

([1]) European Parliament Resolution of 30 January 2020 on a common charger for mobile radio equipment (2019/2983(RSP)) (OJ C 331, 17.8.2021, p. 2).

1.8. The EESC notes that batteries can have a shorter life span than the rest of the device. It recommends that batteries for use in computers, tablets or mobile phones adhere to the same standards, so that they can be replaced rather than having to buy a whole new device if the battery malfunctions prematurely.

1.9. The EESC wishes to emphasise the responsibility of manufacturers of electronic devices when it comes to sustainable development by calling on them to ensure that the cost of replacing the battery remains low, and that technical feasibility discourages users from replacing the whole electronic device when only the battery needs to be replaced.

1.10. The EESC calls on the Commission to recommend that manufacturers do not try to circumvent the legislation by changing the voltage or amperage, which would result in the brand's charger having to be used, thereby undermining the aims of the directive.

1.11. The EESC recommends that the Commission and the European Parliament launch a major public information campaign as soon as the legislative process is completed, to ensure that consumers are informed and to encourage them to only purchase devices with a USB-C interface in future.

2. **Background**

2.1. Since 2009, the Commission has been seeking to limit the fragmentation of the market for charging interfaces for mobile phones and similar devices. However, these initiatives only led to voluntary schemes ([2]) that are not legally binding and thus do not ensure consistent and uniform application.

2.2. Recent voluntary initiatives do not fully meet Union policy objectives to reduce electronic waste (e-waste), improve consumer convenience and avoid fragmentation of the charging devices market.

2.3. The absence of harmonisation in this area may lead to substantial differences between Member States' laws, regulations, administrative provisions and practices regarding the interoperability of mobile phones and similar categories or classes of radio equipment with their chargers, and the supply of radio equipment without chargers.

2.4. As a result, EU action is required to promote a common degree of interoperability and the provision of information relating to the charging characteristics of radio equipment to end-users.

2.5. In January 2020, the European Parliament adopted a resolution ([3]) calling for the urgent adoption of a standard for a common charger for mobile phones in order to avoid further internal market fragmentation.

2.6. It is estimated that mobile phone chargers were responsible for around 11 000 tonnes of e-waste in 2018 and that the associated life-cycle emissions were around 600 ktCO_2e.

2.7. The EU is committed to boosting the efficient use of resources by moving to a clean, circular economy through the introduction of initiatives such as Directive 2012/19/EU of the European Parliament and of the Council ([4]) and more recently through the introduction of the European Green Deal. This Directive aims to reduce the e-waste generated by the sale of radio equipment and to reduce the extraction of raw materials and the CO_2 emissions generated by the production, transportation and disposal of chargers, thereby promoting a circular economy.

2.8. The proposal aims to introduce suitable requirements in Directive 2014/53/EU of the European Parliament and of the Council ([5]) regarding the charging communication protocols, the charging interface (i.e. the charging receptacle) of certain categories or classes of radio equipment, as well as the information to be provided to end-users regarding the charging characteristics of those categories or classes of radio equipment.

([2]) https://ec.europa.eu/docsroom/documents/2417/attachments/1/translations

([3]) European Parliament resolution of 30 January 2020 on a common charger for mobile radio equipment (2019/2983(RSP)) (OJ C 331, 17.8.2021, p. 2).

([4]) Directive 2012/19/EU of the European Parliament and of the Council of 4 July 2012 on waste electrical and electronic equipment (WEEE) (OJ L 197, 24.7.2012, p. 38).

([5]) Directive 2014/53/EU of the European Parliament and of the Council of 16 April 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of radio equipment and repealing Directive 1999/5/EC (OJ L 153, 22.5.2014, p. 62).

2.9. The proposal requires mobiles phones and similar radio devices, (such as tablets, digital cameras, headphones and headsets, hand-held videogame consoles and portable speakers), if they can be charged via wired charging, to be fitted with the USB Type-C receptacle and, if they also require charging at voltages higher than 5 volts or currents higher than 3 amperes or powers higher than 15 watts, to incorporate the USB Power Delivery charging communication protocol.

2.10. The Commission could adopt delegated acts to make it possible in future, if needed, to address any additional type of charging technologies other than wired charging.

3. **General comments**

3.1. The EESC notes that, over the past 12 years, the Commission has managed to harmonise standards for phone chargers, thereby meeting the requirements of sustainability and reducing hard-to-recycle waste.

3.2. The EESC notes that the lack of a universal charger means that a phone charger and a power/data cable are systematically sold with each device, whereas the consumer could have the option of buying just the device itself.

3.3. The EESC fully endorses the European Commission's draft directive, which was requested by the European Parliament.

3.4. The sale of specific chargers clearly represents a significant share of manufacturers' revenues, especially those of mobile phone manufacturers. It will have to be ensured that these same manufacturers do not regularly change electronic standards (such as voltage level, power requirements, etc.) making it easier for them to systematically sell their own brand of charger, or even the data transfer cable, which could be universal, when they could allow a previously purchased charger to be reused. This would undermine effective implementation, which is aimed at reducing e-waste tonnage.

3.5. The EESC recommends that the Commission and the European Parliament launch a major public information campaign as soon as the legislative process is completed, to ensure that consumers are informed and to encourage them to only purchase devices with a USB-C interface in future.

4. **Specific comments**

4.1. The EESC recommends that the industry facilitate the ultra-fast charging of mobile phones with powerful chargers, such as a simple laptop charger with a 65W USB-C output, instead of a 2,1 W output.

4.2. The EESC notes that dedicated USB sockets for mobile phone charging are increasingly being made available to users, with or without cables, in buses, aeroplanes, shopping centres, conference rooms and other public spaces. By default, these are low-current sockets (2,1 W), and this power is already insufficient to charge some of the devices covered by the directive. In order to facilitate fast charging and to encourage users to share USB-C cables on short journeys or for a short period of time, the EESC proposes recommending that, in future, such locations be equipped with ultra-fast chargers. This would meet one of the needs expressed in one of the European Commission's surveys.

4.3. The EESC therefore recommends that this requirement for a single USB-C charger for mobile phones should also apply to laptops, even if the charging and power level needs to be electronically adapted. It is both for economic reasons and to avoid users having to carry numerous chargers when on the move that the obligation provided for by the directive should also be extended to laptops, unless there is a technological constraint, which would have to be justified.

4.4. The EESC notes that batteries can have a shorter life span than the rest of the device. It recommends that batteries for use in computers, tablets or mobile phones should adhere to the same standards, so that they can be easily and inexpensively replaced rather having to buy a whole new device if the battery malfunctions prematurely. The EESC would like to emphasise the responsibility of manufacturers of electronic devices where the environment and sustainable development are concerned.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/746 as regards transitional provisions for certain in vitro diagnostic medical devices and deferred application of requirements for in-house devices'

(COM(2021) 627 final — 2021/0323 (COD))

(2022/C 152/14)

Rapporteur: **Christophe LEFÈVRE**

Referral	European Parliament, 18.10.2021
	Council, 22.10.2021
Legal basis	Articles 114 and 168(4)(c) of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	206/0/4

1. **Conclusions and recommendations**

1.1. The EESC, taking into account the extraordinary circumstances created by the SARS-CoV-2 (COVID-19) crisis and its impact on various areas covered by Regulation (EU) 2017/746 of the European Parliament and of the Council [1], supports the Commission proposal, which in the Committee's view is an appropriate and necessary measure, to ensure a high level of protection of health and the economic interest of this sector.

1.2. The EESC emphasises that health is a high priority for Europe's citizens and reaffirms that in vitro diagnostic medical devices play a crucial role in the prevention, diagnosis and treatment of diseases [2]. They are central to our health and to the quality of life of people suffering from diseases and disabilities, even more so during a global pandemic.

1.3. The EESC welcomes the concern expressed by the Parliament and the Council of Health Ministers (EPSCO) of 15 June 2021 at the extremely critical situation and their call to the Commission to present as a matter of urgency a legislative proposal to facilitate the transition to the new regulatory framework and to ensure the availability of in vitro diagnostic medical devices on the EU market.

1.4. The EESC considers it essential that citizens are able to trust the reliability of these tests. The aim is to considerably reduce the proportion of both 'false positive', and 'false negative' results. Only 8 % of all in vitro diagnostic devices available on the market are subject to monitoring by notified bodies under Directive 98/79/EC of the European Parliament and of the Council [3], compared to a target of 80 % of in vitro diagnostic medical devices set in this draft Regulation.

1.5. The EESC is therefore fully in favour of rapidly increasing the certification capacity of in vitro diagnostic devices.

1.6. The EESC also recommends that the results of these tests receive specific medical support in the event of a positive result, particularly where devices can be used by individuals to carry out tests themselves.

(1) Regulation (EU) 2017/746 of the European Parliament and of the Council of 5 April 2017 on in vitro diagnostic medical devices and repealing Directive 98/79/EC and Commission Decision 2010/227/EU (OJ L 117, 5.5.2017, p. 176).
(2) EESC opinion (OJ C 133, 9.5.2013, p. 52).
(3) Directive 98/79/EC of the European Parliament and of the Council of 27 October 1998 on in vitro diagnostic medical devices (OJ L 331, 7.12.1998, p. 1).

1.7. The EESC notes that postponing the date of application by one year would not solve the problems regarding implementation of Regulation (EU) 2017/746 and that a gradual introduction of the requirements of the new regulation over a longer period of time should be allowed, while giving priority to high-risk in vitro diagnostic medical devices. This can be achieved by amending Article 110 of the Regulation, which concerns transitional provisions, providing a period for existing higher risk class devices that is shorter than the one for existing lower risk class devices. At the same time, the existing transitional period for devices covered by notified body certificates issued under Directive 98/79/EC should be extended by one year, until 26 May 2025.

1.8. The EESC therefore supports the Commission's proposals to:

— extend the transitional period for devices covered by a certificate issued under Directive 98/79/EC;

— introduce tailor-made transitional periods for devices that have to undergo a conformity assessment involving notified bodies for the first time;

— introduce a transitional period for requirements applicable to devices manufactured and used within the same healthcare facility.

2. **The Commission proposal**

2.1. Directive 98/79/EC ([4]) on in vitro diagnostic medical devices will be replaced as of 26 May 2022 by Regulation (EU) 2017/746 ([5]) establishing a new regulatory framework for these devices (HIV tests, pregnancy tests or SARS-CoV-2 tests) ([6]).

2.2. The new regulation aims to ensure the smooth functioning of the internal market and a high level of protection of public health, patients and users, taking into account the high number of SMEs active in this sector.

2.3. One of the main changes concerns the involvement of independent conformity assessment bodies. With the new Regulation, around 80 % of in vitro diagnostic medical devices will be under the control of notified bodies (compared to 8 % at present). This means that manufacturers will have to apply to a notified body and obtain one or more certificates following a procedure that takes approximately one year.

2.4. Article 110 of Regulation (EU) 2017/746 contains transitional provisions for devices with a certificate issued by a notified body in accordance with Directive 98/79/EC prior to 26 May 2022.

2.5. The COVID-19 pandemic has confirmed the need for a regulatory framework for in vitro diagnostic medical devices in the EU but has also given rise to additional, unprecedented challenges for the implementation of Regulation (EU) 2017/746.

2.6. Thus, substantial additional resources have been necessary from Member States' competent authorities, health institutions, notified bodies, manufacturers and other economic operators to increase the availability of vitally important medical diagnostics.

2.7. The fact that the six currently designated notified bodies are located in only three countries (Germany, France and the Netherlands) also makes the situation particularly difficult for SMEs in other Member States. In addition, travel restrictions have hampered, and continue to hamper the proper conduct of conformity assessment by notified bodies.

2.8. This proposal therefore aims to:

— extend the existing transitional period for devices covered by a certificate issued under Directive 98/79/EC;

— introduce tailor-made transitional periods for devices that are to undergo a conformity assessment involving notified bodies for the first time, in accordance with Regulation (EU) 2017/746;

([4]) OJ L 331, 7.12.1998, p. 1. EESC opinion (OJ C 18, 22.1.1996, p. 12).
([5]) OJ L 117, 5.05 2017, p. 176. EESC opinion (OJ C 133, 9.5.2013, p. 52).
([6]) According to the Commission, around 70 % of clinical decisions are made using in vitro diagnostic medical devices.

— introduce a transitional period for requirements applicable to devices manufactured and used within the same healthcare facility. This will give health institutions extra time to comply with the new requirements and ensure that in-house tests, which are often essential — especially for rare diseases — can continue to be developed in clinical laboratories.

3. **General comments**

3.1. The EESC reiterates its conviction, previously expressed in its opinion on the current Regulation ((EU) 2017/746) ([7]) that 'health is a high priority for Europe's citizens' and that 'in vitro diagnostic medical devices play a crucial role in prevention, diagnosis and treatment of diseases'. They are central to our health and to the quality of life of people suffering and managing their diseases and disabilities, even more so during a pandemic.

3.2. In this context, the EESC had therefore welcomed the recast of the current regulatory system, which strengthened pre-market approval procedures and in particular post-market surveillance. This responds to the needs of citizens for patient safety and efficacy.

3.3. The EESC would also emphasise that, due to its high innovation capacity and its high-skilled jobs, this sector represents an important part of the European economy. It is therefore important not only to ensure the highest possible level of health protection but also to take into account the interests of the industry, in which 80 % of manufacturers are small, medium-sized and micro-enterprises.

3.4. The EESC is well aware that the COVID-19 crisis has created extraordinary circumstances which are having an impact on various areas covered by Regulation (EU) 2017/746.

3.5. The crisis created a major, unprecedented challenge for the healthcare systems of the Member States and a serious burden for all stakeholders involved (health institutions, healthcare professions, patients and economic operators).

3.6. The EESC therefore recognises that not all of these stakeholders, which are essential to the operation of healthcare systems, will be able to guarantee the proper implementation and application of the Regulation on the dates initially provided.

3.7. The EESC welcomes the concern expressed by the Parliament and the Council of Health Ministers (EPSCO) of 15 June 2021 at the extremely critical situation and their call to the Commission to present as a matter of urgency a legislative proposal to facilitate the transition to the new regulatory framework and to ensure the availability of in vitro diagnostic medical devices on the EU market.

3.8. The EESC considers it essential that citizens are able to trust the reliability of these tests. The aim is to considerably reduce the proportion of both 'false positive', and 'false negative' results. Only 8 % of all in vitro diagnostic devices available on the market are subject to monitoring by notified bodies under Directive 98/79/EC, compared to a target of 80 % of in vitro diagnostic medical devices set in this draft Regulation.

3.9. The EESC is therefore fully in favour of rapidly increasing the certification capacity of in vitro diagnostic devices.

3.10. The EESC also reiterates that the results of these tests should receive specific medical support in the event of a positive result, particularly where devices can be used by individuals to carry out tests themselves.

3.11. The EESC notes that postponing the date of application by one year would not solve the problems regarding implementation of Regulation (EU) 2017/746 and that a gradual introduction of the requirements of the new regulation over a longer period of time should be allowed, while giving priority to high-risk in vitro diagnostic medical devices. This can be achieved by amending Article 110 of the Regulation on transitional provisions, providing a period for existing higher risk class devices that is shorter than the one for existing lower risk class devices. At the same time, the existing transitional period for devices covered by notified body certificates issued under Directive 98/79/EC should be extended by one year, until 26 May 2025.

([7]) EESC opinion (OJ C 133, 9.5.2013, p. 52).

3.12. The EESC therefore supports the Commission's proposals to:

— extend the transitional period for devices covered by a certificate issued under Directive 98/79/EC;

— introduce tailor-made transitional periods for devices that have to undergo a conformity assessment involving notified bodies for the first time;

— introduce a transitional period for requirements applicable to devices manufactured and used within the same healthcare facility.

3.13. The EESC considers these provisions reasonable to ensure the proper functioning of the internal market, a high level of protection of public health and patient safety and legal certainty, and, in thereby, to avoid possible market disruptions.

3.14. Lastly, the EESC stresses, as it did previously in its opinion on Regulation (EU) 2017/746, that civil society should be more closely involved in setting the relevant regulatory framework, and again proposes the establishment of an 'advisory committee' composed of representatives of legitimate stakeholders organised at the European level. Such a committee should act in parallel and work with the Medical Device Coordination Group (MDCG), advising the Commission and Member States on various aspects of medical technology and implementation of the legislation.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing'

(COM(2021) 420 final — 2021/0239 (COD))

'Proposal for a Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets (recast)'

(COM(2021) 422 final — 2021/0241 (COD))

'Proposal for a Directive of the European Parliament and of the Council on the mechanisms to be put in place by the Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and repealing Directive (EU) 2015/849'

(COM(2021) 423 final — 2021/0250 (COD))

(2022/C 152/15)

Rapporteur: **Javier DOZ ORRIT**

Co-rapporteur: **Benjamin RIZZO**

Referral	European Parliament, 4.10.2021
	Council, 8.10.2021
Legal basis	Articles 114 and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	23.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	230/7/0

1. **Conclusions and recommendations**

1.1. Reports by the European Commission (2019) and the European Court of Auditors (2021), academic studies and now the Pandora Papers and other similar publications highlight the severity of the money-laundering phenomenon in the EU. Current European legislation is largely inadequate in the face of coordination failures and national divergences.

1.2. The EESC strongly supports the Anti Money Laundering legislative package, in particular the creation and design of the new European Anti-Money Laundering Authority (AMLA) with direct supervisory powers. It should be given sufficient resources to become the core of an integrated European oversight and intelligence system.

1.3. The EESC agrees with the distribution of content between the first Anti-Money Laundering (AML) regulation — supervision of private institutions — and the 6th AML Directive — coordination of national supervisors and FIUs — and the provisions of both to harmonise national legislation and automate the recording and transmission of information.

1.4. Effectiveness in the fight against money laundering and related predicate offences requires a cultural change, and the effective involvement of organised civil society. The EESC reiterates its proposal for a European Pact to combat behaviour that damages the ethical and political principles of our democracies and undermines public goods. It also proposes the creation of a civil society advisory body, within AMLA, or under the European Commission and with AMLA participation.

1.5. The EESC proposes that the Regulation on crypto-assets, of the AML legislative package, be implemented as a matter of urgency. The Commission proposal for a Regulation on the crypto-assets market ([1]) is a step towards general regulation and should enter into force as a matter of urgency, but it does not replace all the instruments needed to defend against the financial and criminal risks of these financial products.

1.6. The EESC calls on the Commission to consider how to apply the legislative package to money laundering channels outside the financial system: the market in works of art and high-value assets; free ports, customs warehouses and special economic zones; certain commercial or trade transactions, real estate investments, gambling, etc. It considers that new European legislation will be needed in these areas.

1.7. The EESC proposes that Europol be given greater powers and sufficient resources to combat money laundering, the financing of terrorism and transnational organised crime and to coordinate national police forces in these areas. Effective coordination of the European Public Prosecutor's Office, which should be put in place without delay, Europol and the new AMLA may be the key to the practical success of the legislative package.

1.8. The EESC calls on the Commission to push for the urgent transposition in all Member States of Directive 2018/1673 of the European Parliament and of the Council ([2]), which establishes a common definition of the offence of money laundering; and for a new Directive on a common definition of related offences to be enacted, in which the corresponding penalties for these offences should fall within certain ranges.

1.9. The EESC is very concerned about the existence in the EU of a huge number of 'shell companies', which play a key role in money laundering and tax avoidance. It proposes that the authorities currently responsible and the future integrated supervisory system set up specific programmes to monitor these companies, managed by certain law firms, consultancies or tax advisors, in order to identify their real owners and those responsible for their transactions, and to investigate any crimes they may commit.

1.10. The EESC calls on the European Commission to examine the possibility of the AMLA being fully operational, including direct supervision, before 2026. In any event, the EESC calls on all the institutions involved to cooperate more closely in the interim in order to implement existing legislation more effectively.

1.11. The EESC considers it necessary to draw up a new, realistic and truthful list of high-risk third countries, including all those that facilitate money laundering. It also proposes that the European Commission enact a rule that companies and individuals involved in financial crime or money laundering should be excluded from public procurement procedures.

1.12. The EESC calls on the EU and national governments to protect the lives and integrity of journalists, employees and civil servants who denounce economic and political corruption, and considers the delay in transposing Directive (EU) 2019/1937 of the European Parliament and of the Council ([3]) to be unacceptable

2. **European Commission proposal and background**

2.1. In July 2019, the European Commission (EC) presented its assessment of Anti-Money Laundering/Countering the Financing of Terrorism (AML-CFT). The Communication and the four evaluation ([4]) highlighted serious shortcomings in the implementation of existing legislation and divergences between Member States in the area of AML-CFT.

2.2. To address these problems, on 7 May 2020, the Commission published an AML-CFT Action Plan ([5]) and opened a public consultation on it. The Plan was based on six pillars: effective implementation of existing rules; a single EU rulebook;

([1]) COM(2020) 593 final.
([2]) Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law (OJ L 284, 12.11.2018, p. 22).
([3]) Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law (OJ L 305, 26.11.2019, p. 17).
([4]) COM(2019) 360 final, COM(2019) 370 final, COM(2019) 371 final and COM(2019) 372 final of 24.7.2019.
([5]) C(2020) 2800.

EU-level supervision; support and cooperation for FIUs; better enforcement of criminal law and strengthening the EU's role in the world. In its opinion entitled *Combat tax fraud, tax avoidance and money laundering* [6], the EESC expressed its support for the plan and its urgent development and implementation.

2.3. Following endorsement by the Council and the European Parliament and consultation, the Commission fleshed out the legislative proposals of the Plan in the legislative package of 20 July 2021, which includes the following proposals:

— a Regulation establishing a European AML-CFT Authority [7];

— an AML-CFT Single Rulebook incorporating part of the legislation [8];

— a new Directive, the sixth, revising some of the remaining legislation [9]; and

— the reform of the Funds Transfer Regulation to cover crypto-assets [10].

2.4. At the core of the legislative package is the creation of a new EU Authority (AMLA), which assumes direct supervisory powers, and strengthens coordination and cooperation powers with national authorities, with which it will ensure that EU rules are correctly and consistently applied by the private sector. In particular, it will:

— establish with national authorities a single integrated AML-CFT supervisory system;

— directly supervise some of the most risky financial institutions operating in a large number of EU Member States; AMLA will have sanctioning powers over these 'selected obliged entities';

— supervise and coordinate national supervisors responsible for other financial and non-financial institutions and the application of EU rules and perform periodic assessments of some or all of the activities of one, several, or all financial supervisors, including the assessment of their tools and resources to ensure high-level supervisory standards and practices;

— promote and support cooperation between FIUs and facilitate cross-border communication and joint analysis.

2.5. AMLA will be governed by a Chairperson, an Executive Board of five members and a General Board with two membership structures and types of competence: supervisory and FIU; these will include the heads of the national supervisory and intelligence agencies to govern the integrated European system of supervision and financial intelligence. A member of the European Commission will be a member of the AMLA's governing bodies. The General Board will include as observers representatives of the European Banking Authority (EBA) and the European Central Bank (ECB), whose competences and tools — Central Data Base and FiU.net — AML-CFT will be transferred to the new Authority. The AMLA will start its activities in 2024, and will fill all of its posts and start direct supervision in 2026.

2.6. The first EU AML-CFT Regulation extends the list of obliged entities to include crypto-asset service providers, crowdfunding platforms and migration operators (who facilitate the acquisition of residency and, in some cases, nationality for investors). Due diligence measures and controls are strengthened and made clearer. Requirements relating to third countries and politically exposed persons are revised. Similarly, requirements for beneficial ownership are clarified and new ones are introduced to mitigate the risk of criminals hiding behind intermediary layers. Action is taken against the misuse of bearer instruments and a maximum ceiling of EUR 10 000 is set for the use of cash.

(6) OJ C 429, 11.12.2020, p. 6.
(7) COM(2021) 421 final.
(8) COM(2021) 420 final.
(9) COM(2021) 423 final.
(10) COM(2021) 422 final.

2.7. In contrast to the private sector regulation, the 6th AML-CFT Directive focuses on its institutional system and its adaptation in each Member State. The proposal clarifies competences, tasks and access to information of FIUs, establishes a framework for joint analyses and provides a legal basis for the FIU.net system. The power of supervisors to act is strengthened and the mechanisms for cooperation between supervisors and with other authorities are improved. The interconnection of bank account registers is provided for.

2.8. The proposed Regulation on transfers of funds and certain crypto-assets is a recast of Regulation (EU) 2015/847 of the European Parliament and of the Council [11] on transfers of funds, with the aim of making the traceability and identification requirements for transfers of crypto-assets similar to those in place for funds. At the same time, crypto-asset service providers will be subject to the requirements of the AML Regulation for other financial operators.

3. **General remarks**

3.1. The 1st AML Directive was enacted in 1991. Since then, four other AML-FT directives and dozens of other complementary directives have been adopted, relating to the financial system or to related crimes and offences. The results of this endeavour, considered a priority by the EU authorities, have clearly been unsatisfactory to date.

3.2. There is widespread agreement on this, as already reflected in the Commission's 2019 assessments and those of institutions such as the European Parliament, in its resolutions of March 2019 and July 2020 [12], and the Court of Auditors, in its report of June 2021, entitled *EU efforts to combat money laundering in the banking sector are fragmented and insufficiently implemented* [13], and in the vast majority of specialist, academic and think-tank analyses, notably the CEPS-ECRI Task Force Report [14].

3.3. Estimates of the volume of money laundering put it at between 1 % of EU27 GDP (Europol and the European Commission) and 1,3 % (Court of Auditors), i.e. between EUR 140 and 208 billion per year. More significantly, according to Europol, only around 1 % of this volume is recovered. There have been numerous money laundering scandals involving major financial institutions in recent years, and it is significant that many of them would not have been uncovered without the application of European legislation or the intervention of supervisors. In other words, despite the efforts and willingness of the European Commission and the European Parliament, no progress has been made in terms of results in the fight against AML-CFT.

3.4. The publication of the International Consortium of Investigative Journalists (ICIJ) of the Pandora Papers has once again highlighted the scale of the problem of money laundering and related crimes, and the essential role of tax havens in facilitating these crimes. It is therefore hard to understand that the jurisdiction most often mentioned in the papers is not on the EU's list of 'non-cooperative jurisdictions', and that Ecofin has just removed from the list another jurisdiction whose legislation makes it impossible to identify the true owners of companies and accounts.

3.5. The EESC draws the attention of the EU institutions and national governments to the need for robust protection of the life and integrity of journalists, employees and civil servants who report economic and political corruption. The Committee is concerned that a number of Member States have not started transposition procedures for Directive (EU) 2019/1937 on the protection of persons reporting breaches of EU law, and calls on the Commission to act to ensure its urgent transposition by the end of 2021.

3.6. The failures and inadequacies of EU AML-CTF policy have several causes, which have cumulative effects: (i) the fragmentation of competences between a variety of EU and Member State institutions; (ii) the lack of a single EU AML-CFT supervisor; (iii) the limited tools available to competent EU bodies; (iv) poor coordination, both in prevention initiatives and in taking action against identified risks, and the delay in implementing them;(v) shortcomings in the workings of supervisors and FIUs in many countries; (vi) the transposition of the directives has been very late and with significant differences between Member States, leading to administrative and judicial proceedings by the European Commission; (vii)

(11) Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (OJ L 141, 5.6.2015, p. 1).
(12) EP Resolution of 26 March 2019 on financial crimes, tax evasion and tax avoidance (OJ C 108, 26.3.2021, p. 8) and EP Resolution 10.7.2020.
(13) ECA Special Report 13/2021.
(14) CEPS-ECRI: TF Report: AML in the EU; 01/2021.

insufficient awareness, in quite a number of countries, of the importance of firmly combating money laundering and related crimes; and (viii) the differences arising from the divergent definitions of offences in the criminal codes, starting with money laundering itself, and the associated penalties; (ix) inadequate investigation of related predicate offences, in particular in third countries; and x) the lack of political will on the part of some EU governments to adopt and implement European standards. The geographical and sectoral differences arising from all these factors help financial criminals to design the most convenient networks for their illicit trafficking.

3.7. In some situations, cooperation between EU institutions has not been seen as necessary. This is the case with the cooperation between the European Commission and the EBA in the process of investigating breaches of EU law, which has led the Court of Auditors to state that this process 'lacks effectiveness' ([15]). Nor has European External Action Service (EEAS) cooperation with the EC always been effective in drawing up the list of 'high-risk third countries' in AML-CFT ([16]). The 2019 European Commission list, supported by the EP, was ultimately rejected by the Council and the list adopted in May 2020 is an adaptation of the FATF list, and has notable absences.

4. **The EESC opinion**

4.1. The EESC expresses its full support for the Commission's legislative package, because it believes that its correct and prompt implementation could be very useful in reversing an unsustainable situation such as the one briefly described in the previous section. In particular, it supports the creation and design of the AMLA which, while exercising its direct supervisory powers, becomes the core of a European AML-CFT supervisory (and intelligence) system, integrating national supervisors and FIUs in its General Board and, as observers, the other EU institutions involved.

4.2. The EESC agrees with the distribution of content between the first regulation and the 6th Directive and the provisions of both to standardise national legislation and facilitate the operation of national FIUs and supervisors in key areas: records and reporting and the investigation of suspicious transactions through (SARs), using standardised techniques. The emphasis on fulfilling the various obligations of the authorities within the shortest possible timeframes is highly desirable in order to overcome one of the main current problems. The EESC believes that the proposed legislation adheres to the European data protection framework and the rights of individuals and companies that will ultimately be protected by the Court of Justice of the European Union (CJEU).

4.3. The EESC calls on national governments and European civil society organisations to support the adoption and proper implementation of this legislative package. Neither the EU nor the Member State can afford to maintain the current situation. Even less so when the fight against the health, economic and social consequences of the COVID-19 pandemic and for the recovery of the economy is requiring the Member States and the EU to substantially increase public resources. As the CEPS-ECRI Report states: 'Attempting to stop, or at least significantly reduce money laundering is a moral imperative in any democratic society, where all citizens are free and equal before the law, in a fair system of cooperation[…] Lack of clarity, delays and inefficiency will only invite more money laundering' ([17]).

4.4. The EESC is aware of the importance of public-private partnerships in this area. In some countries, research capacity is largely located in the private sector ([18]). While calling on the EU institutions, when implementing the legislative package, to do everything in their power to promote the improvement of national supervisory institutions and FIUs, the Committee also wants them to facilitate public-private partnerships in this area as much as possible.

([15]) ECA, Ibid, point 86. In 10 years, the EBA Board of Supervisors has not conducted any AML-FT investigations on its own initiative. Having no legal obligation to respond in a timely manner to requests, it has only investigated two of the four complaints filed by the European Commission.

([16]) ECA, Ibid, points 26 and 28.

([17]) CEPS-ECRI t, Ibid p. 2.

([18]) CEPS-ECRI, Ibid p. iv.

4.5. Improving the effectiveness of the fight against economic and fiscal crime probably requires, in many countries, a cultural change and greater involvement of civil society. This was one of the motivations behind the EESC proposal for a European Pact against tax crime, tax avoidance and money laundering ([19]). It is along the same lines that the EP is in favour of '[…] restoring public confidence, ensuring fair and transparent tax systems and ensuring tax justice' ([20]). To help achieve this, the EESC proposes that a civil society consultative body be set up within the AMLA ([21]), or as a body under the EC in which the AMLA also participates, so that CSOs and the Committee itself can become more actively involved in the AML-FT fight and contribute their own experiences and proposals. EU institutions and organised civil society must act together to inform European citizens about the very negative impact that money laundering and related crimes have on public goods and on the principles of justice and fairness on which democracy is founded.

4.6. Europol and other experts believe that since the outbreak of the COVID-19 pandemic, money laundering and related crimes, particularly those committed by electronic means and through the use of crypto-currencies and other crypto-assets, have been on the increase ([22]). The EESC therefore believes that there is every justification for adopting a regulation that treats them in the same way as other transactions, making it compulsory to identify the real owners. The proposal for a Regulation ([23]) on the crypto-assets market is a step towards general regulation and should enter into force as a matter of urgency, but it does not replace all the instruments needed to defend against the financial risks and criminal offences of these financial products.

4.7. The EESC, the EP and other institutions have highlighted the risk posed by the existence in the EU of hundreds of thousands of 'shell companies' ([24]), legalised and managed by certain law firms, consultancies or tax advisors, most of which are used for money laundering and other related predicate offences, as well as for tax avoidance. Huge amounts of capital flows through them. The competent authorities, today, and the new European supervisory system will have to set up specific programmes implementing the rules for identifying the beneficial owners of these companies and the issuers and recipients of their transactions in order to be able to prosecute the economic and financial crimes committed by many of these companies. No company, or any other type of entity susceptible to be used in money laundering or terrorist financing operations, should be allowed to register in any Member State if the ultimate owners are not known, or are related to such activities.

4.8. The EESC considers that there is a strong need for Member States to urgently complete the transposition of Directive 2018/1673, which provides for a common definition of the crime of money laundering. The EESC proposes a new directive laying down common definitions of related offences in the laws of the Member States and that the corresponding penalties for these offences should fall within certain ranges. Article 83 of the TFEU explicitly mentions money laundering and related cross-border offences among those whose definitions and penalties can be harmonised by means of European minimum rules.

([19]) EESC opinion *Combatting tax fraud, tax avoidance and money laundering* (OJ C 429, 11.12.2020, p. 6) points 3.4, 3.5 and 3.6.

([20]) EP Resolution of 10/07/2020 on the AML-FT Action Plan.

([21]) Since their creation and in order to help facilitate consultation with stakeholders, EBA, ESMA (European Securities and Markets Authority) and EIOPA (European Insurance and Occupational Pensions Authority) have Stakeholder groups, formed by members representing in balanced proportions Private companies, Consumers, Users, Employee's representatives of sectoral companies, and top-ranking academics.

([22]) Europol-EFECC: *Enterprising criminals. Europe's fight against the global networks of financial and economic crime (06/2020)*; and WCA: COVID 19 opened the doors for a new wave of money laundering.

([23]) COM(2020) 593 final.

([24]) 'Shell company' or 'phantom' or 'fictitious': company with no real economic activity in the country where it is registered and no or very few employees. Some of them are used for money laundering, tax avoidance or to circumvent the posting directive. See: EPRS, 10/2018: 'An overview of shell companies in the European Union'; IMF, F&D, 09/2019: Damgaard, Elkjaer and Johannesen: The Rise of Phantom Investments and EESC opinion *Combatting tax fraud, tax avoidance and money laundering* (OJ C 429, 11.12.2020, p. 6).

4.9. The EESC calls on the European Commission to examine the possibility of the AMLA being fully operational, including direct supervision, before 2026. In any case, the EESC calls on the European Commission and the other institutions involved to strengthen their cooperation in the meantime to implement existing legislation more effectively following the comments made by the EP and the ECA. This applies in particular to the EBA — and its new AML Committee -, the ECB and Europol. The EESC also calls on the European Commission, the EEAS and Europol to carry out a new analysis of third countries likely to be included in a new EU list of AML-FT non-cooperators as soon as possible.

4.10. The EESC appreciates the great importance that the European Public Prosecutor's Office could have in the AML-FT fight and calls on the European institutions and the Member States to facilitate its full implementation without further delay. It regrets the obstacles placed by some governments to the completion of the process, in particular by some governments that have recently held the temporary presidency of the EU. The Committee agrees with the EP in calling on the European Commission to consider the proposal to establish a European framework for cross-border financial and tax crime investigations.

4.11. The transnational nature of money laundering makes it necessary to step up coordination between national police forces and intelligence services. At the same time, the EESC believes that it would be very useful to give Europol greater powers and sufficient human and material resources to combat money laundering and the financing of terrorism (ML-FT) and transnational organised crime, and to coordinate national police forces. Effective coordination of the European Public Prosecutor's Office, the new AMLA and Europol could be the key to the practical success of the new legislative package.

4.12. The EESC believes that a new, realistic and truthful list of non-cooperative jurisdictions should be drawn up. It also proposes that the Commission draw up a directive stipulating that companies and individuals involved in financial crime or money laundering should be excluded from any public procurement process.

4.13. The EESC also believes that the current relationship between FIU of Member States should be kept and included in the new structure of the AMLA. The information and strategic alliances built over the years between FIUs of different Member States cannot be lost.

4.14. A significant proportion of money laundering takes place outside the financial system, through the use of cash for the purchase of goods that are subsequently legalised or stored, or through certain commercial transactions. The EESC calls on the Commission to study how the proposed legislative package could be applied most effectively to the market in works of art, and high-value assets and their storage in free ports, customs warehouses and special economic zones, as well as to certain commercial transactions, commercial transactions involving interest-free loans repaid in a country of destination, real estate investments and transactions with gambling companies. The results of such a study should, where appropriate, serve as a basis for further legislative proposals to combat money laundering and related offences.

4.15. The activity of the vast majority of non-profit civil society organisations strengthens democracy by making it participatory, as well as being an economic sector of growing value. Many of them have actually been fighting against money laundering and contributing to revealing money laundering practices. Nevertheless, some non-profit civil society organisations might be used in money laundering operations. For this reason, when designing policies regarding non-profit civil society organisations, a risk assessment in this sector must be very careful, in order to detect cases of the use of such organisations for illegal purposes, without promoting curbs on their development or allowing authoritarian governments to attack organisations that criticise them.

5. **Specific Comments**

5.1. During the pandemic, in addition to an increase in virtual transactions and greater use of crypto-assets, the market for NFT (Non Fungible Tokens) ([25]), which move money across borders (USD 2,5 billion in the first half of 2021) using blockchain technology, has taken off. The EESC proposes that NFT (marketplace) operators be included in the list of obliged entities. Similarly, 'non-cash transactions', which are being used for money laundering, need to be monitored.

([25]) Reuters, 6/06/2021: NFT sales volume.

5.2. The pandemic has reduced the use of cash. This, together with the decision to stop printing EUR 500 notes, has created a need for criminals to 'launder' this money and insert it into the real economy. The EESC therefore recommends that the European Commission study the possibility of reducing the cash transaction limit to below EUR 10 000, taking into account the different situations in the various Member State.

5.3. The EESC considers it essential that FIUs function properly. This requires sufficient and high-level technical and human resources. Their capacity to work together with other FIUs and EU authorities must be strengthened, with compatible standards, procedures and IT tools, and sufficient and comparable training for all their staff. The AMLA should cooperate with the competent national authorities to maximise the efficiency of its work. The Committee calls on national governments, especially those that have been mentioned in the CSRs of the European Semester, to prioritise the objective of the smooth operation of FIUs and to promote effective cooperation with the European authorities.

5.4. The EESC believes that the high professional quality, experience, independence — in the sense of only defending the interests and values of the EU — and honesty of AMLA managers and other AMLA staff are essential for its proper functioning. Rigour and transparency must therefore govern the selection process. The Committee proposes that the Commission produce a list of principles and values which inform the initial recruitment processes and which may be taken into account in the Code of Ethics to be drawn up and approved by the Authority's bodies.

5.5. The EESC reiterates the proposal ([26]) — in line with that of the EP — to phase out residence by investment schemes, and ban those of nationality, and, in the meantime, to rigorously check that those who benefit from them have met their legal obligations in their countries of origin and are not engaged in money laundering operations.

5.6. The EESC proposes that the European Commission create a database to provide SMEs with information on sanctions on individuals and companies, and their duration, in relation to terrorist financing.

5.7. The AMLA must be provided with a budget sufficient to meet the major challenges that its objectives and missions will present it with. An effective AML-FT fight will significantly improve the tax revenues of the Member States, which need to face the challenges of green and digital transformations and their just transitions, as well as being a factor in improving their social and political cohesion. Consideration should be given to the cost to companies of meeting the new legal obligations, which need to be regularly assessed for their effectiveness. The EESC proposes that the AMLA be financed from the EU budget.

5.8. A crucial aspect of successful AML-TF is the availability of good interconnected databases and registers of beneficial ownership of accounts, property, trusts or trustees and transactions, and that these are readily accessible to authorised persons. With the increasing size and speed of access to these registers and databases, the requirement for protection of personal data is increasing. The EESC believes that this is an issue that needs to be addressed with the utmost attention.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([26]) OJ C 47, 11.2.2020, p. 81 and OJ C 429, 11.12.2020, p. 6.

Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Strategy for Financing the Transition to a Sustainable Economy'

(COM(2021) 390 final)

(2022/C 152/16)

Rapporteur: **Judith VORBACH**

Co-rapporteur: **Jörg Freiherr FRANK VON FÜRSTENWERTH**

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1. **Conclusions and recommendations**

1.1. The EU's economic policy should align itself with both the objectives set out in Article 3 of the EU Treaty and the UN Sustainable Development Goals (SDGs). *Sustainable* finance should therefore also follow a multidimensional approach that encompasses environmental and social goals. Unfortunately, many of the measures mentioned in the Communication disregard social sustainability. Combining sustainability policies with digital and COVID-19 policies can give EU policy more weight. Environmental policy must go hand in hand with a stronger EU economy and the creation of good jobs. Synergies between the Capital Markets Union and the sustainable finance strategy should be exploited. For example, transparency increases market efficiency while at the same time providing a basis for access to sustainable finance.

1.2. The EESC strongly supports the goal of redirecting investments in such a way that they contribute to the EU's transition to a sustainable economy. Most of the measures set out in the Communication are logical, but often appear hesitant given the pressing need for action. In climate policy in particular, time is of the essence. A consistent and well sequenced set of rules is needed to avoid excessive complexity so that the strategy works in practice. Now is the time for measures, not striving for perfection. Deceptive 'sustainability-washing' deserves extra attention. All in all, the sustainable finance strategy will only deliver the desired steering effects if it is part of an overall economic policy geared towards sustainability. Regulation and public investment have a crucial role to play.

1.3. The European Economic and Social Committee (EESC) appreciates the Commission's commitment to launching the transition to a sustainable EU economy and calls on the Council and the European Parliament to support these endeavours. The EESC calls for the social partners and civil society to be brought on board in the design and implementation of sustainable finance. They must be sufficiently represented in both the Platform on Sustainable Finance and the European Financial Reporting Advisory Group (EFRAG). When it comes, for instance, to ESG criteria ([1]) — and hence also matters impinging on the world of work –, the relevant social partner organisations must also be consulted directly. The EESC is generally critical of the practice of using delegated acts excessively to regulate important matters relating to the strategy.

1.4. The EU taxonomy must reflect a higher level of ambition than EU legislation provides. Its success depends on its broad acceptance. The activities in it must not jeopardise environmental goals or social standards and must comply with the precautionary principle. Large sections of EU civil society have grave doubts as to whether this applies, for example, to

([1]) ESG: environmental, social and governance criteria.

nuclear energy or natural gas. Therefore, the EESC instead believes that these kinds of controversial economic activities, which still may play a useful role during the transition period, could possibly better be dealt with separately from the EU taxonomy itself. Furthermore, the EESC should consider undertaking a separate initiative on this matter. The EESC supports the incorporation of the remaining environmental objectives and the extension to economic activities with an intermediate level of environmental performance and to economic activities with no significant impact on environmental sustainability and those that significantly harm environmental sustainability. Proposals on this should follow speedily. The taxonomy and standards should serve as a basis in various areas to make them more effective. However, it is important to avoid loopholes for greenwashing.

1.5. The EESC welcomes the objective of making it easier for retail investors and SMEs to access sustainable finance and notes the importance of ensuring fair financing conditions here. It also supports steps to expand sustainability reporting, since sustainable company policy is also in the interest of SME customers and civil society as a whole. Reporting requirements should not entail excessive resources and costs, but be effective in contributing to transparency in order to improve market efficiency and thereby facilitate better access to finance. As part of green budgeting, the EESC recommends linking this to a future golden rule for investment.

1.6. The measures cited to support credible social investment fall far short of what is needed and should also be stepped up. The focus on social sustainability needs to be tightened so that people and the world of work are at the centre. Social partners and civil society should be fully involved in this process and the European Pillar of Social Rights and the UN Sustainable Development Goals should serve as a basis. An integrated taxonomy embracing environmental and social goals in equal measure has the potential to become the valuable basis for an economically, socially and environmentally sustainable EU. Where sustainability-related disclosures are concerned, labour and human rights indicators in particular must be carefully examined and improved.

1.7. Sustainability factors need to be considered in financial sector risk management and capital provision, which must be addressed by regulation and, in the short term, also at the technical level. The EESC advocates a sound and forward-looking capital policy and a strictly economic risk assessment, so that risk weighting is based on actual stability risks. The effects of sustainability risks on banks and insurance and even on the stability of the financial sector as a whole need to be taken into account. As part of the systematic mapping of ESG risks in credit ratings, the debate on the EU credit rating agency should be relaunched and hence the EU's leading role in sustainability consolidated.

1.8. The EESC welcomes the steps taken to strengthen the monitoring of systemic risks arising from the climate crisis and suggests that, as far as possible, all areas of the financial sector should be covered. It is also time to finally pay heed to social sustainability risks, which are jeopardising social cohesion as a result of widening distribution gaps. The EESC also supports increasing the compulsory nature of sustainability reporting by financial institutions. With regard to fiduciary duties and stewardship rules, there should not be any disproportionate transfer of risks under the guise of green measures and the classification of unsustainable investments should be carefully adapted.

1.9. Supervisors must quickly be given powers with which to address greenwashing. A definition of this could make this easier. It would also be useful to have a monitoring framework to measure the progress of the EU financial system. The EESC requests that civil society be included in the assessment of financial markets' alignment with sustainability goals. Finally, improved cooperation between supervisors and the ECB should also be supported. Civil society should be involved in research into sustainability in the finance sector, which must include social sustainability.

1.10. The EESC welcomes the fact that the Commission will promote an ambitious consensus in international forums, because global markets need globally recognised framework conditions. European companies should not be faced with so many different regulations that they experience severe competitive disadvantages. This includes providing global access to data with which to assess the sustainability of investments and a proper regulation and supervision of ESG data providers. The fact that international coordination is slow must not lead to the measures being delayed at EU level. As part of the deepening of the work of the International Platform on Sustainable Finance, the EESC urges the Commission to work towards closer cooperation not only with the private sector, but also with civil society. The EESC strongly calls for greater consideration to be given to social sustainability at international level too, including in line with the United Nations SDGs.

2. **Background to the opinion**

2.1. The sustainable finance framework is expected to play a key role in the implementation of the Paris climate agreement and in achieving the objectives of the Green Deal. Since, according to the Commission, the level of investment required goes well beyond the capacity of the public sector, the sustainable finance framework should help to channel private financial flows into the relevant economic activities. New opportunities should also arise from the mutual reinforcement of the sustainable finance framework and the Capital Markets Union [2].

2.2. The 2018 sustainable finance strategy consists of a taxonomy, a disclosure system for companies and investment tools, including benchmarks, standards and labels. The Commission acknowledges that much progress has been made in laying the foundations for the sustainable finance framework, but that much remains to be done. With this initiative, the Commission is launching a new phase of the EU's sustainable finance strategy, which now focuses on financing the real economy's sustainability transition, on inclusiveness, on resilience, on the contribution of the financial sector and on global goals.

3. **General comments**

3.1. The EESC calls for an economic policy focused on prosperity that has a number of objectives: environmental sustainability, sustainable and inclusive growth, full employment and high-quality work, fair distribution, health and quality of life, financial stability, price stability, balanced trade based on a fair and competitive industrial and economic structure, and stable public finances. These objectives are consistent with both the objectives set out in Article 3 of the EU Treaty and the UN Sustainable Development Goals (SDGs). It is therefore regrettable that the sustainable finance strategy largely refers only to climate targets. The EESC recommends a holistic approach that takes into account environmental and social objectives and makes sure these are balanced. To avoid setbacks and build the necessary consensus, climate policy must be considered in an economic context focused on prosperity.

3.2. Combining sustainability policies with digital and post-COVID-19 policies can give EU action more weight. Environmental policy must go hand in hand with the creation of high-quality jobs, a fair distribution of costs and risks and a strengthening of the EU's economy, not least at global level. Synergies between the CMU project and the sustainable finance strategy also need to be exploited. Transparency and information are essential elements of efficient markets and at the same time a prerequisite for sustainable finance. As a rule, they will also improve the access of small and medium-sized enterprises to socially and environmentally sustainable finance. Moreover, the EU's Technical Expert Stakeholders Group (TESG) emphasises the need to work with small companies and support them in their efforts to comply with sustainability reporting requirements.

3.3. The EESC strongly supports the goal of redirecting and promoting investments in such a way that they contribute to the EU's transition to a sustainable economy. Although most of the measures referred to in the strategy are logical, they are often only reviews or provision for potential legal acts, or there is no timetable. Yet, time and effectiveness are crucial, especially in the field of climate policy. Instead of striving for perfection, it must be possible to cope with a certain degree of uncertainty, divergent views and unanswered questions. The next steps must now be taken without further delays and an analysis must be carried out on the extent to which the existing regulations are in line with each other. An orderly, well sequenced, and consistent set of rules is needed without excessive complexity and duplication so that the strategy works in practice.

3.4. The EESC appreciates the Commission's commitment to launching the transition to a sustainable EU economy. However, the groundwork on developing a taxonomy or sustainability reporting is being delegated, the former to the Sustainable Finance Platform and the latter to the European Financial Reporting Advisory Group (EFRAG). In order to achieve the transition to sustainability, all EU decision-making bodies and the Member States are needed in equal measure. The EESC calls in particular on the Council and the European Parliament to back and advance the steps towards sustainability.

3.5. The EESC is critical of the practice of using delegated acts excessively to regulate important matters relating to economic policy instead of an ordinary legislative procedure. Social partners and civil society should also be fully involved in the design and implementation of sustainable finance and in particular in the development of environmental, social and governance/ESG criteria. Their balanced representation in the Platform on Sustainable Finance and EFRAG should be ensured. Given that taxonomy and sustainability reporting are also about the world of work, the very weak involvement of trade unions is not acceptable [3]. Generally speaking, the social partners must also be consulted directly on questions relating to the world of work.

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(2) OJ C 155, 30.4.2021, p. 20.

(3) See Members and Observers of the Platform on Sustainable Finance https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/eu-platform-on-sustainable-finance-members_en.pdf

3.6. Achievement of the climate targets represents an intergenerational and international public good that incurs the risk of free riding and market failure. It cannot be assumed that competing companies voluntarily factor externalities into prices and so take on the role of 'transition police'. A massive redirection of investment based on self-regulation as a result of increased transparency should not be expected either. The sustainable finance strategy will therefore only be as effective as it needs to be and have the desired steering effects if it is part of an overall (economic) policy geared towards sustainability and corresponding regulations. Policy clarity also facilitates risk management in the financial sector.

3.7. Public investment also continues to play a crucial role, not least because it often stimulates further private investment. Unfortunately, the EU fiscal framework has often provided incentives to cut public investment ([4]), which also leads to a lack of investment in sustainability and inclusion. To meet the objectives of the Green Deal, it is necessary to both redirect private investment and promote public investment. In particular, the sustainability debate will underline the call for a golden rule.

4. **Specific comments**

4.1. *Financing the real economy's sustainability transition*

4.1.1. The taxonomy must reflect a higher level of ambition than provided for in legislation, since compliance with regulation must in any case be assumed. This is the only way to consolidate the pioneering role of sustainable economic activities through finance and funding opportunities. The success of the taxonomy depends on its broad social acceptance. It must be transparent, scientifically sound and constantly updated. The economic activities included will only meet a widely accepted definition of sustainability if it is ensured that they do not jeopardise any of the environmental objectives ([5]) or cause any social grievances. The EESC draws attention to the precautionary principle enshrined in EU environmental policy ([6]).

4.1.2. To make the taxonomy more effective, the EESC recommends using it for the risk management of finance companies (see point 4.4). Among other approaches the EESC sees as promising are the measurement of the taxonomy-related share of financial institutions' assets through the Green Asset Ratio (GAR), the inclusion of environmental risks in stress tests and the use of the taxonomy for green bonds. However, reference should also be made to the taxonomy, standards and labels in, for example, the field of state aid and public procurement or in the context of the EU fiscal framework.

4.1.3. The new technical screening criteria (Action 1c) must be added with great care and in strict compliance with the precautionary principle. Among other things, the criterion set out in the Taxonomy Regulation ([7]) of do-no-significant-harm to other environmental or social objectives ([8]) must be strictly adhered to. With this in mind, the proposals to include agriculture, natural gas and nuclear energy in the taxonomy should be examined with the utmost care. Safeguarding the credibility of the taxonomy is key in order to not jeopardise the taxonomy project as a whole. The EESC highlights that there are grave doubts in large sections of European civil society as to whether the economic sectors proposed by the Commission are sustainable. These comments also apply to the legislation for the financing of certain economic activities (Action 1a).

4.1.4. The EESC admits that even economic activities whose sustainability properties are highly controversial may play a useful role during the transition period, especially if they comply with the latest technical standards. Therefore, the EESC believes that these kinds of activities could possibly better be dealt with in a separate dossier from EU taxonomy. Furthermore, the EESC should consider undertaking a separate initiative on this matter. The aim of such an initiative would be to advocate an energy policy geared to prosperity that focuses on environmental goals as well as affordability, the strengthening of the EU's economy internally and at global level and maintaining good jobs.

([4]) OJ C 268, 14.8.2015, p. 27.
([5]) Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13), Article 17.
([6]) Article 191 TFEU.
([7]) Regulation (EU) 2020/852, Article 18.
([8]) 'Do no significant harm' principle enshrined in Article 2(17) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

4.1.5. The delegated act already provided for in the Taxonomy Regulation to cover the remaining four environmental objectives in the areas of water, biodiversity, pollution prevention and the circular economy (Action 1d) is a welcome step towards a holistic approach to sustainability. The EESC also welcomes the Commission's announcement that it will propose assessment criteria in relation to biodiversity in order to link it with climate policy. The extension to economic activities with an intermediate level of environmental performance as well as the differentiation between economic activities with no significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability (Action 1b) are steps in the right direction. The Taxonomy Regulation provides for a report to be published on economic activities with and without a significant impact by the end of 2021. The EESC calls for this deadline to be met. In expanding the taxonomy, care must also be taken to ensure that there are no loopholes for greenwashing, not least because of greater complexity.

4.1.6. The EESC welcomes the extension of standards and labels (Action 1e) and calls for greater determination in the introduction of minimum standards, among other things. It is important to have a general framework for a label for financial instruments to fund the transition so that there are clearly defined and reliable reference points. Deceptive 'sustainability-washing', whereby an institution pretends to be more environmentally or socially sustainable than it actually is, deserves extra attention. However, only an assessment of whether this is necessary is expected by 2023. When it comes to the creation of an ESG benchmark, too, only an assessment was announced, even though — here as well — binding definitions and rules would be important building blocks for providing the clarity that investors and society are rightly calling for.

4.2. *An inclusive framework for sustainable finance*

4.2.1. The EESC welcomes the objective of making it easier for consumers, retail investors and SMEs to access sustainable finance so as to facilitate smaller projects at local level (Action 2a). To that end, it must also be ensured that financing costs are fair. Promoting knowledge of sustainability is a good approach that responds to the growing interest. However, financial education can never replace sound investor protection, and the emphasis on sustainability aspects must not lead to disproportionately high risks being concealed. Investor representatives must be involved in the development of a financial competence framework.

4.2.2. To improve sustainability reporting, including for SMEs not covered by the Proposal for a Corporate Sustainability Reporting Directive (CSRD) ([9]), the EESC welcomes the advisory and taxonomy compass projects (Action 2a). Better and more binding reporting is important as the economic activities of smaller companies can also have significant environmental impacts. The EESC points out that civil society as a whole has a strong interest in sustainable company policy. In particular, customers of and investors in SMEs will also ask for sustainability declarations. However, with a simplified ESG reporting system, care must be taken to prevent greenwashing. Moreover, the following steps are recommended: standardise and compare the non-financial information of EU companies, implement a regulatory and supervisory framework for providers of sustainability data and ensure access to companies' non-financial raw data. Reporting requirements are not an end in itself and should therefore not entail excessive resources and costs, but be effective in contributing to transparency in order to improve market efficiency and thereby facilitate better access to finance.

4.2.3. The use of digital technologies for sustainable finance is consistent. By the same token, sustainability aspects must be embedded into technologies (Action 2b). Coordinating measures to promote holistic sustainability and digitalisation and to tackle the COVID-19 crisis create synergies that need to be enhanced, thus giving EU action more weight. The EESC recommends linking green budgeting (Action 2e) with a future golden rule for investments. Overall, it is regrettable that there is no holistic approach to sustainability here either. In the case of risk-sharing, care must be taken to ensure that there is no one-sided burden and risk transfer to the detriment of the public sector.

4.2.4. The increase in insurance coverage in relation to environmental risks constitutes an adaptation to the current situation. According to the Commission, a slight increase can significantly reduce the cost of climate-related disasters for taxpayers and governments, which the EESC warmly welcomes. However, the proposed steps, including identifying best practice examples, seem to be incredibly defensive. In any case, social partners and civil society must be involved in a dialogue on climate and overall resilience.

([9]) Proposal for a directive as regards corporate sustainability reporting (COM(2021) 189 final).

4.2.5. The steps to support credible social investments (Action 2d) are nowhere near sufficient to close the strategy's gaps in terms of the social sphere. It is true that the Taxonomy Regulation ([10]) provides a minimum level of protection by referring, inter alia, to the core labour standards of the International Labour Organization. However, this is not enough for the taxonomy to support social progress. A consistent approach is also needed to enhance social sustainability, with people and the world of work at the centre. The basis is already in place with the European Pillar of Social Rights and the SDGs. For example, a taxonomy that covers environmental and social objectives equally and so generally incorporates the DNSH principle ([11]) can provide a valuable basis for an economically, socially and environmentally sustainable EU. A holistic taxonomy should now be rapidly developed with the involvement of social partners and civil society. In any case, the end of 2021 seems too late for the report on the social taxonomy to be published.

4.2.6. The review of the technical standards under the Sustainable Finance Disclosure Regulation (SFDR) ([12]) — with a view to clarifying indicators for adverse ecological and social impacts — is also coming too late as it is not scheduled to take place until late 2022. In particular, the EESC calls for the indicators for workers' and human rights to also be reviewed much more quickly and for higher standards to be implemented. It goes without saying that the social partners and civil society must be fully involved here too.

4.3. *Improved resilience to sustainability risks*

4.3.1. The EESC supports the inclusion of sustainability factors in financial sector risk management. This is the only way to break the vicious circle of finance companies funding climate-damaging activities. While climate change poses severe risks to banks and insurance companies, it also affects the financial sector as a whole and even threatens overall financial stability. In this context, the EESC warns against misinterpreting the financial sector's role as an enforcement body imposing sustainability objectives in the general interest. However, climate risks are hard to quantify accurately because of the scale, the lack of precedence and the uncertainty. But this should under no circumstances delay concrete steps being taken, which would further exacerbate the problem. Overall, a swift and prudent approach is needed to prevent shock responses. The EU taxonomy should serve as a basis for this.

4.3.2. The inclusion of sustainability risks in financial reporting standards and the development of a standard for natural capital are welcome, with scientifically sound, stringent and reliable standards and methodologies being essential (Action 3a). The systematic inclusion of relevant ESG risks in ratings and outlooks is also useful (Action 3b). The EESC suggests that the debate on the EU rating agency be relaunched in the current circumstances, thus consolidating the EU's pioneering role in the field of sustainability.

4.3.3. The approach of taking into account ESG factors in banks' risk management systems and in the prudential framework of insurance is logical (Actions 3c and 3d). They should also be taken into account in revisions of the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD) and Solvency II ([13]), which are likely to be accompanied by longer debates. The EESC therefore also recommends including timely measures in the standards for measuring risks in risk management to ensure a rapid mapping of sustainability risks and an appropriate provision of capital. At the technical level, guidelines from European Supervisory Authorities are appropriate for this, among other things. Overall, a sound, forward-looking and carefully calibrated risk and capital policy is recommended that takes account of the effects of sustainability risks on financial stability.

4.3.4. Measures such as internal stress tests go in the right direction as complementary measures. However, the EESC is opposed to the idea of dedicated prudential treatment for exposures classified as sustainable, which would reduce capital requirements, for instance. The increased complexity of the regulatory framework could lead to confusion and regulatory loopholes. The EESC therefore advocates a strictly economic risk assessment. Risk weighting should be based primarily on economic stability risks. Environmentally harmful investments already run the risk of being reduced in value and failing here. The EESC warns of a supervisory roller-coaster ride and a threat to the standards achieved if the CRR, the CRD and Solvency II are unravelled.

([10]) Regulation (EU) 2020/852, Article 18.
([11]) 'Do no significant harm' principle.
([12]) Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.
([13]) Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1).

4.3.5. Among other things, the ECB draws attention to the link between the climate crisis and financial stability. The EESC welcomes the ECB's publication of factsheets on ESG risks and supports the steps taken to strengthen the monitoring and management of potential systemic risks (Action 3e). If possible this should cover all institutions, stakeholders, products and trading platforms, including less regulated areas. The EESC also stresses that the focus must first and foremost be on mitigating rather than recording risks. Unfortunately, social sustainability risks, which are jeopardising social cohesion as a result of widening distribution gaps, are not even addressed.

4.4. *Improving the financial sector's contribution to sustainability goals*

4.4.1. The financial sector plays a key role in the economic cycle and therefore plays an important role in sustainability, as today's investments reveal tomorrow's CO_2 emissions. It is therefore logical for the CSR Directive to require various financial market institutions to disclose their transition plans and their contribution to reducing the environmental footprint, as well as to seek to strengthen financial market participants' disclosure and decarbonisation activities for financial products in the context of the SFDR (Action 4a). The EESC recommends linking improved reporting to predetermined transition pathways and extending reporting requirements to other financial market participants. Voluntary sustainability pledges must only be the first step, as the Commission itself points out, so all measures towards more binding commitments must be supported in order to avoid confusion and arbitrariness.

4.4.2. With regard to fiduciary duties and stewardship rules, it is again mainly a question of assessments (Action 4b). It makes sense to broaden the concept of 'long-term best interests of members and beneficiaries' and to make the consideration of sustainability impacts mandatory. There should not be any disproportionate transfer of risks under the guise of green measures here either. The classification of unsustainable investments should be carefully adapted, focusing in particular on the risk weighting of new investments in fossil fuels. In the interests of a just transition, social sustainability must not be overlooked again. Improving the availability, integrity and transparency of ESG market research and ratings is also an important addition, as there is an urgent need for better reliability and comparability in view of the confusing variety of concepts (Action 4c).

4.5. *Monitoring an orderly transition and ensuring the integrity of the financial system*

4.5.1. The EESC supports all measures to enable supervisors to address greenwashing (Action 5a). After all, it is quite natural to provide them with the means to fulfil their role. Unfortunately, here too only an assessment is provided for, with no time frame. The EESC once again draws attention to the timing and regrets that reference is made only to environmental sustainability. Finally, it is advisable to define 'greenwashing' and 'sustainability washing' to facilitate the enforcement of countermeasures.

4.5.2. A robust monitoring framework to measure progress made by the EU financial system is an important complementary measure (Action 5b). The measurement of capital flows to sustainable investment, the evaluation of investment needs and the assessment of financial markets' alignment with climate and environmental goals are welcome. Unfortunately, social sustainability is once again left out. The EESC requests that, as well as financial institutions, social partners and civil society be included in the assessment of financial markets' alignment with the climate and environmental goals.

4.5.3. Improved cooperation between supervisors and the ECB (Action 5c) is urgently needed. To facilitate more collaborative policy action, swift action should be taken. National supervisors should also be included in this. The EESC calls for social partners and civil society to be included in the strengthening of sustainable finance research and knowledge transfers between the financial sector and the research community (Action 5d), and for social sustainability to also be considered in this regard.

4.6. *Fostering global ambition*

4.6.1. The EESC welcomes the fact that the Commission will promote an ambitious consensus in international forums (Action 6a). Given the close international interconnectedness of financial markets and the need to safeguard global financial stability, sound international governance is essential in general and particularly in the area of sustainability. Global markets need globally recognised framework conditions and rules. This includes very practical, but crucial aspects such as the need to provide global access to data with which to assess the sustainability of investments.

4.6.2. The fact that international coordination is sometimes slow must never be used as a pretext or lead to developments being delayed at EU level. On the contrary, the more successfully sustainable finance is implemented in Europe, the more likely it is that the EU's way will serve as a global model. Against this backdrop, it is therefore also important that the EU taxonomy be reliable and that double materiality be fully applied. The EESC strongly calls for greater consideration to be given to social sustainability at international level too, including in line with the SDGs. European companies should not be faced with so many different regulations that they experience significant competitive disadvantages.

4.6.3. The expansion of the work of the International Platform on Sustainable Finance (IPSF) is logical (Action 6b). In this regard, the EESC urges the Commission to work towards closer cooperation and interaction not only between the IPSF and the private sector, but also with social partners and civil society, for example to assess human rights in the context of sustainable finance. Naturally, the EESC recommends a holistic focus on sustainability here too. This is also the case with regard to support for low- and middle-income countries (Action 6a).

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council on European green bonds'

(COM(2021) 391 final — 2021/0191 (COD))

(2022/C 152/17)

Rapporteur: **Philip VON BROCKDORFF**

Referrals	Council, 12.8.2021
	European Parliament, 13.9.2021
Legal basis	Articles 114 and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	23.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	123/1/4

1. **Conclusions and recommendations**

1.1. The 'voluntary' EU green bond standard creates a regime underpinned by transparency and supervision. Under such a regime, projects that are in line with the EU taxonomy of sustainable activities would be eligible for funding, and issuers would need to provide additional information at the time of issuance, and subsequently through regular reporting on the use of proceeds and project impact.

1.2. The EESC believes that the EU green bond standard also has the potential to yield significant economic benefits for both issuers and investors alike. This is possible because the proposal aims to create a universal, credible and streamlined mechanism for the issuance of green bonds, minimising informational asymmetries while conveying significant reputational benefits to issuers under this standard.

1.3. The EESC considers that the alignment of such bonds with the EU Taxonomy Regulation also makes them suited to funding economic activities that support the transition towards more sustainable and decarbonised economies.

1.4. The proposed standard would also assist in significantly reducing existing levels of uncertainty regarding the types of assets or expenditures that can be reasonably classified as being a green use of capital. However, because of the aforementioned alignment with the EU Taxonomy, the EESC is of the view that clear guidance on the part of the Commission is needed to direct investors towards EU green bonds and projects that positively impact the environment.

1.5. The EESC is of the view that in further developing green bonds as an asset class, it is necessary to apply a uniform standard across Member States and applicable to issuers. However, one should not underestimate the challenge of issuers complying with the standards in the EU Taxonomy. In all likelihood, they would weigh the costs of an external review against the benefits of accessing a wider investor base. A situation where private issuers may prefer alternative green bonds and less onerous certification processes needs to be avoided.

1.6. The proposed reporting and compliance procedures may also have a disproportionate financial impact on SMEs, who may find the EU green standard to be too punitive, and thus discourage further growth. This too needs to be avoided and hence the EESC recommends a pragmatic approach in terms of the supervision and reporting requirements. Avoiding over prescription and over regulation, including in the case of corporate issuers, would facilitate the adoption of the EU green bond standard across capital markets. In decarbonising economies, corporate issuers are deemed as equally important as the Commission's issue of green bonds, and the EESC is of the view that standards applied for green bonds issued by public sector and corporate issuers need to converge.

1.7. Insofar as non-EU issuers of green bonds are concerned, the EESC is of the opinion that access to EU capital markets and vice versa should be based on the alignment of taxonomies across jurisdictions globally. In the view of the EESC this is of particular relevance since environmental challenges such as climate change cannot be addressed by the EU alone. Unless there is some common ground on taxonomy alignment with third countries, the Commission’s proposed regulation on a voluntary green bond standard is unlikely to become a standard for the global green bond market. The International Platform on Sustainable Finance (IPSF) should play a key role in providing this common ground by acting as a forum for dialogue between policy makers.

1.8. Finally, the EESC welcomes the requirement under the EU taxonomy for investments to meet the do-no-significant-harm (DNSH) and minimum safeguards, given the continued need to prioritise the green transformation alongside social protection and safeguarding of human and workers’ rights. This may nonetheless limit the scope of taxonomy alignment with third countries, particularly if such jurisdictions do not fulfil DNSH criteria such as the recognition of collective bargaining rights. For this purpose, the EESC proposes a dedicated monitoring committee to supervise the dynamics of the green bond market, with the involvement of social partners.

2. **General comments**

2.1. On 6 July 2021, the European Commission proposed a new Regulation on a voluntary European Green Bond Standard. The proposed Regulation aims to make the EU’s financial system more sustainable by creating a ‘gold standard’ for green bonds that can be compared to, and potentially aligned with, other market standards.

2.2. The green bond standard would be open to all issuers of green bonds, including private, public and sovereign issuers, and includes issuers located outside of the EU.

2.3. The proposed framework would set a voluntary standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance projects.

2.4. The standard requires that issuers allocate all of the issue proceeds to activities that meet the EU Taxonomy Regulation (EU) 2020/852 of the European Parliament and of the Council [1] requirements by the date of maturity of the bond. It sets out environmental objectives, screening criteria and performance thresholds for economic activities. An economic activity will be considered compliant if it: (a) contributes substantially to one or more of the environmental objectives; (b) does no significant harm to other environmental objectives; and (c) complies with social and governance safeguards.

2.5. EU green bonds would help address funding of long-term projects (of up to 10 years) as long as such projects are aligned with the Taxonomy Regulation’s environmental objectives.

2.6. EU green bonds would be subject to external review to ensure that they are compliant with the requirements referred to above, in particular the taxonomy alignment of projects. Under the proposal, external reviewers would be registered with the European Securities and Markets Authority and will need to meet the conditions for registration on a regular basis.

2.7. In the event of a change in the EU Taxonomy Technical Screening Criteria (TSC) under the Taxonomy Regulation after a bond issuance, the proposal allows issuers to continue to qualify under pre-existing criteria for a further five years. However, the EESC is of the view that once a bond qualifies as ‘green’ at issuance, the rules for allocating the proceeds should not be changed. In practice, though the taxonomy screening criteria change and the bond no longer meets the new criteria, it should remain ‘green’ for the entire term to maturity. This should contribute to stable green bond markets.

2.8. The proposal also aims to enhance investor confidence and safeguards, and to reduce risks of green bonds-funded projects not achieving the target environmental objectives. Issuers of such bonds would be required to undertake regular reporting.

(1) Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

2.9. A ‘green bond factsheet’ setting out the definitive funding objectives of the issue would be obligatory and this factsheet will be subject to a ‘pre-issuance review’ by a registered external reviewer to ensure that the bond meets the green bond standard requirements.

2.10. Green bond issuers would also be required to publish annual reports showing how the proceeds of the bond issue are aligned with the EU taxonomy.

2.11. Once all of the proceeds from the sale of green bonds have been allocated (which must happen prior to bond maturity), the issuer will be required to obtain a ‘post-issuance review’. For certain issuers (such as some financial institutions), this will be an annual requirement.

2.12. There will also be a requirement to publish at least one report on the overall environmental impact of the bond.

3. **Specific comments**

3.1. The European Commission’s proposal for a European Union green bond standard comes at a time when the demand for green bonds is on the increase within the EU. However, current green bond issuance in the EU still only represents 2,6 % of total EU bond issuance, so there remains a significant opportunity for growth. For example, in the second quarter of 2021 green bond issuance in the EU grew by around 30 % relative to the same period in 2020, reflecting the growth trajectory within this area ([2]).

3.2. Despite this, there is increasing concern about the true extent of environmental benefits arising from projects funded by the issue of such bonds. The term to describe these concerns is ‘greenwashing’, reflecting the at times uncertain environmental credentials of projects financed via green bonds. This creates a credibility problem for issuers seeking to establish their environmental reputation, and an information asymmetry for investors who *ex-ante* may struggle with identifying genuine environmentally sustainable projects.

3.3. The problem lies with the fact that green bonds are the same as all other bonds: the difference being that the proceeds from green bonds issue being used for a project that meets certain pre-established environmental criteria. In the event of a default, and as in any bond issue, the investor typically has recourse to the issuer’s entire balance sheet. The additional value to the investor is derived from holding a bond that meets sustainable or environmental objectives. However, the issue here is that definitions of sustainable activities vary across jurisdictions within the EU. Hence, comparing the impacts of projects across jurisdictions and often across regions within a Member State is quite impossible.

3.4. There is also an issue relating to the reporting on the use of proceeds. Problems with issuer disclosure and communicating information on the use of proceeds to investors tend to be more pronounced in Member States where the bulk of low-carbon investment will be needed in the future.

3.5. The EU green bond standard aims to address these problems by creating a regime underlined by transparency and supervision. Under such a regime only projects that are in line with the EU taxonomy of sustainable activities would be eligible for funding, and issuers would need to provide additional information at the time of issuance, and subsequently through regular reporting on the use of proceeds and its impact. In addition, only external reviewers supervised by the European Securities and Markets Authority (ESMA) will be allowed to sign off on an EU green bond. However, the EESC cautions against market concentrations to keep the cost of external reviewers under control. For example, a simple and smooth registration process can encourage competition in this area — this would not compromise the knowledge or quality of the reviewers.

3.6. The EU green bond standard also has the potential to yield significant economic benefits for both issuers and investors alike. At present, the issues surrounding credibility and informational asymmetries create additional costs for all parties involved, with issuers seeking to establish their credentials through various costly efforts, including costly external review procedures and increased reporting, while investors may undertake additional search efforts in order to adequately identify suitable sustainable investment opportunities. The proposed EU green bond would create a universal, credible and streamlined mechanism for the issuance of green bonds, minimising informational asymmetries while conveying significant reputational benefits to issuers under this standard.

([2]) Climate Bonds Initiative (2021). Regional breakdown of green bond issuance, by volume of issuance.

3.7. European green bonds aligned with the EU Taxonomy Regulation are well suited for funding economic activities that support the transition towards more sustainable and decarbonised economies. Green bonds should be seen as a primary preference, and appropriate incentives should be created in order to actually 'green' the EU financial system.

3.8. The proposal would also allow EU-based companies to issue a European green bond to acquire or construct an EU taxonomy-aligned asset, such as a new energy efficient building. Hence, this would allow companies to increase their share of taxonomy-aligned assets. However, this should also consider associated social costs, including collective redundancies.

3.9. The proposed standard would also assist in significantly reducing existing levels of uncertainty regarding the types of assets or expenditures that can be reasonably classified as being a green use of capital, due to the aforementioned alignment with the EU taxonomy, thereby creating increased confidence in the green bond market and thus helping to further boost growth and investment within this emerging field and the mainstreaming of green finance. In time, the EU green bond standard may become effective, but guidance on the part of the Commission is needed to direct investors into higher-quality bonds and projects that really impact positively the environment, as well as creating a new asset class in the capital market within the EU. The prospect of such guidance is another reason why this proposal is welcome.

3.10. Against this background, green bonds would become a fundamental component for financing the low-carbon transition across the EU. Green bonds typically have long durations with capital being repaid when the bond matures, as is required for large infrastructure projects. While the use of the EU green bond label would be voluntary, investors have every incentive to use it in their efforts to mobilise capital for projects with visible environmental benefits. That in itself is already an important advantage but the main advantage is the standard itself, which provides a benchmark for green assets in the capital market. This is expected to further develop green bonds as an asset class, enabling investors to identify a yield curve specific to green debt instruments. Assuming a uniform standard across Member States and applicable to issuers, green bond funds and the provision of green bank loans could help mobilise additional funds to facilitate the low-carbon transition. This would be further facilitated also on the assumption that the pricing of green loans is sufficiently reasonable.

3.11. The EU green bond could also result in a benchmark for green bonds in markets outside the EU, as has been the case for retail investment funds. The EU has in fact established itself as a global leader in the area (with 51 % of global issuance in 2020 from EU companies and public bodies) and the green bond standard would generate further opportunities for sustainable finance for the EU investors from across international markets.

3.12. Setting a standard for green bonds is important. However, one should not underestimate the challenge of issuers complying with the standards in the EU taxonomy. In all likelihood, they would weigh the costs and complications of a lengthy process of an ESMA-approved and supervised external review against the benefits of accessing a wider investor base. Private issuers may thus prefer alternative green bonds and less onerous certification processes. These reporting and compliance processes may also have a disproportionate financial impact on SMEs, who may find the EU green standard to be too punitive, and thus discourage further growth. The experience of EU-wide capital market products, where take-up has been not so encouraging, may shed light on the potential interest in EU green bonds.

3.13. Hence, it is necessary for the EU supervisor to implement the green bond standard as pragmatically as possible. Though the Commission will be the main issuer of green bonds with EUR 250 billion over the next three years under NextGenerationEU) with Member States issuing a total of around EUR 80 billion green bonds, the role of the private sector in issuing green bonds cannot be downplayed. Avoiding over prescription and over regulation in the case of corporate issuers would facilitate the adoption of the green bond standard across capital markets in the EU. However, a note of caution is warranted. Under the proposal, green bonds issued by the public sector in Member States would not be subject to external review as envisaged in this proposal. Though public sector issuers would still need to account to bond investors, given the commitments on the part of Member States towards a low carbon transition, applying the EU green bond standard across the board would guarantee that commitment. On the other hand, allowing two types of green bonds (one for public sector and one for corporate issuers) could result in at least two different standards.

3.14. Another issue that needs to be addressed is how to allow non-EU issuers of green bonds to access EU capital markets and vice versa — hence, the need for the alignment of taxonomies across jurisdictions globally. In this context, it is relevant to refer to the International Platform on Sustainable Finance (IPSF), which is a forum for dialogue between policymakers, with the overall aim of increasing the amount of private capital being invested in environmentally sustainable investments. The end objective of the IPSF is to facilitate the mobilisation of private capital towards environmentally sustainable investments. The IPSF therefore offers a multilateral forum of dialogue between policymakers to help investors identify and seize sustainable investment opportunities that truly contribute to climate and environmental objectives. The alignment of taxonomies should be debated and agreed upon within this forum.

3.15. As stated earlier, ESMA, as the EU's capital market supervisor, would play a critical role in ensuring that the proposed standards are applied as pragmatically as possible. This would require developing the skills and building its capacity as supervisor of EU green bond reviewers. The Commission sets the criteria for qualifications and transparency and these represent a solid basis for ESMA. In our view, as ESMA builds its capacity it could in time support its counterparts outside the EU to apply similar standards and hence facilitate access to EU investors in emerging markets.

3.16. Another point to consider is that the transition towards a low-carbon EU economy will require funding well beyond what is available under NextGenerationEU. The private sector is already playing a role in this transition but much more is required. Hence, the proposed EU green bond standard would further develop a fledgling green bond market and mobilise additional issuers besides facilitating cross-border funding in capital markets. In the final analysis, the proposed standard for green bonds would enhance the reputation of potential issuers and investors and their commitment to sustainable development and environmental goals, namely: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, recycling, waste prevention, pollution prevention and control, and the protection of healthy ecosystems. The relevant environmental and social objectives would thus form part of any corporate strategy. Furthermore, promoting an EU eco-label for financial products, whilst minimising bureaucracy, would help support private business adopting such a strategy.

3.17. Over time the EESC expects investors to opt for EU green bond standards, as this would ensure funds are used according to the taxonomy, which in turn eases investor-reporting requirements. Hence, adopting the proposed standard for green bonds across the EU, be it in the private or public sector, should be the goal.

3.18. And in this connection the EESC would welcome existing green bonds being 'grandfathered' under the proposed standard, as well as the eventual application of such standards for NextGenerationEU bonds. The EESC firmly believes that taxonomy-aligned green bonds would help achieve environmental goals. Moreover, our expectation is that the EU green bond standard will increase investors' interest in such investments, further developing the green bond market. While this is good news for issuers and investors, the EESC cautions about the challenges referred to earlier.

3.19. Going forward and assuming the proposal is adopted as is, it would be interesting to assess (i) the extent to which investors, both inside and outside of the EU, would demand that issuers align with the proposed standards or whether the proposal would result in divergence in the green bond market between the EU and the rest of the world, and (ii) how the proposed implementation of the EU green bond standard would affect developments in the green bond market inside and outside the EU.

3.20. In the view of the EESC this is of particular relevance since environmental challenges such as climate change cannot be addressed by the EU alone. Unless there is some common ground on taxonomy alignment with third countries, the Commission's proposed regulation on a voluntary green bond standard is unlikely to become a standard for the global green bond market. This would result in fragmented capital markets, with third country issuers quite possibly not adopting the Commission's proposed standards. This could hold back the flow of funds required to address huge environmental challenges, particularly climate change.

3.21. Finally, the EESC welcomes the requirement under the EU taxonomy for investments to meet the do-no-significant-harm (DNSH) and minimum safeguards, given the continued need to prioritise the green transformation alongside social protection and safeguarding of human and workers' rights. This may nonetheless limit the scope of taxonomy alignment with third countries, particularly if such jurisdictions do not fulfil DNSH criteria like the recognition of collective bargaining rights. For this purpose, the EESC proposes a dedicated monitoring committee to supervise the dynamics of the green bond market with the involvement of social partners.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on ‘Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities’

(COM(2021) 665 final — 2021/0343 (COD))

(2022/C 152/18)

Rapporteur-general: **Antonio GARCÍA DEL RIEGO**

Referrals	Council of the European Union, 26.11.2021
	European Parliament, 22.11.2021
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EESC President decision	9.11.2021
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	174/2/3

1. **Conclusions and recommendations**

1.1. The EESC deems it is necessary to incorporate directly into the Capital Requirements Regulation (CRR) a dedicated prudential treatment related to the indirect subscription of instruments eligible for internal Minimum Requirement for own funds and Eligible Liabilities (MREL). The proposed modifications to the CRR would address the identified inconsistencies between the CRR and the Bank recovery and resolution directive (BRRD).

1.2. The EESC recommends clearer CRR provisions on the comparison between the sum of the actual Total Loss Absorbing Capacity (TLAC) requirements of all the resolution groups within a global systemically important institutions (G-SII) group with a multiple point of entry (MPE) resolution strategy with the theoretical single point of entry (SPE) requirement of that G-SII group. The changes proposed are needed to clarify the extent to which resolution authorities can address the potential inconsistencies between SPE and MPE requirements.

1.3. The EESC stresses that it is necessary to amend the formula for the calculation of the TLAC/MREL surplus of a subsidiary in the context of the general deduction regime applicable to G-SIIs with an MPE resolution strategy, to ensure that that formula takes into account both the risk-based and the non-risk-based TLAC/MREL requirements of the subsidiary, in line with the TLAC standard. This would avoid that the TLAC/MREL surplus of a given subsidiary is overestimated.

1.4. The EESC draws attention to the fact that some CRR provisions applicable to G-SIIs with an MPE resolution strategy should be clarified to allow for the consideration of subsidiaries established outside of the EU. This would align the CRR with the corresponding TLAC principle agreed internationally, which is applicable with respect to subsidiaries established in all Financial Stability Board (FSB) jurisdictions.

1.5. The EESC recommends some targeted clarifications in the context of the requirement for own funds and eligible liabilities for institutions that are material subsidiaries of non-EU G-SIIs (‘internal TLAC’), in order to ensure that debt instruments issued by those institutions meet all eligibility criteria for eligible liabilities instruments. The reason for this change is that currently the eligibility criteria for eligible liabilities instruments are based on the assumption that those instruments are issued by a resolution entity, and not by subsidiaries subject to an internal TLAC requirement. The gap would be addressed by clarifying that the same eligibility conditions applicable to resolution entities apply also to non-resolution entities, mutatis mutandis. This, in turn, would enable those institutions to meet their internal TLAC requirement, inter alia, with eligible liabilities, as originally intended by the co-legislators.

1.5.1. The EESC stresses that MPE banks should be able to make use of the adjustments agreed to in the TLAC term sheet. These adjustments are designed to ensure equivalent treatment between the SPE and MPE resolution models. These adjustments are included in Articles 12a and 72e(4) of the CRR II but these two articles do not include third countries. In particular, Article 12a, as drafted, indicates that adjustments arising from differences in Risk-Weighted Assets (RWAs) are limited to entities based in the EU, as the concept of resolution entity only refers to subsidiaries with headquarters in the EU. It is important to broaden the scope to include any other subsidiaries that the group may have in any other country.

1.6. The EESC considers that this objective is not achieved with the Commission's recent proposal because the comparison between the hypothetical SPE and the sum of RWA of each resolution entity keeps third country subsidiaries out due to the fact that the comparison refers to Articles 45d and 45h of the BRRD, and the BRRD does not include subsidiaries in third countries nor differences between RWA that arise from different calculation criteria between third countries and Member States. It only includes differences between Member States.

2. **General comments**

2.1. The Capital Requirements Regulation (CRR) establishes together with the Capital Requirements Directive (CRD) the prudential regulatory framework for credit institutions operating in the Union. The CRR and the CRD were adopted in the aftermath of the 2008-2009 financial crisis to enhance the resilience of institutions operating in the EU financial sector, largely based on global standards agreed with the EU's international partners, in particular the Basel Committee on Banking Supervision (BCBS).

2.2. The CRR has been subsequently amended to tackle remaining weaknesses in the regulatory framework and to implement some outstanding elements of the global financial services reform that are essential to ensure institutions' resilience. A major revision was brought by the Risk Reduction Measures Package, which was adopted by the European Parliament and the Council on 20 May 2019 and published in the Official Journal on 7 June 2019.

2.3. This reform, implemented in the Union the international Total Loss-Absorbing Capacity (TLAC) standard for global systemically important institutions (G-SIIs) adopted by the Financial Stability Board (FSB) in November 2015 and enhanced the application of the minimum requirement for own funds and eligible liabilities (MREL) for all institutions established in the Union.

2.4. The TLAC standard requires G-SIIs to hold a sufficient amount of highly loss-absorbing (bail-inable) liabilities to ensure smooth and fast absorption of losses and recapitalisation in the event of resolution. The implementation of the TLAC standard in Union law, namely through amendments to the CRR, took into account the existing institution-specific minimum requirement for own funds and eligible liabilities (MREL), set out in the BRRD. TLAC and MREL are thus essential to effectively manage bank crises and reduce their negative impact on financial stability and public finances. TLAC and the revised rules on MREL became applicable in the Union on 27 June 2019 and 28 December 2020, respectively.

2.5. In line with international standards, Union law recognises both the Single Point of Entry (SPE) resolution strategy and the Multiple Point of Entry (MPE) resolution strategy. Under the SPE resolution strategy, only one group entity, typically the parent undertaking, is resolved ('resolution entity'), whereas other group entities, usually operating subsidiaries, are not subject to resolution action. Instead, the losses of those subsidiaries are transferred to the resolution entity and capital is downstreamed to the subsidiary. This ensures that the subsidiaries can continue to operate smoothly even after they have reached the point of non-viability.

2.6. Under the MPE resolution strategy, more than one entity of the banking group may be resolved. Consequently, more than one resolution entity and thus more than one resolution group may exist within the banking group. The underlying principle of the MPE resolution approach is to enable the resolution of a given resolution group in a feasible and credible way without undermining the resolvability of other resolution entities and resolution groups in the same consolidated banking group. The revised bank resolution framework provides that MREL for resolution entities should be set at the consolidated level of a resolution group ('external MREL').

2.7. In addition, that framework envisages how the loss absorption and recapitalisation capacity should be allocated within resolution groups ('internal MREL'). According to the BRRD, as a rule, financial instruments that are eligible for internal MREL must be held by the resolution entity, i.e. typically the parent undertaking.

2.8. Since early 2020, the European Banking Authority (EBA) has been working on a draft Regulatory Technical Standard (RTS) on the basis of a deduction regime, in line with the mandate set out in the BRRD and the recommendations in the relevant international standards ([1]). The deduction regime developed by the EBA envisages that internal MREL eligible instruments issued by subsidiaries to the resolution entity via an intermediate parent would have to be fully deducted from the amount of the intermediate parent's own internal MREL capacity.

2.9. The EBA concluded that the BRRD requirements could not be fulfilled without additional provisions that needed to rely on the Level 1 text to specify. Apart from the need to operationalise the indirect subscription of instruments eligible for internal MREL, some other resolution-related issues have been identified since the revised TLAC/MREL framework became applicable in 2019. Those issues mainly relate to the regulatory treatment of G-SII groups with an MPE resolution strategy, including those MPE groups that have subsidiaries in third countries. For instance, the CRR currently does not specify whether the various adjustments to TLAC for G-SIIs with an MPE resolution strategy also cover those subsidiaries of a G-SII that are located in a third country.

2.10. Some targeted changes to specific resolution related aspects of the CRR are necessary to address the above issues. In particular, the regulatory treatment of G-SII groups with an MPE resolution strategy, including of those MPE groups that have subsidiaries in third countries, needs to be better aligned with the treatment outlined in the TLAC standard. This would help to ensure that, in case of resolution, each resolution entity and group belonging to those GSIIs can continue to perform critical functions without the risk of contagion.

2.11. The amendments proposed would not alter the overall architecture of the framework but would ensure the proper application of TLAC and MREL.

2.12. These proposed amendments to the CRR can play an essential role in improving an institution's resolvability. Given that the corresponding provisions are already applicable in the Union, the proposed modifications would need to be made in a timely manner. The need for an expedited adoption is further amplified by the fact that banking groups need clarity on the mechanism to decide how best to preposition their internal MREL capacity in view of the general MREL compliance deadline that is set to 1 January 2024, with binding intermediate targets needing to be complied with by 1 January 2022.

2.13. This proposal is not accompanied by a separate impact assessment, as this proposal does not alter the fundamental aspects of the CRR but mainly aims at clarifying the legal relationship between two existing EU law instruments, namely the CRR and the BRRD, by incorporating directly into the CRR a dedicated treatment for the indirect subscription of instruments eligible for internal MREL. Such clarifications would ensure that the two highly interlinked frameworks remain largely aligned.

2.14. This, in turn, would enable institutions to continue to calculate, report and disclose one set of total risk exposure amount and total exposure measure for the purpose of both the CRR and the BRRD, thereby avoiding an undue increase in complexity. This includes the possible need to issue additional MREL eligible instruments to comply with internal MREL, as introduced by the co-legislators through the revised BRRD.

3. **Specific comments**

3.1. The resolution strategies that are being developed by Crisis Management Groups (CMGs) are broadly based on two stylised approaches: 'single point of entry resolution' (SPE), in which resolution powers are applied to the top of a group by

([1]) Financial Stability Board, Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC'), 6.7.2017. Under that regime, instruments eligible for internal MREL issued by the subsidiary and subscribed by the intermediate parent would be fully deducted from the eligible instruments issued by the intermediate parent to comply with its own internal MREL.

a single national resolution authority and 'multiple point of entry resolution' (MPE), in which resolution tools are applied to different parts of the group by two or more resolution authorities acting in a coordinated way.

3.1.1. Single point of entry (SPE) involves the application of resolution powers, for example, bail-in and/or transfer tools, at the top parent or holding company level by a single resolution authority — probably in the jurisdiction responsible for the global consolidated supervision of a group. An SPE strategy operates through the absorption of losses incurred within the group by the top parent or holding company through, for example, the write-down and/or mandatory conversion of unsecured debt issued.

3.1.2. Multiple point of entry (MPE) involves the application of resolution powers by two or more resolution authorities to different parts of the group, and is likely to result in a break-up of the group into two or more separate parts. The group could be split on a national or regional basis, along business lines, or a combination of each. The resolution powers applied to the separate parts need not be the same and could include resolution options, such as bail-in within resolution, use of a bridge entity, transfer of business or wind-down. MPE strategies nevertheless require actions to be coordinated across jurisdictions so as to avoid conflicts or inconsistencies that undermine the effectiveness of the separate resolution actions, a disorderly run on assets and contagion across the firm.

3.1.3. There is no binary choice between the two approaches. In practice, a combination might be necessary to accommodate the structure of a firm and the local regimes in the key jurisdictions where it operates. For example, some MPE strategies may involve applying multiple SPE resolutions to different parts of the firm such as regional blocs that are separable from one another.

3.2. The proposal is broadly based on preparatory work carried out by the EBA, notably with regard to the development of the regulatory technical standards on the indirect subscription of internal MREL eligible instruments within resolution groups. The proposal primarily aims at addressing unintended consequences related to the existing TLAC/MREL framework, resulting from the rules currently contained in the CRR. The proposed amendments would have a limited impact on the administrative burden for institutions and the costs for them to adapt their internal operations, with most of the costs expected to be offset by allowing the approach of indirect subscription of internal MREL eligible instruments within resolution groups, to function properly and, for the institutions concerned, by the benefits derived in terms of an improved recognition of third-country subsidiaries and by further specifying the eligibility of instruments issued in the context of the internal TLAC requirement.

3.3. Specifically, the proposal provides for:

3.3.1. Dedicated treatment for the indirect subscription of instruments eligible for internal MREL. The proposed Regulation thus introduces, in the CRR, a requirement that intermediate parents along the chain of ownership would have to deduct from their own internal MREL capacity the amount of their holdings of internal MREL eligible instruments, including own funds, issued by their subsidiaries belonging to the same resolution group.

3.3.2. Comparison between the theoretical SPE requirement and the sum of the actual MPE requirements. The CRR provides that G-SII groups with an MPE resolution strategy must calculate their TLAC requirement under the theoretical assumption that the group would be resolved under an SPE resolution strategy (theoretical SPE requirement). That theoretical SPE requirement is then to be compared by resolution authorities to the sum of the actual TLAC requirements of each resolution entity of that group under an MPE resolution strategy (MPE requirements). However, the CRR provisions as regards the consequences of that comparison are inconsistent.

3.3.3. Deductions from eligible liabilities items. The rationale of this provision is to minimise the risk of contagion within a G-SII group and to ensure that resolution entities have sufficient available loss-absorbing capacity in case of failure, which should not be diminished by losses arising from intragroup holdings of TLAC instruments. Without those deductions, the failure of one resolution entity in the G-SII group would lead to losses in other resolution entities of that group and consequently to a reduction in the loss-absorbing and recapitalisation capacity of those resolution entities.

3.3.4. Consideration of subsidiaries established outside of the Union. Articles 12a and 72e(4) of the CRR do not explicitly cover subsidiaries that are located in a third country. It may thus not be possible for EU banking groups with a global MPE resolution strategy to take subsidiaries that are established outside of the Union into account.

3.3.5. Clarifications on the eligibility of debt instruments issued in the context of the internal TLAC requirement. Article 92b of the CRR lays down the internal TLAC requirement for material subsidiaries of non-EU G-SIIs that are not resolution entities. That requirement may be met with own funds and with eligible liabilities instruments, as specified in Article 92b(2).

3.4. Detailed Amendments to the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of G-SIIs groups with a MPE resolution strategy.

3.4.1. **Consolidated calculation for G-SIIs with multiple resolution entities (Article 12a)**

3.4.1.1. The EESC stresses that MPE banks should be able to make use of the adjustments agreed to in the TLAC term sheet. These adjustments are designed to ensure equivalent treatment between the SPE and MPE resolution models. These adjustments are included in Articles 12a and 72e(4) of the CRR II but these two articles do not include third countries. In particular, Article 12a, as drafted, indicates that adjustments arising from differences in RWAs are limited to entities based in the EU, as the concept of resolution entity only refers to subsidiaries with headquarters in the EU. It is important to broaden the scope to include any other subsidiaries that the group may have in any other country.

3.4.1.2. The EESC considers that this objective is not achieved with the Commission's recent proposal because the comparison between the hypothetical SPE and the sum of RWA of each resolution entity keeps third country subsidiaries out due to the fact that the comparison refers to Articles 45d and 45h of the BRRD, and the BRRD does not include subsidiaries in third countries nor differences between RWA that arise from different calculation criteria between third countries and Member States. It only includes differences between Member States.

3.4.1.3. Regarding the need for an agreement to make this adjustment, the EESC is of the opinion that although there is a specific procedure for an agreement about the requirement of own funds and eligible liabilities in Article 45h, points 4 to 6 of BRRD II, this is a procedure that would only be applicable in the case of different resolution authorities within the EU and under a common regulation. One example to explain why the procedure is not valid for third counties is that it involves the EBA in cases where no agreement is reached between the resolution authorities.

3.4.1.4. The EESC proposes that in cases where the adjustments arise in a subsidiary of a third country, the European resolution authority of the parent institution is that which, taking into account the non-binding opinion of the resolution authority of said third country, has the ability to apply the adjustment without the need to reach an agreement with the third country authority.

3.4.2. **Deductions from eligible liabilities items (Article 72e)**

3.4.2.1. The EESC underlines that Article 72e shall include a grandfathering period until 31 December 2024 (deadline for TLAC implementation in third countries). During this transition period MPE banks shall be able to adjust the deduction on the holdings on third country subsidiaries without an equivalent resolution requirement, calculating the surplus based on the total capital requirement applicable in the third country. Otherwise there would be an unintended consequence, because the need to issue eligible liabilities will increase as a result of not being able to adjust this holding on a third country subsidiary, and from 2025 onwards, with a resolution regime in place, the Parent Institution requirement will decrease due to a lower adjusted deduction for these third country holdings and the need for these issuances of eligible liabilities will no longer be needed.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions — Drawing the early lessons from the COVID-19 pandemic'

(COM(2021) 380 final)

(2022/C 152/19)

Rapporteur: **Tomasz Andrzej WRÓBLEWSKI**

Co-rapporteur: **Ákos TOPOLÁNSZKY**

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1. **Conclusions and recommendations**

1.1. The EESC welcomes the move by the European Union and its institutions to continuously assess processes during the pandemic, both in terms of the unprecedented burden on health systems and the impact on the European Union as a whole.

1.2. The European Commission lists ten important lessons from the pandemic, but the EESC regrets that it only briefly mentions the 'uneven impact of the crisis, with vulnerable groups and small and medium companies amongst the hardest hit'. Recommendations need to look critically at what has been done so far in all areas, what has worked well and what needs to be improved. We also need to look at how we can address the problems of notorious labour shortages, supply chain bottlenecks and rapidly rising energy prices, making it difficult to return to normal functioning societies and their economies.

1.3. The EESC notes that it is necessary to have tools and plans that can be quickly activated and implemented in the face of a crisis situation at EU level. The EESC commends the European Union's plans to establish a framework for an EU pandemic state of emergency and standards for a crisis response. The EESC calls for a high degree of coordination and transparency in all procedures, especially when there is a need for swift action and decision-making by public administrations at European and Member State level.

1.4. COVID-19 has been a magnifier of existing unequal health patterns; vulnerable groups have been affected by unequal exposure to the virus. The EESC notes that programmes are needed to ensure access to preventive and rehabilitative care, even during a health crisis. Therefore emergency pandemic provisions in the future should be scaled in such a way as to affect the functioning of primary care to avoid greater loss of health in such situations in society.

1.5. The EESC believes that the EU should continue to respond to the crisis in a consistent and global manner, in particular through COVAX and the European Centre for Disease Prevention and Control (ECDC), as well as new candidate drugs and therapies, and to strengthen and support the global health security architecture. This includes strengthening the EU's role in the World Health Organization.

1.6. The COVID-19 outbreak has highlighted the overarching nature of crisis situations and their impact on all sub-systems of the society. In this respect, making social policy systems suitable and more inclusive is especially important to help those who are marginalised and living in particularly distressed situations.

1.7. On the basis of several opinions ([1]) and the pillar of social rights, the EESC supports measures on EU and MS level fostering cooperation between health systems in respect of EU-values like dignity and fair competition and aiming at upward convergence of health and social systems.

1.8. During the pandemic, we saw the necessary expansion, on an unprecedented scale, of European and state activity to assist both individual businesses and individuals. The EESC underlines that it is important to move from emergency measures to productive investments for an inclusive and sustainable recovery in the medium and long term; also in order to avoid the danger that fiscal and monetary policies could be subject to high inflationary risks that may lead to a stagflation.

1.9. The EESC welcomes the European Commission's efforts to support national media literacy campaigns in cooperation with the European Digital Media Observatory (EDMO) and with the Media Literacy Expert Group, thus further contributing to the fight against disinformation including anti-vaccination disinformation that causes unfounded fears and serious harm.

1.10. The Committee is in favour of efforts to enhance international cooperation and build Europe's strength in international institutions. The EESC points out that any weakening of Europe's position and involvement in international organisations creates scope for other countries outside the EU to act in a way that is unfavourable to the values the European Union stands for.

2. **General comments**

2.1. In early 2020, the COVID-19 pandemic exposed some of the existing dysfunctions of the health sector, many states and EU institutions, as well as some economy sectors. All this further added to the severity of the crisis and social imbalance.

2.2. The Commission welcomes the move by the European Union and its institutions to continuously assess processes during the pandemic, both in terms of the unprecedented burden on health systems and the impact on the European Union as a whole. The Commission stresses that this past period should also be assessed as an emergency test of the democratic and unified operation of the EU.

2.3. The EESC acknowledges the enormous effort made by the various EU institutions coordinating vaccination aid, national institutions providing social protection and support programmes, and companies which have done all in their power to protect their employees and operations and which have risen to the challenge of achieving rapid normalisation in terms of employment and the supply of essential products. At the same time, we note that there is still much to be done to ensure full stability and balance in the labour market.

2.4. The EESC stresses that the first and main lesson that we have learnt is that, especially in the time of pandemics that are regional and/or supranational in nature, we need to work together on a European level to find joint tools not only to respond from the point of view of health, but also to manage the emergency and accompany the transition to a speedy but inclusive and sustainable recovery. The Committee underlines the positive approach of the European institutions in putting in place new and innovative financial tools agreed with a solidarity-based approach based on common interest.

2.5. The worst possible situation would be the outbreak of another crisis before the situation has fully stabilised. It is therefore a priority for the European Commission to take action today to build up the resilience of economic, social and health systems for the future. The EESC agrees with this strategy and the need to take a critical look at lessons learned and to strengthen crisis management in the European Union.

2.6. The European Commission lists ten important lessons from the pandemic, but only briefly mentions the 'uneven impact of the crisis, with vulnerable groups and small and medium companies amongst the hardest hit'. Recommendations need to look critically at what has been done so far, what has worked well and what needs to be improved.

2.7. As we emerge from the crisis, labour shortages in vitally important 'low skilled' occupations are also proving to be a major issue. The crisis also exposed our vulnerability to the fragmentation of global supply chains and the need to rethink industrial strategy in relation to the manufacture of essential products.

([1]) OJ C 13, 15.1.2016, p. 40, OJ C 14, 15.1.2020, p. 1.

3. **Crisis management**

3.1. The EESC commends the European Union's plans to establish a framework for an EU pandemic state of emergency and standards for crisis response. The EESC endorses the ongoing efforts to monitor, review and invest in crisis management. It also supports the Commission's plans to prepare an annual state of preparedness report.

3.2. The EESC notes that it is necessary to have tools and plans that can be quickly activated and implemented in the face of a crisis situation at EU level. The tools at national level should be complementary in nature, allowing countries to respond on a scale appropriate to the crisis situation diagnosed in their area.

3.3. The EESC underlines the importance of taking the principle of effective and primary needs-based solidarity seriously in global crisis situations.

3.4. The EESC points out that the institutions' initial responses were not always adequate, partly because of the lack of coordination among Member States. Despite initial criticism of the EU vaccination strategy, the benefits of a collective action have become more visible today. This experience must be used to improve the EU's response to future crises.

3.5. The EESC points out that it is necessary to establish common European standards for the collection and standardisation of statistical data — mainly in the area of health. It is also necessary to look at the statistical methodologies applied so far in each area. This is important for proper evidence-based decision making processes in the future.

The EESC notes that around the outbreak of the pandemic there were persistent shortcomings in professional and trusted advice and access to epidemic research. It is therefore necessary to coordinate and streamline professional epidemic expertise at EU level. The Committee supports the appointment of a European chief epidemiologist who, acting in an advisory capacity will assist the decision-making process at EU and national level.

4. **Protecting health**

4.1. COVID-19 has been a magnifier of existing unequal health patterns; vulnerable groups have been affected by an unequal exposure to the virus. Existing systems for rapid response like the Early Warning and Response System of the European Union (EWRS), Epidemic Intelligence Information System (EPIS) and the European Surveillance System (TESSy) need to be re-examined and their effectiveness strengthened. The system should be designed to support individuals with low-income jobs, people with pre-existing chronic illnesses or disabilities, those living in extreme poverty, and the elderly living in care homes. The EESC points out the need to invest in quality public health services, which, in line with Principle 16 of the EPSR, should be affordable, and accessible to all citizens, as well as supporting private health care in cases where this contributes to public health duties, which has a complementary role and was also crucial during the pandemic.

4.2. Upholding the conclusions of EESC Opinion on the EU4Health Programme ([2]), the EESC is providing additional opinions on the initial conclusions we can draw from the COVID-19 crisis in the area of health.

4.3. During the pandemic, Member States have focused on emergency measures, often at the expense of preventive health care and rehabilitative care. The EESC notes that programmes are needed to ensure access to preventive and rehabilitative care, even during a health crisis. Therefore emergency pandemic provisions in the future should be scaled in such a way as to affect the functioning of primary care only to the minimum possible extent in order to avoid greater loss of health in such situations in society.

4.4. The Pharmaceutical Strategy for Europe, adopted in November 2020, aims at modernising the regulatory framework and supporting pharmaceutical research and technology. The EESC notes that the capacity of national health systems can be strengthened by the active inclusion of pharmacies open to the general public in the context of pharmaceutical care.

([2]) OJ C 429, 11.12.2020, p. 251.

4.5. The pandemic crisis has shown that there is a shortage of health workers. The EESC reiterates that particular attention should be paid to improving their working conditions, including wages, education, reskilling and updated training, access to childcare facilities, ensuring the highest possible safety standards as well as the possibility for all professions, including in the health sector, to live, move and work freely across the EU ([3]). Since 76 % of health workers and 84 % of nurses in the EU are women, there is a need for gender transformative policies to address barriers to access to full-time employment, address the gender pay gap, promote retention in the sector and support access to professional development and leadership roles. Special procedures shall be developed to enable the rapid and safe recruitment of medical staff from countries outside the European Union in critical situations.

4.6. Regarding the EU Strategic Framework on health and safety at work 2021-2027, the EESC welcomes the strong recommendation of the European Commission towards Member States to recognise Covid-19 as an occupational disease, but emphasises the need for revising the recommendation to include all workers exposed to infection without adequate protection, including mobile and migrant workers, and seasonal workers in unsafe workplaces and unsanitary accommodation.

4.7. The EESC will closely follow the implementation of the European Health Union, and recommends taking into account the link between animal health and human health. This cooperation also highlights the fact that, due to the cross-border nature of pandemics, only uniform, well-coordinated action can be effective and successful, based on common recognition.

4.8. During the COVID-19 pandemic, there was a fragmented, uncoordinated approach to clinical trials in Europe. The EESC notes that a pan-European approach can make it possible to streamline clinical trial procedures and processes, particularly tests of new candidate drugs for effective and accessible therapeutics. A large-scale European platform for clinical trials can be a solution here.

4.9. According to scientific research data and attendance statistics in health care, the COVID-19 crisis may result in a significant increase in psychological risk, which may in turn also increase the development of psychosomatic diseases. This new morbidity phenomenon as well as the yet understudied effects of the long COVID syndrome must be taken into account in the health systems of all EU Member States.

4.10. Preventing, preparing for and responding to pandemics are priorities for Europe. The EESC believes that the EU should continue to respond to the crisis in a consistent and global manner, in particular through COVAX as well as new candidate drugs and therapies, and to strengthen and support the global health security architecture. This must also strengthen the EU's role in the World Health Organization. In this context, in order to respond to the urgent needs of developing countries in particular, the EESC asks the EC to lead an open debate at European level on a temporary TRIPS voluntary waiver, that would apply to COVID-19 vaccines, treatments and tests, in order to enable the ramping up global vaccine production and the lowering of costs to ensure access for people across the world.

4.11. With regard to the first experiences formulated in the EC communication on health, the EESC considers that there is a painful failure to state that the availability of interventions and services to deal with health stress is uneven, without the necessary focus on vulnerable groups; in many senses this has only been amplified by the COVID-19 crisis. Equal access to and availability of services should not only be an evaluation criterion, but could save lives.

5. **Social and societal aspects**

5.1. In 2021, we have seen inequalities between women and men deepen across Europe, particularly as a result of the alarming surge in cases of violence against women accompanying the COVID-19 pandemic. Lockdown and isolation measures have created an enabling environment for abusers' coercive control of victims and have led to incidents of physical, psychological and sexual violence against women and girls, with limited access to support services for victims; this has been referred to as a 'shadow pandemic'. The EESC calls on the European Commission to adopt a comprehensive framework to prevent and combat all forms of violence against women and girls from a feminist, gender-sensitive and intersectional perspective in order to make sure that in the event of a future health crisis a shadow pandemic is prevented.

([3]) OJ C 286, 16.7.2021, p. 109.

5.2. In its Resolution released on 9 June 2021 ([4]), the Committee endorses that the current situation in Europe with the pandemic is increasing poverty and inequality, and resources should be channelled to where they are most needed in order to ensure quality employment, reduce poverty and exclusion and promote entrepreneurship.

5.3. The COVID-19 outbreak has highlighted the overarching nature of crisis situations and their impact on all sub-systems of society. In this respect, making social policy systems suitable and more inclusive is especially important to help those who are marginalised and living in particularly distressed situations.

5.4. The EESC also notes with regret that national administrations have insufficiently involved social business partners and civil society organisations and taken their inputs into account when drawing up their National Recovery and Resilience Plans (NRRPs). The EESC calls for the establishment of binding conditionality for consultation involving civil society organisations.

5.5. The Committee emphasises that a social, sustainable and competitive Europe should be a priority, while also considering possible new indicators for economic progress that go beyond GDP, for example quality of life, environmental sustainability, social cohesion, healthcare and the overall well-being of current and future generations.

5.6. The Committee urges the Commission to focus on fundamental rights, especially relating to socioeconomic wellbeing. Special attention should be given to the rights, dignity and welfare of people who might be exposed to societal exclusion and might experience any kind of discrimination during the COVID-19 pandemic and in the immediate aftermath of the crisis.

6. **Economy & finance**

6.1. During the pandemic, we saw the necessary expansion, on an unprecedented scale, of European and state activity to financially assist both individual businesses and individuals. The EESC underlines that it is important to move from emergency measures to productive investments for an inclusive and sustainable recovery in the medium and long term; also in order to avoid the danger that fiscal and monetary policies could be subject to high inflationary risks that may lead to stagflation.

6.2. The EESC notes that any new tax reforms, whether at EU or national level, should take account of the structure of national economies, the health of local businesses and, in particular, the situation of people who have found themselves in a difficult situation as a result of the crisis. In this context, we note the necessity to analyse the fiscal economic situation of companies and citizens affected by the sudden increase in energy prices.

6.3. The EESC agrees that new fiscal and expenditure rules should help Member States to invest in education, research, development, innovation, health and public infrastructure, in a real and effective investment in human capital, as well as the efficiency of governments, among others.

6.4. The EESC calls on the Commission to facilitate temporary measures taken by Member States to build full-time employment and support economic activity impacted by crisis situations with respect to competition policy principles on State aid, and to develop blueprints for public-private partnerships or similar solutions to limit the risks across society, including those affecting private actors in the extraordinary crisis situations.

7. **Society and technology**

7.1. The Committee draws attention to the emerging and widening education gap for citizens in the European Union. Younger generations have been deeply affected by measures taken to contain the pandemic. Neither the Member States nor the EU institutions are actively addressing this issue or the need for reforms in the education system. No systemic recovery or rescue plans have been put forward so far. The Committee, however, acknowledges that upskilling and reskilling will be key for people's education and development in the future, and digital tools are an essential part of any future educational model.

([4]) European Economic and Social Committee's contribution to the 2022 European Commission's work programme based on the work of the Ad hoc group on the EESC contribution to the European Commission's 2022 work programme (OJ C 341, 24.8.2021, p. 1).

7.2. Ensuring wide and solidarity-based access to digital services is also important for social cohesion. As the European Foundation for the Improvement of Living and Working Conditions (Eurofound) ([5]) rightly points out, the way towards more cohesive societies in Europe can be ensured through policies that focus on the economic and social integration of citizens and put more emphasis on digital skills.

7.3. The EESC welcomes the European Commission's efforts to support national media literacy campaigns in cooperation with the European Digital Media Observatory (EDMO) and with the Media Literacy Expert Group, thus further contributing to the fight against disinformation and strengthening societal resilience against fake content and anti-vaccination disinformation that causes unfounded fears and serious harm. The EESC also calls for strengthening the crisis information process, which is the best countermeasure against disinformation.

7.4. The COVID-19 pandemic highlights the importance of planning training in key medical areas such as intensive therapy, in order to deal with emergencies. It also brings to light the importance of skills portability among the EU Member States in emergency situations. Procedures for temporary transfers and mobility of medical staff among Member States should be eased, as should the procedures to allow the hiring of third-country medical staff in such situations.

8. **International relations and democratic standards**

8.1. The EESC notes that the pandemic has hit societies and businesses all over the world and has exacerbated previously growing geopolitical rivalries.

8.2. The Committee is in favour of efforts to enhance international cooperation and build Europe's strength in international institutions. The EESC points out that any weakening of Europe's position and involvement in international organisations creates scope for other countries outside the EU to act in a way that is unfavourable to the values the European Union stands for; specifically, we must very carefully analyse all obstacles to maintaining the EU's core values and preserve the Single Market freedoms.

8.3. The EESC points out that the COVID-19 pandemic has often been used as an excuse to curtail rights and undermine democratic standards. Governments have also used the crisis to pursue their own short-sighted political interests. The EESC insists that regulatory decisions necessary to manage and overcome the pandemic must in no way affect respect for fundamental rights and democratic values.

8.4. The EESC strongly emphasises the need for responsible evidence-based policy-making and science-based facts, and the prioritising of actions to protect health and life. At the same time, during a pandemic or any other crisis, we must carefully respect — and not restrict — fundamental rights and democratic values.

8.5. With regard to the free movement of persons, goods, services and capital, the Committee reiterates the need to support the harmonisation of travel protocols for individuals and businesses in order to maintain a high level of trust and unified rules across the Union, in line with the principles of the Single Market. The rules must be clear, workable and as identical as possible across all countries.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([5]) Eurofound (2018), Social cohesion and well-being in Europe, Publications Office of the European Union, Luxembourg.

Opinion of the European Economic and Social Committee on 'Proposal for a decision of the European Parliament and of the Council on a European Year of Youth 2022'

(COM(2021) 634 final — 2021/0328(COD))

(2022/C 152/20)

Rapporteur-general: **Michael McLOUGHLIN**

Referral	Council of the European Union, 21.10.2021
	European Parliament, 21.10.2021
Legal basis	Articles 165(4) and 166(4) of the Treaty on the Functioning of the European Union
Section responsible	Section for Employment, Social Affairs and Citizenship
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	201/0/1

1. **Conclusions and recommendations**

1.1. The Economic and Social Committee welcomes the declaration of 2022 as the European Year of Youth. The situating of the year in the context of the European Pillar on Social Rights and the post-pandemic recovery narrative is also most welcome.

1.2. The EESC is ready to play a lead role in the European Year of Youth, building on successful EESC initiatives such as 'Your Europe, Your Say!' and the Youth Climate and Sustainability Roundtables. The EESC is uniquely positioned to facilitate engagement with youth networks.

1.3. Clear indicators and policy goals need to be developed for the Year. These should focus on the impact on policies and cross-sectoral work beyond the activities organised.

1.4. The EESC expresses concern that the agenda and priorities for the Year appear crowded and it considers that simple priorities might assist all stakeholders.

1.5. If promotional activities are the main content of the Year, this should be clear in all communications, particularly with young people.

1.6. The Year of Youth needs to contribute towards the EU Youth Strategy with clear plans and engagement, particularly in view of the youth strategy's cross-sectoral dimension.

1.7. The Year must ensure that harder-to-reach groups are included. If need be, group level and geographic indicators should be used to ensure this.

1.8. In terms of budget, the EESC believes there is a need for more ambition. Given the critical situation young people in the EU are facing, there needs to be some resources beyond existing programmes for national youth councils and youth organisations.

1.9. The EESC believes that a total allocation of EUR 10 000 000 with EUR 2 000 000 for coordination nationally, is required. The European Youth Forum and its members are also very important. These funds might be sub-granted via national youth councils.

1.10. Local European Year alliances at Member State level would be welcome. The EESC can also play a role in this.

1.11. Envisaged work on external relations and with the EEAS is also welcome for the Year and beyond. The relatively well-developed youth policies in Europe can play an important role in our neighbourhood and beyond.

2. **Summary of the proposal**

2.1. The EU Commission president, Ursula von der Leyen, announced in the State of the Union address on 15 September that the Commission would propose that 2022 would be the European Year of Youth. Following reflections on the COVID-19 experience in Europe, the Commission president turned her attention to the year 2022 and the need to rebuild after the pandemic. She drew inspiration from young people's involvement in climate activism and their emphasis on solidarity and determination to continue to strive to make the future better.

2.2. The segment particularly relating to youth was set in the context of the social market and the European Pillar of Social Rights. The speech further referenced the new ALMA initiative from DG Employment, Social Affairs & Inclusion, which is focused on young people not in employment, education or training. The speech also connected the proposal with the Conference on the Future of Europe:

'And it is why we will make sure that young people can help lead the debate in the Conference on the Future of Europe. This is their future and this must be their Conference, too. And as we said when we took office, the Commission will be ready to follow up on what is agreed by the Conference'.

Ursula von der Leyen, State of the Union address, 15 September 2021

2.3. The Commission published its proposal on 14 October. The proposal makes the objective of the Year 'to boost the efforts of the Union, the Member States, regional and local authorities to honour, support and engage with youth in a post-pandemic perspective'. It further sets out three means to achieve this, incorporating 'how the green and digital transitions offer a renewed perspective for the future and opportunities to counter the negative impact of the pandemic on young people and on society at large', to engage all young people 'to become active and engaged citizens as well as actors of change' and 'promoting opportunities for young people' to 'support their personal, social and professional development in a greener, more digital and more inclusive Union'.

2.4. The proposal references a number of relevant policy areas and funding programmes that can support the European Year of Youth. These measures include: the reinforced Youth Guarantee; the Erasmus+ programme; the European Solidarity Corps; the Aim, Learn, Master, Achieve (ALMA) initiative; the European Youth Strategy; the European Youth Goals; the European Education Area; the European Climate Pact; the updated Digital Education Action Plan; the HealthyLifestyle4all initiative; the European Skills Agenda; the European Social Fund Plus; Creative Europe; Horizon Europe; the Citizens, Equality, Rights and Values programme; the Asylum, Migration and Integration Fund; the Justice Programme; the European Regional Development Fund; the European Maritime Fisheries and Aquaculture Fund; and the European Agriculture Fund for Rural Development.

2.5. It is envisaged that those funds that focus mainly on the area of youth, such as Erasmus+ and the European Solidarity Corps, will have a key role to play in supporting activities under the Year of Youth. These two funds will also be celebrating their 35th and 5th year anniversaries respectively. The Member States are requested to appoint a national coordinator responsible for organising their participation in the European Year of Youth, and the Commission will arrange for EU level coordination.

2.6. Article 3 of the legislative proposal sets out seven possible types of activity envisaged for the Year, including conferences, events and initiatives promoting youth participation. These activities enable young people to reach policy-makers, gathering ideas using participatory methods, information, education and awareness-raising campaigns, creating a space for exchanges on turning challenges into opportunities in an entrepreneurial spirit, undertaking studies and research on the situation of youth in the EU, and promoting programmes, funding opportunities, projects, actions and networks of relevance to youth, including through social media and online communities.

2.7. In October, DG EAC launched a survey on the European Year of Youth for young people. National coordinators have also been appointed.

3. **General comments**

3.1. The proposal correctly points out the huge impact that COVID-19 has had on young people, and this should be carefully noted. This is not to set one group against another, merely to ensure that people understand that the impacts on young people can be long-lasting and that decision-makers have a responsibility to address them.

3.2. The proposal contains a very large number of commitments, references to other initiatives, budgets, and policy areas. In most respects, this is welcome. This also reflects the cross-sectoral nature of the policy area and the EU Youth Strategy. However, it is also important to have clarity and focus in the proposal. Sometimes less is more and there may be a fear that a long list of policy areas and shared responsibilities can obscure a clear focus on outcomes, responsibility, and results.

3.3. It is clear from the proposal that the Year of Youth is primarily about promotional activities and events. It is important to be clear on this. While it may be envisaged that these will influence policy or highlight the opportunities for policy input, the proposal does not contain, in and of itself, any policy commitments.

3.4. The proposal is clear that any major funding for initiatives will effectively come from existing sources and the Erasmus+ programme seems to be the main area of focus. Once more, if this is the case, it is important to be clear about it. Similarly, if national agencies for Erasmus+ are to prioritise activities relating to the Year of Youth, they will need clarity, support, and direction. The new youth participation initiatives in the Erasmus+ programme may be well suited to such activities, but, again, proper preparation and information will be needed for applicants in the Member States. Again, it must be clear in all promotional material and other activities that the Year of Youth largely involves existing resources. Such honesty is critical when working with young people.

3.5. It would also be important to ensure that other funding lines from other DGs are fully available for relevant activities and that this is similarly publicised and highlighted by these budget holders. This is particularly apposite given the cross-sectoral nature of youth as an issue and the prominence given to this in the EU Youth Strategy. It would of course also provide more resources for activities, connect other policy areas, and reach out to new groups of young people and possibly those harder-to-reach groups.

3.6. The coordination activity will be critically important for the success of the Year. There is a need for greater involvement of civic society here and a greater role for youth organisations nationally, locally and at European level. National youth councils and other major youth organisations should be equal partners in the National Coordinators Group involved in both co-creating and implementing the Year and should be supported in fulfilling this function. The role of the European Youth Forum should also be recognised as a key partner in the Stakeholder Group.

3.7. The European Youth Strategy is the leading policy commitment by the EU in the field of youth. It too has a significant and welcome commitment to the cross-sectoral dimension of youth as a policy issue. This is critical to making progress on a whole range of policies for young people, such as employment, the environment, education and training. It is vital then that the Year of Youth closely relates to the EU Youth Strategy, particularly the cross-sectoral dimension of youth policy. The proposal does make this clear, but it will also be important that all sectors contribute and play their part when it comes to monitoring and oversight.

3.8. Work must continue in all areas of youth policy and related cross-sectoral fields to ensure there is maximum engagement with the hardest to reach. This should be part the monitoring of the Year and there may be methods to prioritise certain groups or even disadvantaged areas to ensure there are sufficient activities drawn from these. Reference to the ALMA initiative is also welcome here, as is an emphasis on NEETs, although more information is still needed on this.

3.9. The focus on activities and events must be connected to outcomes. For this to be the case, indicators will be required which go beyond the activities. If the outcome is for young people's voices to be heard, this must be reflected in the indicators. As the concepts of 'honour, support and engage' are common in the proposal, they may well provide a good framework for indicators. The most important thing is that these go beyond just the output of activities and events and focus on the outcomes of these.

3.10. Much of the prospects of the Year of Youth will depend on action at national level, but time has been extremely tight for national authorities. Similarly, funding will be an issue so late in the day, national authorities inevitably have busy agendas, and there are also considerable differentials in youth policies, as noted by DG EAC's own work. All these factors will present challenges to the implementation of the Year.

3.11. Overall, the EUR 8 000 000 budget set out in the proposal is very minimal. even if only for actions at the EU level. There must be some resources provided for national activities and/or coordination for the Year to have some impact and to incentivise maximum buy-in and participation. The EESC believes that a total allocation of EUR 10 000 000, with EUR 2 000 000 for coordination nationally, is required.

4. **Specific comments**

4.1. The proposal to designate 2022 the Year of Youth has been developed at breakneck speed. We do not believe this is the optimal way to develop such proposals, as welcome as they may be. The development of the European Solidarity Corps in 2016 was subject to a similar State of the Union announcement. This presents the danger of important youth-related initiatives becoming more about high-profile political announcements rather than long-term systematic development. Such a move could increase cynicism among young people. Similarly, the legislative process has suffered from this rushed approach.

4.2. While an official document, some of the language in the proposal is rather convoluted and far from the type of plain English we would wish to see when dealing with young people or indeed the public more generally.

4.3. The Commission must ensure the participation of young people and youth organisations at the Member State and sub-regional level, where appropriate, in monitoring and overseeing the Year. We know that youth policies are uneven and approaches to these questions still differ across Member States, so it is most important that the Commission ensures this.

4.4. The provisions on the European Youth Goals are most welcome and provide very concrete areas based on youth participation. They also illustrate well the cross-sectoral nature of young people's needs and aspirations.

4.5. The provisions on digital issues are welcome, particularly as the popular notion of young people as digital natives is indeed rather simplistic. Particularly during COVID-19, it became apparent that such competences are not shared by all, and, in particular, young people accessing content through their phones is very different to the skills and competences needed for online learning. Many of these competences are not technological but social, and the EESC opinion on Blended Learning ([1]) cautioned against an overreliance on screen time and online activity. There is a solid tradition of outdoor pursuits and environmental activity among young people and in youth work, which must also be fostered and encouraged.

4.6. The Youth Action Plan related to the Neighbourhood, Development and International Cooperation Instrument and external action does indeed offer a valuable opportunity for youth engagement and is most welcome. The EESC awaits the proposal from Commissioner Urpilainen on this. It would be most important to ensure the strong involvement of civil society and youth organisations in such an action plan. The European model of youth work has a lot to commend itself to the world and should feature to a greater extent in our external relations.

4.7. Mobility is always an important part of youth policy and has been central to the Erasmus+ programme. It is natural that it would be an important part of the Year of Youth proposal. However, we must always be conscious that mobility can sometimes be seen in a negative light by young people, particularly when it is involuntary or forced, as can still be the case in poorer regions or areas suffering from 'brain drain'.

4.8. The idea of action that 'specifically aims at strengthening the voice of young people at the European level' is of course most welcome, and all institutions need to further develop the voice of young people in their policy proposals. Again, this might work well as an overarching aim or objective of the European Year of Youth.

4.9. The provisions on implementation, while positive, would benefit from clearer indicators, particularly relating to the impact on policy and programmes in the area beyond the Year and on the cross-sectoral aspects of provision.

4.10. The provisions on the European Youth Work Agenda are positive and welcome, but they also add to the number of initiatives and policy priorities in the proposal, and in the legislative text in particular. Once more, there may be concern about overload, with so many policy areas and priorities, notwithstanding the need for cross-sectoral work.

([1]) SOC/701: Blended learning (OJ C 105, 4.3.2022, p. 128).

4.11. Article 3 of the legislative text provides a good summary of what is envisaged and once again makes it clear what the Year will be about. The financial statement sees the European Years as ‘awareness raising instruments’, once more highlighting this aspect.

4.12. The financial tables appear to indicate that Erasmus+ is expected to be the most significant funder of any activities. The proposals also seem to envisage support at EU level for staff and resources for the delegations and contractors, but not for young people or youth organisations. It also seems unclear how much funding might eventually come from Erasmus+.

5. **Examining European Years more generally**

5.1. It is perhaps time that the Commission and other EU institutions examined the ‘Year of…’ concept. The proposal does refer to previous Years, such as the Year of Development and the Year of Citizenship. These seem to arise from time to time and it would seem advisable to have some coherence around their use and purpose.

5.2. The Committee’s opinion on the European Year of Citizens ([2]) concluded that significant dialogue was needed with civil society in developing these Years and that a significant budget was required — more than was proposed. The EESC considered that the planning and implementation process should be as open as possible and should involve all interested players at all levels and all stages: the Committee of the Regions, the EESC itself, representatives of civil society organisations, including the social partners, and representatives of national and local administrative bodies, among others.

5.3. The Committee also called for guarantees for transparent, effective coordination of the 2013 European Year at all levels and between all the stakeholders involved, particularly by making full use of the potential of the steering committees by setting up effective mechanisms for exchanging experience at national level.

5.4. On the European Year of Development, the Committee said it was crucial to avoid spending money on cost-intensive campaigns run by public relations (PR) agencies, or else that such services should be reduced to an absolute minimum. The need for a decentralised approach was also emphasised. Task forces at national level, it was felt, should establish a national motto, slogan or invitation for the Year that best reflects the situation within the Member State. The work of the task forces and support for their work should be continued beyond the Year. Organised civil society should play the key role in the task forces ([3]).

5.5. The Committee called for specific measures to be drawn up and implemented to ensure a link between the different thematic years and to ensure that the outcome of the events is enduring. The Committee also said it was necessary not only to carry out information campaigns, but also to undertake practical and concrete actions drawn up by decision-makers working together with society and to produce a follow-up report. The Committee supported the allocation of funds via the Commission’s representations in the Member States ([4]).

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([2]) OJ C 181, 21.6.2012, p. 137.
([3]) OJ C 170, 5.6.2014, p. 98.
([4]) OJ C 181, 21.6.2012, p. 137.

Opinion of the European Economic and Social Committee on 'Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2018/2001 of the European Parliament and of the Council, Regulation (EU) 2018/1999 of the European Parliament and of the Council and Directive 98/70/EC of the European Parliament and of the Council as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652'

(COM(2021) 557 final — 2021/0218 (COD))

(2022/C 152/21)

Rapporteur: **Christophe QUAREZ**

Co-rapporteur: **Lutz RIBBE**

Referral	European Parliament, 13.9.2021
	Council of the European Union, 22.9.2021
Legal basis	Article 114, Article 194(2) and Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	191/2/5

1. **Conclusions and recommendations**

1.1. The EESC welcomes the increase in the targeted share of renewable energy and is pleased to note that these targets focus on the industrial, transport and housing sectors. Renewable energy policy is expected to deliver in three areas: climate change mitigation, energy security and economic development (job creation) but also requires legal certainty, which is being undermined by the fact that the revision is taking place only 2 weeks after the transposition deadline. However, the EESC underlines that even the increased target is probably not in line with the Paris climate goals, let alone with the provision of the UN Framework Convention on Climate Chance to prevent dangerous anthropogenic interference with the climate system. These dangerous interferences are already evident today, with an increase in global temperatures.

1.2. The EESC draws the Commission's attention to the synergy that is needed, between the existing regulations reviewed in the 'Fit for 55' package, as well as the new tools proposed, such as the Social Climate Fund or the Carbon Border Adjustment Mechanism.

1.3. The EESC considers it essential to ensure a level playing field between energy production sources, which requires ending fossil fuel subsidies, which are still increasing [1].

1.4. The EESC points out that citizens, especially young people, must be at the heart of European energy policy and is therefore disappointed at the Commission's lack of ambition when it comes to promoting and developing individual and community-based prosumerism, contrary to what was provided for in the Energy Union Communication.

1.5. The EESC broadly supports the principles of responsible forestry defined in the proposal and suggests prioritising the use of forestry by-products and recycled wood products for bioenergy. It also calls for support for bioenergy plants to be re-evaluated, with a view to redirecting biofuels towards transport, in particular where electrification poses problems, where they offer an alternative that is readily available at a reasonable cost, as further developed in points 4.9 and 4.20.

(1) OJ L 328, 21.12.2018, p. 1.

1.6. The EESC regrets the lack of a clear strategy for developing onshore wind power and photovoltaics, along the lines of the Commission's recent strategy for offshore wind power. A strategy for decentralisation and the effective promotion of community energy would help strengthen regional value chains and increase public acceptance of the energy transition. Otherwise, Europe risks paying a high (social and economic) price for its laxity over the last few decades. The EESC also points to the greater need for:

— systematic forecasting of the growing energy demand by area and type, as well as energy type transformations

— conceptual planning of the future energy system architecture

1.7. The EESC calls on the European Parliament and the European Commission to reopen the debate on setting binding national targets.

2. **Introduction**

2.1. The proposal to revise the Directive on promoting the use of energy from renewable sources (the Directive), the subject of this opinion, was published on 14 July 2021. It is an integral part of the Commission's 'Fit for 55' package, which aims to reduce our greenhouse gas emissions by 55 % by 2030 and thus enable the European Union to be climate neutral by 2050 as provided for in the European Climate Law.

2.2. The latest report of the Intergovernmental Panel on Climate Change (IPCC), published in August 2021, states that the concentration of CO_2 in the atmosphere in 2019 is the highest it has been in at least 2 million years. It also points out that achieving climate neutrality is the key prerequisite for limiting warming to between 1,5 and 2 °C. COP26, which will take place in Glasgow in November 2021, will be an opportunity to assess the progress countries have made since the Paris Agreement was concluded in 2015 and to raise climate ambitions. As the International Energy Agency recently pointed out, climate neutrality means transforming the global economy from one dominated by fossil fuels into one powered predominantly by renewable energy ([2]). This is the background to the review of the Renewable Energy Sources Directive.

3. **General comments on the proposal for a directive**

3.1. With the aim of making the EU the world leader in renewable energy, the Directive was subject to a much-needed recast in 2018 ([3]). The EESC regrets the lack of regulatory stability that follows from proposing amendments on the same points as the latest amendments to the Directive immediately after their transposition deadline of 30 June 2021. The EESC nevertheless endorses the Commission's proposal to revise the Directive in view of the new CO_2 reduction objectives set in the European Climate Law and to use this opportunity to simplify and remedy shortcomings. The EESC underlines that the use of renewable energies must not be made excessively complex. Raising the binding target for energy from renewable sources to 40 % was necessary, as was mainstreaming renewable energies in sectors such as construction, industry and transport. Nevertheless, the EESC identifies three areas for action that warrant closer attention, as they are only partially covered by the draft revision.

a) *Public and consumer participation must be improved*

3.2. Despite the high expectations of European citizens, the resources proposed by the EU to encourage consumer participation remain insufficient, as prosumerism is still not clearly defined in the Directive. The European Commission should propose a monitoring mechanism in order to support Member States' implementation of the rules enacted and thus allow prosumerism to flourish. Examples of best practice should be communicated to political decision-makers. Prosumerism must be made operational by:

— formalising the way in which citizens can become prosumers,

— removing existing barriers such as excessive bureaucracy,

([2]) International Energy Agency, *Net Zero by 2050 — A Roadmap for the Global Energy Sector (windows.NET)*, p. 3.

([3]) https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/revision-renewable-energies-directive (OJ C 246, 28.7.2017, p. 55).

— granting funding through municipalities, to avoid citizens being held captive by industry players.

Lifting bureaucratic barriers and ensuring that funding reaches the intended public (such as youth-led grassroots and youth-led local organisations), clarifying the obligations that may fall to the prosumer in the future, are key. Here, legal stability must take precedence, as access to financial aid and know-how must be guaranteed for consumers to encourage them to take the plunge and become prosumers. The EESC believes that once the legislative instrument under discussion is revised, it should not be renewed before 2030, to ensure the legal stability needed by all of the sector's stakeholders, in the broad sense of the word, as already stated in point 3.1 above.

3.3. While it is right to step up efforts to ensure the dynamic use of offshore wind, as set out in the offshore strategy, onshore wind and photovoltaics should be given a much greater role in our future European energy system. The lack of a comprehensive approach raises questions for the EESC, which calls on the Commission to adopt a regional decentralisation policy strategy. Prosumerism cannot thrive without support from the regional and local level, which has not only the technical and financial means, but also knowledge of an area's specific features, thus making considerable time savings possible. This level's proximity to the citizens and to the actors on the ground justifies it being granted further powers to achieve the objectives set out in the Directive. Lastly, this strategy should be supported by a study on the management of the critical resources and materials (extraction, recycling, etc.) needed for the manufacture and smooth operation of renewable energies. Dependence on fossil fuels must not become a dependence on critical materials.

b) *Making better use of synergies*

3.4. As the last recast was carried out so recently, the new provisions adopted have not yet been able to take full effect. The EESC therefore believes that this revision should serve two purposes.

3.5. As things stand, according to the modelling contained in the EU 2020 baseline scenario, the Union should exceed the current target of 32 % renewable energy consumption by just over 1 %. Firstly, the revision should raise current targets, while at the same time including new targets to boost the mainstreaming of renewables by at least 7 % across the continent.

3.6. Secondly, the scope of the revisions carried out as part of the 'Fit for 55' package must, on the one hand, be an opportunity to strengthen the existing synergies between these regulations and the Directive. On the other, this approach should also apply to the new tools proposed by the European Commission, such as the Social Climate Fund or the Carbon Border Adjustment Mechanism. Thus, the benefits of implementing the directive will only be able to achieve their full potential if the use of renewable energy sources goes hand in hand with establishing carbon accounting for part of the imported CO_2. Introducing the carbon mechanism at borders regarding certain sectors should be an opportunity to provide a level playing field, which should be addressed at European level. Replacing the target for renewable energy of at least 14 % in final energy consumption by the transport sector with a binding target of 13 % greenhouse gas intensity by 2030, as set out in Article 25, is an example of synergies being properly exploited. Doing so will lead to greater consistency with the revision of the Emissions Trading Scheme and the rules on CO_2 standards. Nevertheless, in accordance with the Commission's strategy for energy system integration ([4]), electrification of the transport sector should be the priority whenever it is economically and technologically possible. Lastly, this proposal for a revision also comes ahead of the revision of the Energy Performance of Buildings Directive and must serve as an opportunity to show great ambition when presenting its follow-up to the 'Fit for 55' package, scheduled for 14 December 2021.

c) *The economic recovery must enable renewable energies to flourish*

3.7. While the demand for electricity has almost returned to its pre-crisis level, the economic recovery has led to a boom in renewables-based generation at the expense of fossil fuels ([5]). In order to turn this into a real trend for the future, a level playing field between energy production sources must be established. Firstly, this means stopping subsidising fossil fuels as quickly as possible; in 2018, these subsidies amounted to around EUR 50 billion for the whole of Europe ([6]) (with the understanding that an 'indirect' part of the subsidy is not reflected in the estimate).

([4]) COM (2020) 299 final.

([5]) Ember, *European Electricity Review: H1-2021*, (ember-climate.org).

([6]) European Commission, *Annexes to the 2020 report on the State of the Energy Union pursuant to Regulation (EU) 2018/1999 on Governance of the Energy Union and Climate Action.*

3.8. The Delegated Taxonomy Regulation on Climate Mitigation may, if accepted by Council and Parliament, steer future investments towards sustainable assets, the category to which renewable energy belongs. Only when distortions of competition between energy sources are eliminated will renewables be able to compete freely in the market. Pending such an outcome, the EESC welcomes the Commission's approach, which prevents renewable energies from falling behind.

4. **Specific comments on the text of the directive**

a) *The question of whether or not the proposed aims should be binding*

4.1. The EESC reiterates its criticism [7] that the review of the directive does not contain binding national targets, unlike the 2009 revision. While the EU has met its target of increasing the share of renewables to 20 % in 2020, some Member States have failed to meet their targets, with others only just managing to do so [8], benefiting from the particular situation caused by the health crisis, which has brought some national economies to a standstill. This example illustrates the weakness of the current governance framework, which only provides for 'encouraging' Member States to meet their national targets. The EESC calls on the Council of Ministers, the European Parliament and the European Commission to reopen the debate on setting binding national targets, on the appropriate energy governance and/or, at the very least, on more coercive measures against offending Member States to ensure that national ambitions are met. Here, the directive is going as far as voluntary action can go. While several Member States have exceeded their forecasts for 2020, there is a risk of a race to the bottom, which would cause the countries that have made the most progress to be discouraged by the lack of willingness of some of their counterparts and by the lack of consequences.

4.2. As regards the new binding target of 40 % renewable energy by 2030 (previously 32 %), this concerns all energy consumption and not just electricity consumption. The EESC welcomes the fact that the Commission has proposed the most ambitious target within the range identified in the climate target plan (38-40 %) to meet the new 55 % greenhouse gas reduction target for 2030. This demonstrates the EU executive's ambition to speed up the roll-out of green technologies, which the EESC welcomes. However, this greater share of renewables in the electricity mix of Member States will have consequences in terms of energy and electricity consumption [9] as the share of energy consumption is expected to fall by 2050. It is important to update the 2050scenarios in the light of the new targets, in particular by specifying the role that could be played by electricity storage, which will have to be developed more rapidly than expected, or the role of energy saving, including certain behaviours that have been highlighted by the health crisis.

4.3. However, this new target will prove very ambitious for some Member States. At a time when in many Member States the decarbonisation of the building sector is lagging behind, the EESC supports the proposed approach of boosting efforts in specific sectors, such as using renewable energies in the heating and cooling sector. It is true that a specific target of 49 % for the share of renewable energy in buildings, as set out in the new Article 15a, was urgently needed. Nevertheless, the EESC questions the non-binding nature of such a target. The buildings sector will have to reduce its emissions by 60 % by 2030 and become carbon-neutral by 2040 in order to meet the targets set in the European Green Deal. Given that many Member States may struggle to meet this target, the EESC stresses the importance of using the funding from the Social Climate Fund from 2025 onwards. This should make it possible to speed up renovations of both public and private buildings and thus stem the growing phenomenon of fuel poverty, which affects over 30 million Europeans. However, whether the funding comes from the future Social Climate Fund or, more generally, from other aid mechanisms, a tracking mechanism must be implemented to ensure that this funding is properly allocated to the fight against climate change. If these funds are subsumed into national budgets, it will be impossible to effectively monitor the use of the resources allocated. These funds will also have to focus not only on large-scale projects, but also on smaller ones, where the monetary gain in terms of MWh and CO_2 emissions is more modest, but where the impact on European citizens is equally or even more significant. The EESC calls for the allocation criteria in the various Member States to be harmonised, where possible, as regards the share to be devoted to getting citizens active in order to facilitate possible cross-border cooperation.

4.4. The EESC wishes to point out that the decarbonisation of the industrial sector is far too slow at present, even though this sector has been the first to be targeted by successive European climate plans. In practical terms, industrial emissions are covered by the Emissions Trading Scheme (ETS). However, due to the existence of an overly generous free allocation scheme, more than 90 % of industrial pollution is cost-neutral for the companies involved, resulting in the

(7) 7. OJ C 246, 28.7.2017, p. 55.
(8) Eurostat, *Renewable energy statistics — Statistics Explained* (europa.eu).
(9) 6_FR_ACT_part1_v3.pdf (europa.eu).

sector's emissions falling by only 1 % between 2012 and 2018. The EESC therefore calls for a binding target of 1,1 %, which would force industries to increase their use of renewables year on year. An indicative target might be seen as giving industry a free hand, which could potentially put a brake on Europe's climate ambitions.

4.5. The EESC welcomes the fact that the target for incorporating renewable energies for heating and cooling is to be made binding. The EESC would point out, however, that the original target contained in the directive was 1,3 %, whereas the new target would only be 1,1 %. According to the impact assessment accompanying the draft revision, the progress made by almost half of the Member States was not in line with the original target. In order to enable Member States to meet this target, the EESC suggests that some of the revenues allocated to the Social Climate Fund be earmarked as a priority for the replacement of heating and cooling systems, most of which rely on fossil fuels. The EESC believes that the aim of the directive should be to raise or at least maintain the ambition set out in the previous revision, and calls on all stakeholders to consider how best to achieve this.

4.6. In order to achieve climate neutrality in 2050, decarbonisation of the energy system must be achieved by 2045. A gross final consumption of renewable energy of 40 % in 2030 means that most of the decarbonisation process will have to be achieved over a period of 15 years (between 2030 and 2045). Thus, the climate emergency requires greater pragmatism as regards the development of renewable energy sources, in terms of determining what can actually be done within the available time-frame. First, it is important to focus on targets that are achievable in the light of the provisions currently in force. While the directive establishes a medium- and long-term strategy by setting ambitious targets, this should not happen at the expense of a faster-paced roll-out of green energies, but should go hand in hand with it. In the short term, it is equally relevant and essential to focus on the use of mature and popular renewable energy sources such as photovoltaic panels. For the transport sector, greater flexibility and a wider choice of admissible raw materials with respect to biofuels must be mentioned. It is only in the medium to long term that investments made on the basis of the guidelines set out in the future directive can take over and harness their full potential (renewable hydrogen, offshore wind turbines, etc.) and contribute to the decarbonisation of the European economy through the electrification of uses. Otherwise, there is a great risk that Europe will pay a heavy price for its laxness over the last two decades. In order to avoid this, the EU needs to clarify its strategy, which will have to go far beyond the Renewables Directive alone and foster a comprehensive approach that makes use of synergies.

b) *District heating and transport*

4.7. The European Commission's communications on a hydrogen strategy and a strategy to mainstream energy systems contain some important aspects that should be taken into account in this overall strategy. In its opinions TEN/717 and TEN/718, the EESC expressed its broad support for the communications, despite some criticism regarding a lack of consistency and clarity on certain aspects. However, the proposed revision only goes a certain way towards addressing some of the important aspects that were missing. Research, innovation and implementation should be supported and accelerated here.

4.8. The Commission proposes to strengthen district heating. This approach is valid, since district heating networks are a good option for using surplus energy from photovoltaic or wind power installations, which are likely to increase in number.

4.9. The proposed directive aims to improve access to charging points, including private charging points, for electric car users. This makes sense at a time when rapid electrification of the mobility sector is one of the most promising ways of decarbonising the transport sector, emissions from which continue to increase. Concrete rules for the direct supply of renewable electricity generated on site or nearby the charging point could be an important element of a decentralisation strategy that strengthens regional structure and community energy. The EESC nevertheless points to the need to provide mature solutions at a reasonable cost for those transport sectors that are difficult to electrify, at this point in time particularly biofuels, and, in the future, hydrogen.

c) *The promotion and use of renewable energies*

4.10. The EESC welcomes the introduction of several initiatives for renewable hydrogen, such as sub-targets for industry and transport. Furthermore, the EESC also believes that a binding target of 50 % for renewable fuels of non-biological origin used as feedstock or as an energy carrier is the right approach and that clean hydrogen must be prioritised ([10]). However, the option offered by Article 7 of importing renewable fuels of non-biological origin, which would then be accounted for as a contribution within the Member State, appears potentially problematic, and this accounting option should be capped.

([10]) OJ C 123, 9.4.2021, p. 30.

4.11. With regard to the promotion of Power Purchase Agreements (Article 15), establishing guidelines coupled with financial support for small and medium-sized enterprises should encourage the development of such a scheme, which provides long-term visibility on the sale price of green electricity. More generally, this initiative illustrates the need to strengthen cooperation and coordination between stakeholders in the sector in order to provide a long-term vision for economic actors.

4.12. Another initiative welcomed by the EESC is the obligation for Member States to launch a test phase on cross-border cooperation by setting up a pilot project within the next 3 years. The EESC would like clarification, however, on the arrangements for setting up such cooperation. In particular, it wonders about the administrative procedures involved in such an initiative and calls on the European Commission to assist Member States (by translating documents relating to the procedure, etc.) to ensure they can meet the deadline that has been set.

4.13. The EESC believes that the time has come to consider the relevance of a European electricity regulator. In order to prepare properly for this important position, it is time to launch a conceptual system planning activity that will forecast the growing energy demand by area and type, as well as energy type transformations.

4.14. The EESC also endorses the initiative in Article 9(7a) to introduce joint spatial planning per sea basin, between Member States, to facilitate the development of offshore capacity. This approach would make it possible to maximise the potential of each maritime basin while ultimately strengthening the objective of electricity interconnection between countries. The establishment of a one-stop shop is also welcome and must be an opportunity to learn from the best practices implemented in the different Member States in order to reduce the time needed to complete a project. Setting a total production capacity per basin by 2030, 2040 and 2050 should also make it possible to take better account of each Member State's offshore wind energy potential, and encourage its development. In purely operational terms, the increase in cross-border renewable energy projects, in particular offshore wind, leads the EESC to call on the European Commission to reopen discussions on a European transmission system operator, as this would be the most appropriate level for the real-time management of electricity flows. This is ultimately the most legitimate level for coordinating market mechanisms in relation to supply and demand, while ensuring the security of the system, which will come under increasing pressure with the greater penetration of renewables.

4.15. The EESC has repeatedly stressed the need for new market structures to balance energy production and consumption at the micro level. These structures would facilitate the integration of smaller storage devices into the energy system. For example, the growth of electromobility should benefit from the role of batteries to enable smart charging and to provide storage capacity at the local level. However, the revision proposal does not address this issue.

4.16. The Clean Energy Package pays particular attention to self-consumption and energy communities. These mechanisms are powerful vehicles for ensuring citizens' participation and for making them conscious full actors in the energy transition by increasing their sense of ownership and by strengthening decentralised structures that are beneficial in both and economic and social terms. As highlighted by the European Commission in its assessment of national energy and climate plans, Member States are not taking sufficient account of the potential of 'energy citizenship', thus contravening one of the *raisons d'être* of the 4th energy package. There is an urgent need to clarify the applicable rules, in particular for concepts such as energy sharing, net metering and P2P energy sales, in order to meet the objectives of the Clean Energy Package and the Energy Union. The EESC is disappointed that the proposed revision does not attempt to improve the regulatory framework on these aspects. This will be all the more important as the proposed revision of the guidelines on state aid for the climate, energy and the environment sets a much lower threshold for exceptions to the obligation to grant aid and to determine the level of aid through a competitive procedure.

4.17. The EESC in principle supports the Commission's proposal calling on Member States to take into consideration 'the maintenance of the national forest carbon sinks and ecosystems' as well as the principles of 'biomass cascading use' and the circular economy. This means prioritising the use of residual wood, such as small branches, tree stumps and other by-products, as well as recycled wood products for bioenergy. Therefore, it makes sense to re-evaluate support for bioenergy plants in this area, bearing in mind that residues from sawmills and the pulp and paper industry are sources of energy. Furthermore, as highlighted in the proposal, it is reasonable to redirect biofuels towards transport sectors that are difficult to electrify, such as the maritime, long-distance transport and aviation modes. Problems of availability and cost should also be taken into account in this regard. In order to implement this idea, Article 25 should differentiate between bio-based biofuels and renewable electricity by measuring greenhouse gas reductions. Priority is thus given to renewable electricity and biofuels based on residues in the transport sector. This results in greater pressure to decarbonise the transport sector through direct electrification.

4.18. The detailed calculations of the greenhouse gas reductions as well as the sustainability criteria presented in the annexes to the draft directive are partly of a very technical nature. For the EESC, they are clearly going in the right direction, even the Committee couldn't assess them fully in each individual case. Regarding — for example — biofuels, they will lead to a situation where some potentially usable or currently used substances can no longer be used, which can pose a problem for parts of the industry.

4.19. The committee would also like to point out that it will be difficult to prove in some cases whether all criteria are actually being complied with. For example, 'solid and verifiable evidence shall be provided that the soil carbon has increased or that it is reasonable to expect to have increased over the period in which the raw materials concerned were cultivated while taking into account the emissions where such practices lead to increased fertiliser and herbicide use' (see: COM(2021) 557 Annex 1 and 2). While such a requirement makes sense, it will be difficult to demonstrate it in practice.

4.20. The EESC welcomes the desire expressed in recital 10 to improve the time taken to process administrative procedures that form a barrier to the deployment of renewable energy. However, the EESC wonders what practical action the European Commission intends to take and how it plans to go beyond mere encouragement to ensure that procedural delays are effectively and efficiently reduced.

4.21. The EESC agrees with recital 12, which refers to the need to have a sufficient number of skilled workers for the professions of the future. The EESC calls on the European Union to put a figure on the workforce needed to implement the European Green Deal and to invest as a priority in training for the reskilling of employees whose jobs will disappear as a result of the green transition. It would also be a good way to attract young people to the green sector, thanks to the newly created job and business opportunities.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Directive of the European Parliament and of the Council on energy efficiency (recast)'

(COM(2021) 558 final — 2021/0203 (COD))

(2022/C 152/22)

Rapporteur: **Alena MASTANTUONO**

Referral	European Parliament, 13.9.2021
	Council of the European Union, 20.9.2021
Legal basis	Article 194(2) and Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	118/1/3

1. **Conclusions and recommendations**

1.1. The EESC welcomes the proposal for recasting the Energy Efficiency Directive, as it addresses an area of action that is key to achieving full decarbonisation of the EU economy and society.

1.2. The EESC welcomes the binding nature of the new EU target. The EESC realises that the increasingly demanding efficiency targets at EU level, with Member States required to reduce energy consumption by 9 % in 2030 compared to the projections of the 2020 reference scenario, are challenging and ambitious. According to the 2020 Progress report ([1]), only 12 Member States have more or less met their indicative national targets for 2020.

1.3. The COVID-19 pandemic has undermined the EU's collective efforts and will certainly have further consequences in terms of meeting higher targets. Achieving the indicative national contributions will require greater efforts by all Member States, and the different circumstances of each Member State should be taken into account.

1.4. The EESC reiterates its position in the opinion on the European Climate Law ([2]) that the aim should be to achieve the greatest possible reduction of greenhouse gas emissions at the lowest possible socioeconomic cost. The EESC recommends combining instruments compatible with a well-regulated market and regulatory measures when needed, including financial instruments with the support of the Multiannual Financial Framework and NextGenerationEU to contribute to a more efficient energy environment.

1.5. The EESC welcomes the leading role of the public sector, including local and regional authorities, set out in the proposed recast Energy Efficiency Directive, and highlights that this will require sufficient financial and technical assistance as well as trained personnel. The Committee endorses the measures relating to renovation and reducing energy consumption to be adopted by the public sector, and sees these as helping the construction sector, specifically SMEs, and as an incentive to develop and implement new technologies and create jobs under the Renovation Wave Strategy.

1.6. The EESC also appreciates the greater emphasis on informing and empowering consumers, for example in the area of contract requirements or the use of clear and comprehensible language. It stresses the important role of civil society in information campaigns on the benefits of energy efficiency.

([1]) COM(2020) 564 final.
([2]) OJ C 364, 28.10.2020, p. 143.

1.7. The increase in energy prices has revealed how quickly and severely this issue can affect households and businesses. The importance of measures to mitigate these costs has become clear sooner than expected. In this regard, the EESC supports the incentives and tools for implementation of the Energy Efficiency Directive to help vulnerable customers and households, and points out that ambitious targets for district heating/cooling may worsen the conditions of social housing. The Committee therefore welcomes the proposal to create the Social Climate Fund, and calls for compliance with the 'just transition' principle so as to take into account the different situations of Member States.

1.8. The EESC understands the purpose and benefits of the 'energy efficiency first' principle. However, this is not always a cost-effective solution. In some cases it can be more efficient not to save energy but rather to produce it from safe and sustainable low-carbon sources.

1.9. The EESC calls on the European institutions to ensure synergies among the initiatives under the *Fit for 55* package. In the event of substantive amendments to the package, the EESC asks the EU institutions to draft an impact assessment.

2. **Background and facts**

2.1. Energy efficiency is a key area of action on the way to the full decarbonisation of the Union economy. The proposed recast Energy Efficiency Directive is an important component of the *Fit for 55* package, which implements the principles of the EU Green Deal and sets out the way to achieve the new goals of the Union to reduce GHG emissions by at least 55 % by 2030.

2.2. The proposal is part of this broader policy and should be fully consistent with other initiatives of the *Fit for 55* package (such as changes in the EU ETS system; adjustment of the financial mechanism to support implementation of the package; the Effort Sharing Regulation; the Renewable Energy Directive; stronger emission standards for motor vehicles; and the revised Directive on the Deployment of Alternative Fuels Infrastructure) in order to ensure the desired sustainable development of the EU.

2.3. The main purpose of the proposal is to reduce overall energy use and cut emissions. Its basic objectives are: to tap unexploited energy-savings potential across the economy; to reflect the increased energy-efficiency goals of the Climate Target Plan; and to set out measures for the Member States that are compatible with the more ambitious 2030 climate target of a 55 % emissions reduction. This must be done with due regard for societal and sustainability factors, by contributing to affordable and inclusive energy consumption as agreed by the joint Porto Social Commitment and while fully upholding the 'just transition' principle.

2.4. This builds on the guiding principle of 'energy efficiency first', which should be taken into account across all sectors, going beyond the energy system and including the financial sector.

2.5. The recast Directive proposes to set a more ambitious binding annual target for reducing energy use at EU level. It also aims to guide the setting of national contributions, which will almost double Member States' annual energy-saving obligations.

2.6. As a catalyst and to set an example for other sectors, the public sector will be required to renovate 3 % of its building stock each year to speed up the Renovation Wave and to factor energy efficiency into public procurement of goods, services, works and buildings. Both initiatives have the potential to create new sustainable jobs and reduce public spending on energy use and costs.

3. **General comments**

3.1. The EESC welcomes the proposal for a recast Energy Efficiency Directive, as this addresses an area of action that is key to achieving full decarbonisation of the EU economy and society. Overall, achieving the goals of the Paris Agreement requires all climate and energy policies to be reshaped. Strengthening the energy efficiency policy framework through a specific mix of policy measures will help to mobilise the investment needed for the transition. Therefore, the EESC believes that the revision of the Directive, which includes the overall energy efficiency target for the EU, should send out the right signal for this reform.

3.2. The EESC appreciates the achievements of the Energy Efficiency Directive. At the same time, the Committee is well aware of the shortcomings in the EU's collective efforts to reduce energy consumption.

3.3. The COVID-19 pandemic has undermined the EU's collective efforts and will certainly have further consequences in terms of meeting higher targets. Achieving the indicative national contributions will require greater efforts by all Member States. The EESC recommends combining instruments compatible with a well-regulated market such as taxes, excise duties and limited but tradable rights, e.g. ETS, and regulatory measures when needed.

3.4. The EESC reiterates the observation made in its opinion on the European Climate Law (3) that the aim should be to achieve the greatest possible reduction of greenhouse gas emissions at the lowest possible socioeconomic cost. The right balance needs to be struck so as to meet the EU targets at minimum total cost. The cost-efficiency of energy-saving measures typically decreases as the volume of energy saved increases: initial measures are easy to apply, but further measures are more costly and yield a smaller result. The proposal should strike a balance and ensure that the excessive cost is not passed on to energy consumers.

3.5. The EESC supports incentives and tools for implementation of the Energy Efficiency Directive in order to mitigate the social impacts of the proposal and help vulnerable customers and households who have been hit particularly hard by COVID-19. The Committee therefore particularly welcomes the proposal to create a Social Climate Fund, which should provide additional financial resources for the purpose of avoiding an increase in energy poverty, and calls for compliance with the 'just transition' principle so as to take account of the different situations of Member States.

3.6. The EESC calls on the European institutions to ensure synergies between initiatives under the *Fit for 55* package. In the event of substantive amendments to the package, the EESC asks the EU institutions to draft an impact assessment.

3.7. The EESC welcomes the leading role set out in the Directive for the public sector, which should work on reducing energy consumption in services and buildings. The EESC understands the challenge of making progress in all relevant sectors, above all transport, public buildings, ICT, spatial planning, and water and waste management. The EESC is pleased to note that Article 6 of the Directive broadens the scope of the renovation obligation to include all public bodies at all administration levels and all aspects of their activities. The EESC highlights that this will require sufficient financial and technical assistance as well as trained staff. Therefore, in line with its opinion on reshaping the EU fiscal framework (4), the EESC recommends applying the 'golden rule' for public investment to safeguard productivity and the social and ecological base for the well-being of future generations. The EESC encourages local and regional authorities to work together with central government and all parts of the construction sector in order to achieve synergies and eliminate unnecessary obstacles to implementation of the renovation targets.

3.8. The EESC endorses the measures to be adopted by the public sector with a view to supporting the construction sector, in particular SMEs, and developing and implementing new technologies under the Renovation Wave Strategy. Criteria such as cost-effectiveness and economic feasibility as well as quality and social criteria should be applied in public procurement and continue to play a role in other fields to ensure a level playing field.

3.9. The EESC welcomes the binding nature of the new EU target and therefore recommends that indicative national targets take into account the different starting-points and specific national circumstances and emission reduction potential, including those of island Member States and islands, as well as efforts made in line with the Council conclusions of December 2020 (5).

3.10. The EESC emphasises the close link between the drive to achieve energy efficiency and the mission and targets of NextGenerationEU, particularly the Recovery and Resilience Facility. The EESC calls for a substantial share of the 37 % of the Recovery and Resilience Facility that is ring-fenced for green projects to be allocated to energy-efficiency projects in line with the real demand and need in each Member State.

(3) OJ C 364, 28.10.2020, p. 143.
(4) Opinion of the European Economic and Social Committee on Reshaping the EU fiscal framework for a sustainable recovery and a just transition, adopted on 20.10.2021 (OJ C 105, 4.3.2022, p. 11).
(5) https://data.consilium.europa.eu/doc/document/ST-22-2020-INIT/en/pdf.

4. **Specific comments**

4.1. The EESC understands the purpose and benefit of the ‘energy efficiency first’ principle. However, this is not always a cost-effective solution and this principle should not be taken as dogma. In some cases it can be more efficient not to save energy but rather to produce it from safe and sustainable low-carbon sources.

4.2. The EESC would recommend that national differences be taken into account when adapting the percentages in Article 8 of the Energy Efficiency Directive: there should not be one flat rate for all Member States but rather a differentiated rate tailored to the circumstances of each country. If the formula for calculating Member States’ contributions to the energy efficiency targets is to be based partly on the energy intensity of GDP, then this should be adjusted to reflect the share of industry in GDP, so that more industrialised countries are not disadvantaged.

4.3. The EESC welcomes the requirement for Member States to report on energy-efficiency instruments, including their performance. At the same time the EESC, along with civil society organisations active in the Member States, including the social partners, is ready to play a supportive role in setting up assistance mechanisms at national, regional and local levels. The EESC underlines the importance of properly informing all stakeholders (producers, providers, facility managers, users and consumers) about the additional requirements so as to increase the uptake of energy efficiency and energy performance contracting. It expects the European Commission to take an active and leading role here and reiterates the importance of civil society, which is eager to contribute to awareness-raising and information campaigns and to promote training programmes.

4.4. The EESC welcomes the fact that the Commission has not included mandatory obligations for audits, as this would impose conditions on companies’ investment plans. Companies are always willing to improve their energy efficiency, and energy management systems have proven to be a cost-effective alternative to audits.

4.5. The EESC also appreciates the greater emphasis on informing and empowering consumers regarding contract requirements and the use of clear and comprehensible language. It highlights the important role of regulators in this area, especially in markets with limited number of economic operators.

4.6. In the EESC’s view, it is fundamental that all professionals contributing to the new approach to energy-efficiency policy have received adequate training so that they have the requisite skills and qualifications, while recognising the lack of qualified workers in this sector.

4.7. As in its opinion on a Renovation Wave for Europe, the Committee emphasises that cavity wall and floor insulation are the most efficient CO_2-saving measures, as well as the simplest and the least costly. But even these relatively inexpensive measures are too expensive for many homeowners, despite resulting in lower energy costs. The EESC therefore advocates that national governments introduce a subsidy scheme for these measures as they also have the potential to create jobs. A Renovate Europe study shows that for every EUR 1 million invested in the energy renovation of buildings, an average of 18 jobs are created in the EU ([6]).

4.8. While the EESC believes that an energy consumption cap is a very useful indicator when it comes to issues such as household consumption, it has doubts as to whether such an indicator alone is appropriate for the industrial sector. Innovative technologies for decarbonisation are often more energy-intensive than conventional (but more polluting) alternatives. Thus placing a consumption cap on industry could prevent this sector from decarbonising its processes, while also compromising industrial output.

4.9. The EESC points out that ambitious targets for district heating/cooling may contribute to an increase in energy poverty as numerous low-income households live in social housing, which tends to be centrally managed. The amendments to the Energy Efficiency Directive must not be retroactive, and the change in the definition of efficient central heating/cooling (Article 24) should not apply to systems already in operation, but only to new or refurbished ones.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([6]) https://www.renovate-europe.eu/wp-content/uploads/2020/06/BPIE-Research-Layout_FINALPDF_08.06.pdf.

Opinion of the European Economic and Social Committee on 'Proposal for a regulation of the European Parliament and of the Council on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU of the European Parliament and of the Council'

(COM(2021) 559 final — 2021/0223 (COD))

and on

'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — A strategic rollout plan to outline a set of supplementary actions to support the rapid deployment of alternative fuels infrastructure'

(COM(2021) 560 final)

(2022/C 152/23)

Rapporteur: **John COMER**

Referral	Council of the European Union, 30.7.2021
	European Parliament, 13.9.2021
	European Commission, 13.9.2021
Legal basis	Articles 90-91, Articles 170-171 and Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	9.11.2021
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	137/4/9

1. **Conclusions and recommendations**

1.1. The EESC welcomes the proposal for a regulation on the deployment of an alternative fuels infrastructure.

1.2. BEVs (Battery Electric Vehicles) seem to be emerging as the preferred option for car transport from most manufacturers. The shortage of lithium (probably short term) and the increasing price of lithium poses a problem to the fast rollout of BEVs, and to belated research and development of more effective storage systems. However the possibility of further research and technological development may help to alleviate these current problems.

1.3. There are major reserves of lithium worldwide. Chile has the largest known reserves of lithium followed by Australia and China. There is a need to invest in new mines to ease the current tight supply situation. There are environmental issues with mining especially the high water requirement and possible pollution by toxic chemicals, and it is often associated with serious social problems. The EESC is very concerned about these aspects of international trade. International trade agreements and value chains must comply with green and sustainable development requirements and binding diligence rules must be set for businesses [1]. In the EU there is the possibility of lithium mining in Portugal assuming environmental issues can be resolved.

1.4. The extensive rollout of an alternative fuels infrastructure throughout the EU is essential and confidence must be given to investors to establish the alternative fuels infrastructure. Public authorities must ensure alternative fuels and charging stations are available where needed, especially in areas where it is not yet economically viable to provide such facilities.

(1) See opinions OJ C 220, 9.6.2021, p. 118 and OJ C 123, 9.4.2021, p. 59.

1.5. The EESC points to the significant role of renewables, including biofuels, as an immediately available and reasonably priced solution for in particular HDVs and long-distance freight on road. Attention needs to be paid to the greenhouse gas footprint of all alternative and renewable fuels.

1.6. The upgrading of the electricity grid must be an immediate priority so as to facilitate fast charging stations and also the manufacture of hydrogen and other alternative fuels. In addition, the installation of bidirectional smart meters to enable electricity to flow both ways is necessary. Planning and regulatory requirements need to be reviewed so as to avoid delays in upgrading the grid.

1.7. Decarbonising of transport is critically linked to the rapid increase in the generation of green electricity; e-mobility only makes sense in climate policy terms if it uses green electricity, and increased investment in green electricity is therefore essential. The Commission must do much more to help develop and consider prosumer models.

1.8. It is necessary to support massive public investment into R & D in scientific and technological work to improve batteries, especially in terms of size, capacity and length of service. If research can achieve a reduction in the lithium requirement for batteries for vehicles then it would reduce our dependence on tight global supplies which come from outside the EU. This possibility would improve EU capacity in relation to the rapid uptake of renewable energy for transport, leading to sustainable mobility. Also, there is an urgent need for R & D and technological development so that all possible alternative fuels are evaluated and promoted and all transport modes are considered. It would be unwise to become dependent on one system only. In particular the potential of green hydrogen should be explored.

1.9. The vast majority of consumers will only be convinced to buy BEVs when they are certain that adequate charging infrastructure is in place. Even consumers who rarely drive long journeys still must be assured that they can travel a long distance in a BEV should they require to do so. That is why this regulation is so important and that it be fully implemented throughout the EU.

1.10. The EESC stresses the vital importance that the infrastructure is fully interoperable in every respect throughout the EU. We cannot have a situation where drivers have to carry around various adaptors in their cars in order to use the alternative fuels infrastructure in various Member States.

1.11. The QR code (Quick Response Code) option for ad hoc payments is not a payment system widely used in the EU despite the Commission statement in Article 5.2. The EESC foresees that usage of this option will cause accessibility problems for many user groups. The EESC is opposed to a situation where the use of QR code is the only method of making an ad hoc payment. Payment card readers must be available for all ad hoc payments.

1.12. The renewable energy directive provides calculation methods for determining GHG emissions from various alternative fuels. However, these are of little relevance to public purchasing decisions since there is virtually no awareness of the GHG emissions values attaching to vehicles and inadequate verification of the claims made by manufacturers and sellers. This needs to be remedied.

1.13. The EESC is sorry that there has been virtually no discussion of the contribution that citizens, cooperatives, and also trade unions and employers, could make, despite the fact that one of the objectives of the Energy Union is to put ordinary people and thus local solutions at the centre and that it is becoming clear that a lot of e-mobility charging takes place at home or at the workplace. The EESC therefore believes that a new strategy is needed that is more in line with the intended focus on citizens in the Energy Union, so as to promote more involvement of citizens, cooperatives, trade unions and employers in the cooperative effort to accelerate the decarbonisation of transport.

2. **Gist of Commission proposal**

2.1. The economic and social wellbeing of EU citizens is dependent on an efficient and effective mobility system throughout the EU.

2.2. Transport emits about 25 % of EU Greenhouse Gas (GHG) emissions and also has a serious impact on air quality in urban centres.

2.3. In December 2019, the Commission adopted the European Green Deal Communication which calls for a 90 % reduction in GHG emissions from transport by 2050, while also working towards the zero pollution ambition. In September 2020, the Commission adopted its proposal for a European Climate Law to reduce net emissions of GHG by at least 55 % by 2030 — 'The Fit for 55 package'.

2.4. In December 2020, the Commission adopted the Sustainable and Smart Mobility Strategy Communication. The Strategy lays the foundation for transforming EU transport to achieve a smart and sustainable future.

2.5. This proposal creates a new Regulation on the Deployment of Alternative Fuels Infrastructure and will repeal Directive 2014/94/EU of the European Parliament and of the Council (2).

2.6. Directive 2014/94/EU came into force in 2014. The AFID is a common framework of measures for deploying the alternative fuels infrastructure to facilitate the reduction of GHG emissions from transport. It sets minimum requirements for establishing the alternative fuels infrastructure, with recharging stations for electric vehicle (EVs) and refuelling points for Natural Gas (LNG & CNG) and hydrogen, to be implemented by means of non-binding national policy frameworks. This strategy is to enable cross-border circulation of all modes of transport on the TEN-T Networks.

2.7. In a recent report on the application of this directive, the Commission noted some progress on implementation but concluded that there is no comprehensive and complete network of alternative fuels infrastructure across the EU.

2.8. The Commission carried out an *ex post* evaluation of this directive. The evaluation found that the directive is not well adapted to serving the increased 2030 climate goal.

2.9. This proposed regulation is part of the overall set of interlinked policies under the Fit for 55 package which sets out the actions needed across all sectors to achieve the 2030 climate goal.

2.10. The specific objectives of this proposed regulation are to:

2.10.1. ensure a minimum alternative fuels infrastructure to accommodate alternative fuel vehicles across all transport modes and in all Member States;

2.10.2. ensure the infrastructure is fully interoperable;

2.10.3. ensure full user information and all possible payment options.

2.11. The Commission believes that only a common European legislative framework can reach the objectives of decarbonising the transport sector across all modes and across all Member States in a cohesive and coherent manner.

2.12. Following an extensive impact assessment report, the Commission decided to accept Policy Option 2. This option proposed mandatory fleet-based targets for electrical recharging points for LDVs (Light Duty Vehicles) and setting distance-based targets for all road vehicles for the TEN-T Network, including for Urban Nodes for Heavy Duty Vehicle (HDV) infrastructure. Detailed provisions for ports and airports on the TEN-T Network are also provided but no mandatory targets are set. This option provides for greater harmonisation of payment options, physical and communication standards and consumer rights. It would strengthen price transparency and user information and include signposting of recharging and refuelling stations.

2.13. A regulation was considered the best option to achieve the desired objectives across all EU Member States.

(2) Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure (OJ L 307, 28.10.2014, p. 1).

2.14. Member States will have to adopt a revised national policy framework to develop a market for alternative fuels in the transport sector and deploy the relevant infrastructure in line with the strengthened provisions and mandatory targets. It also includes provisions on formulating a strategy for the deployment of alternative fuels in other modes of transport where there are no mandatory requirements.

2.15. Member States will report to the Commission on a regular basis. The Commission will monitor and report on progress in each Member State.

2.16. The regulation contains provisions for Member States to ensure the installation of minimum shore-side electricity supply for certain sea-going ships in maritime ports and for inland waterway vessels, with some specified exemptions.

2.17. There are minimum provisions for electricity supply to all stationary aircraft in TEN-T core and comprehensive network airports.

2.18. Article 3 sets out targets for electrical recharging infrastructure for LDVs.

2.19. Article 4 sets out targets for electrical recharging infrastructure for HDVs.

2.20. Targets for hydrogen refuelling infrastructure are outlined in Article 6.

2.21. There are targets for an appropriate number of publicly accessible LNG filling stations along the TEN-T core network by January 2025 in areas where there is demand.

2.22. Targets for shore-side electricity in maritime ports and inland waterway ports are set out in Articles 9 and 10.

2.23. Targets for the supply of LNG in maritime ports are outlined in Article 11.

2.24. Targets for the supply of electricity to stationary aircraft are outlined in Article 12.

2.25. In Article 5.2 (a) of the proposal, the Commission proposes that low-power charging stations be equipped with a payment instrument 'that is widely used in the EU', so that consumers can pay on an ad hoc basis. This payment instrument can either be (1) a payment card reader (2) a contactless card reader or (3) a Quick Response (QR) code allowing for the payment transaction.

2.26. In a Communication from the Commission (COM(2021) 560 final), the Commission outlines a strategic rollout plan of supplementary actions to support the rapid deployment of an alternative fuels infrastructure.

2.27. The Connecting Europe Facility 2021-27 (CEF II) will address climate change. To this end, CEF II will create an Alternative Fuels Facility to fund an alternative fuels infrastructure by a combination of CEF grants and financing from finance institutions to achieve a higher impact for the investment.

2.28. The European Regional Development Fund and the Cohesion Fund are available to support investment in research, innovation and the deployment of an alternative fuels infrastructure in the less developed Member States and regions.

2.29. The Commission says that what is needed now is effective and efficient cross-border and cross-sector cooperation between all public and private sector stakeholders on developing an open, transparent and interoperable infrastructure with seamless infrastructure services.

3. **General comments**

3.1. The transport sector is responsible for 22,3 % of total EU GHG emissions, with road transport representing 21 % of GHG emissions. Passenger cars account for 12,8 % of EU GHG emissions, vans 2,5 % and HGVs & buses 5,6 % (source: European Environment Agency 2017 excluding international and maritime emissions). Emissions from EU transport sector increased from 14,8 % in 1990 to 24,6 % in 2018 according to an EU Commission report of 2018. The rapid decarbonisation of the transport sector is essential in order to achieve the targets set in the EU Green Deal. The EESC welcomes this regulation as a positive step forward in decarbonising transport. It is essential that the quality of all transport services is maintained throughout the decarbonisation process.

3.2. The EESC regrets that there has been virtually no strategic discussion of the contribution that citizens, cooperatives, trade unions and employers could make to developing a charging infrastructure, despite the fact that one of the objectives of the Energy Union is to put ordinary people and thus local solutions at the centre, especially as it is becoming clear that a significant amount of e-mobility charging takes place at home and at the workplace. Therefore the EESC asks the Commission to start such a strategic discussion.

3.3. The extensive rollout of EVs will over time require an increase in electricity generation and the upgrading of the grid to accommodate fast recharging, especially for Battery Electric Trucks (BET).

3.4. The regulation mentions the need for bidirectional smart meter systems to enable electricity to flow both ways: from the grid to the vehicle and from the vehicle to the grid. This must be greatly expanded to help with shortage of supply during peak electricity demand.

3.5. A number of smart electricity systems need to be put in place to facilitate the following:

3.5.1. Vehicles are plugged in and do not start to recharge until a signal is received from the grid; the recharge should take place if possible at a cheaper rate when peak rate has subsided.

3.5.2. Vehicle-to-grid technology known as V2G would allow vehicles charging at times of surplus power from renewable sources to use that power, then during peak demand times the EV would return some of this stored energy to the grid. As demand subsides, the EV would be recharged. This would be especially suitable for school buses and other vehicles that are idle for long periods. It would need to be financially beneficial to the supplier. For this reason local solutions involving local people should be much more intensively considered and facilitated.

3.6. The EESC welcomes the targets that have been set for the rollout of the alternative fuels infrastructure. This will give confidence to both alternative fuel investors and potential purchasers of zero-emission and low-emission vehicles. Alternative fuels as well as renewables, including sustainable biofuels, are of paramount importance for heavy duty vehicles, in particular regarding long-distance road freight.

3.7. Policies must ensure that long queues at recharging points are avoided and that slow recharging points are avoided so that consumers have confidence in the recharging system.

3.8. In the Green Deal, the Commission noted that 1 million public recharging and refuelling stations in the EU would be needed by 2025 and the Commission has a target of 30 million zero-emission vehicles by 2030. These are very ambitious targets and will require great determination by Member State governments and the Commission and buy-in by the public if they are to be achieved.

3.9. It will be necessary to remove various barriers that are holding back the achievement of these targets:

3.9.1. removing any disproportionate planning requirements, given the size and scale of recharging and refuelling infrastructure necessary;

3.9.2. ensuring planning laws allow onsite production of hydrogen;

3.9.3. reducing lead-in times for connections to the electricity grid;

3.9.4. preparing fast-track plans to upgrade the electricity grid.

3.10. Decarbonising air and sea travel needs greater ambition and a more determined effort to further develop R & D in the sectors in addition to providing the most suitable alternative fuels.

4. **Specific comments**

4.1. Lithium is an essential earth metal and a critical raw material for modern rechargeable batteries. The market analysis *Benchmark Mineral Intelligence (BMI)* predicts an acute shortage of lithium from 2022 onwards, according to Reuters. This could cause a slowdown in the manufacture of EVs. Lukasz Bednarski in his new book titled *Lithium* (published by Hurst) argues that lithium will be as fundamental in 21st century industrial economies as oil was in the 20th century. It will therefore be necessary to explore and promote other low-emission and zero-emission fuels so as to provide options to consumers and facilitate the quickest possible reduction in transport GHG emissions.

4.2. It will be necessary to further promote and explore the use of E-fuels and hydrogen-powered vehicles in order to discover their potential to reduce transport GHG emissions as fast as possible.

4.3. The internal combustion engine (ICE) will be in use for some time yet. In this context, the potential of E-fuels needs to be researched and promoted. E-fuels can be used in ICE and plug-in hybrids and can make use of the existing network of filling stations.

4.4. The EESC points to the significant role of renewables, including biofuels, as an immediately available and reasonably priced solution for in particular HDVs and long-distance freight on road. Attention needs to be paid to the greenhouse gas footprint of biofuels production, in the same way as for instance the electricity supplied for electric vehicles and for hydrogen production.

4.5. The carbon footprint of biofuels must be less than that of fossil fuels when used in a vehicle. The problem is the process of producing biofuels which can cause significant GHG emissions and can have a detrimental effect on land use, especially when it leads to deforestation. For example, the use of palm oil is not sustainable.

4.6. The EESC recommends that biofuels with the least GHG emissions both during manufacturing and when used in transport should be promoted.

4.7. Rural areas are more dependent on car transport than urban areas because of the lack of public transport. Rural settlements are generally very scattered so it is not feasible to provide an extensive public transport system in many such areas. In the absence of a viable alternative means of transport, rural dwellers will suffer greatly as a consequence of high carbon taxes on petrol and diesel. The European Consumer Organisation (BEUC) in a report published in April 2021 says that for high mileage drivers living in rural areas a switch to BEVs brings tangible benefits, especially if BEV ownership is combined with on-site generated renewable electricity. The BEUC statement has merit provided the high start-up cost could be grant aided and that permission is actually given to run community-operated generation and charging stations.

4.8. The promotion of an alternative fuels infrastructure to accommodate rural areas is essential. In addition to promoting the roll out of EVs, we also need to promote the reduction of GHG emissions in the existing fleet by promoting sustainable biofuels, E-fuels, hybrid and plug-in hybrid vehicles. The potential for green hydrogen must also be increased.

4.9. In the area of HDV transport, there must be a really determined effort to roll out the alternative fuels infrastructure. About 98 % of trucks in the EU-27 run on diesel. To date, the emphasis has been more on LDV transport than on HDV transport.

4.10. There will need to be a significant roll out of BET trucks as well as hybrid and plug-in hybrid trucks. This can only happen when adequate recharging is possible in every Member State. It will also require sufficient financing to allow for meaningful fleet replacement.

4.11. Trucks require high-power, fast recharging at depots and road-side recharging stations. Being able to reserve a spot in advance at a recharging station would be very beneficial. Chargers up to 350KW have been piloted but chargers up to 1MW need to be developed in order to reduce charging times.

4.12. The power grid needs to be prepared in advance to accommodate such high power requirements for the fast recharging of trucks.

4.13. Hydrogen is considered to be promising for long-haul transport. The EESC welcomes the targets set for the roll out of hydrogen filling stations. The objective must be green hydrogen rather than blue hydrogen in the long term. In the case of hydrogen produced from methane, the high leakage of methane in the whole chain of extraction and transportation should be taken into account.

4.14. Hydrogen can also be used to fuel ICE vehicles with minor adaptations. Further research is needed to advance this proposal.

4.15. The EESC welcomes the Commission proposal to standardise hydrogen pressure at 700 Bar. Hydrogen has a low volume energy density so much larger tank storage is required.

4.16. The ideal would be on-site production of hydrogen where possible. Any planning barriers to such developments need to be examined with due regard for the higher level of health and safety measures required when dealing with hydrogen.

4.17. Hydrogen can be delivered by trucks and pipelines. Because of its low volume energy density, delivery by trucks would require many more truck journeys than deliveries of petrol and diesel.

4.18. The EESC is conscious that the Renewable Energy Directive provides clear calculation methods for determining the GHG emissions attached to the various alternative fuels. However, these are of little relevance to public purchasing decisions since there is virtually no awareness of the values and they are not notified by car manufacturers or sellers. This situation needs to be remedied.

4.19. Delivering a fast roll out of the alternative fuels infrastructure will require significant upfront funding to enable the system to become economically viable for investors in recharging and refuelling stations.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a regulation of the European Parliament and of the Council on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC'

(COM(2021) 562 final — 2021/0210 (COD))

(2022/C 152/24)

Rapporteur: **Constantine CATSAMBIS**

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Outcome of vote	
(for/against/abstentions)	225/2/12

1. **Conclusions and recommendations**

1.1. The EESC welcomes the proposal for a Regulation on the uptake of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC (the 'FuelEU Maritime Regulation proposal') [1]. This proposal is aimed at contributing to the EU climate neutrality objectives by 2050 by setting up an EU fuel standard with increasing greenhouse gas (GHG) intensity requirements and accelerating demand of renewable and low-carbon fuels (RLF) in the maritime transport sector.

1.2. The EESC considers that the proposal for a regulation of the European Commission should be harmonised with the regulations of the International Maritime Organization, due to the international nature of shipping, including those related to the safety of fuels used by ships. At the moment, international shipping is fossil-fuel captive. Full decarbonisation requires alternative, low-carbon or zero-carbon marine fuels and/or breakthrough propulsion technologies, to become widely available. Close cooperation with all stakeholders in the maritime cluster and supply chain is necessary to ultimately reach this goal.

1.3. The climate carbon neutrality objectives of the Green Deal and the ambitious 'Fit for 55' legislative package are desirable in the context of efforts towards greening and eventually decarbonising the maritime sector along other sectors, while at the same time respecting the social dimension of this transition in the best interests of the general public. In other words, this energy transformation and transitional process towards the decarbonisation of shipping can only be successful if there is social acceptance, whilst the modus operandi of shipping and other sectors are safeguarded.

1.4. The EESC notes that the impact of the FuelEU Maritime Regulation proposal on shipping is disproportional compared to other industries: short-term measures into 2030 are adequately described, but long-term changes that will deliver the bulk of the reduction in greenhouse gases in 2030-2050 are still largely target-shooting, comprising technologies that have not yet been developed, let alone matured. Hence, a certain degree of flexibility should be built into the regulatory parts of this proposal in order for the industry to be able to adapt to it. Concentrated support for R & D is urgently needed to accelerate the knowledge building, thus moderating risks.

(1) COM(2021) 562 final.

1.5. The EESC believes that under the scope of the ‘Fit for 55’ legislative package, the FuelEU initiative needs to provide synergies, coherence and consistency between supply, distribution and demand. However, the draft FuelEU Regulation, at the moment, prescribes particular low carbon fuels, with no prior assessment of their global availability and cost, although all alternative fuels should be allowed. This may eventually lead to distortion of competition, while their availability presently and for the near future is negligible. The responsibility for the development and availability of renewable alternative fuels lies with the fuel suppliers and the uptake of cleaner fuels should be encouraged. For this to happen, the price gap between fossil and alternative fuels needs to be bridged and the cleaner fuels need to become more affordable and widely available. Efforts are required, involving the active contribution of all actors in the maritime value chain, especially fuel production and energy providers, engine manufacturers, but also ports, charterers and the workers’ representatives involved in all sectors. This could potentially result in an increase of the demand for alternative fuels as envisaged by the FuelEU Regulation.

2. **Introduction**

2.1. The EESC considers that shipping has an impact on the entire supply chain, as almost 90 % of the world’s goods are transported by sea. Also, that EU shipping with its global presence is a strategic asset enabling the EU to safeguard its geopolitical independence and increase its economic and industrial resilience, as well as its sovereignty. In 2019 approximately 46 % of extra-EU exports and 56 % of extra-EU imports of goods were transported by sea (Eurostat, 2021).

2.2. The EU controlled shipping fleet amounts to 810 million deadweight tonnes, consisting of 23 400 vessels and comprising 39,5 % of the 2020 world fleet. The total economic impact of shipping is EUR 149 000 000 000 to EU GDP and approximately 2 million jobs. It is worth noting that for every EUR 1 000 000 of GDP the shipping industry creates, another EUR 1 800 000 is supported elsewhere in the EU economy. ([2]) According to the most recent estimates ([3]), the share of total shipping emissions in global anthropogenic GHG emissions has increased from 2,76 % in 2012 to 2,89 % in 2018.

2.3. The EESC recognises that European shipping is committed to maritime safety, and the protection of the marine environment, contributing to international and EU decarbonisation efforts. Also, the EESC acknowledges that European shipping embraces these challenges and is committed to taking the lead for green shipping.

2.4. The FuelEU Maritime Regulation introduces standards for a gradually decreased average greenhouse gas intensity of fuel used on board by ships at berth, arriving at or departing from EU ports. Failure to meet these standards will result in administrative fines to shipping companies, which would ostensibly be used to support projects aimed at accelerating the use of renewable and low carbon fuels in the maritime sector and biofuels in particular. This proposal will unilaterally also have extra territorial application to international shipping, as its scope is identical with that of the EU Emissions Trading System (ETS) proposal ([4]). It also mandates the use of OPS for two ship types after 1 January 2030 — passenger ships, and container ships.

2.5. The EESC notes that the draft FuelEU Maritime Regulation proposal has, in line with the ‘polluter pays’ principle, recognised the structural role of the ship’s charterer who is normally responsible for the choice of the ship’s fuel, route, cargo and speed and the related cost of the fuel consumed (Recital 6). This is positive. However, the recognition of charterers’ accountability is an important provision for the deliberations that will take place in the next phase of the regulatory process, which will also involve the European Parliament and the EU Council.

3. **General comments**

3.1. The climate carbon neutrality objectives of the Green Deal and the ambitious ‘Fit for 55’ legislative package are desirable in the context of efforts to greening and eventually decarbonising the maritime sector alongside other sectors, while at the same time respecting the social dimension of this transition in the best interests of the general public. In other words, this energy transformation and transitional process to decarbonisation of shipping can only be successful if there is social support and acceptance, whilst the modus operandi of shipping and other sectors are safeguarded. This can be achieved only by specific measures, such as the creation of new jobs, better public health and better mitigation measures for climate action and the protection of the environment. These efforts require involving the active contribution of all actors in

([2]) European Shipowners’ Association, 2021.
([3]) Fourth IMO GHG Study 2020.
([4]) COM(2021) 551final.

the maritime value chain, especially fuel production and energy providers, engine manufacturers, but also ports, charterers and the workers' representatives in all involved sectors. Well targeted, clear, cyclical and transparent communication is essential for gaining the involvement and supportive contribution of society.

3.2. The impact of the FuelEU Maritime Regulation proposal on shipping is uneven compared to other industries: short-term measures into 2030 are adequately described, but long-term changes that will deliver the bulk of the reduction in greenhouse gases in 2030-2050 are still largely target-shooting, comprising technologies that have not yet been developed, let alone matured. In other words, the shipping sector's pathway to climate neutrality by 2050 is still uncertain, involving a wide range of technological options. In addition, there are major open questions about the supply, safety, distribution and costs of these alternatives. Hence, a certain degree of flexibility should be built into the regulatory parts of this proposal in order for the industry to be able to adapt to it. Moreover, an urgent time pressure stems from the long lead time and the heavy upfront investment cycle of the wider sector covering all stakeholders.

3.3. On the one hand, the trajectory of emissions towards full decarbonisation hinges on the introduction and market uptake of economically viable and safe zero emission fuels and technologies. On the other hand, new means of propulsion, new low carbon or carbon-free fuels available worldwide and a joint collaborative effort with stakeholders in the supply chain are necessary to ultimately reach full decarbonisation.

3.4. Under the scope of the 'Fit for 55' legislative package, the FuelEU initiative needs to provide synergies, coherence and consistency between supply, distribution and demand. This should be achieved by effectively complementing the Renewable Energy Directive (RED) ([5]) targeting the supply of energy from renewable sources in particular and the Alternative Fuel Infrastructure Regulation targeting distribution infrastructure in EU ports ([6]).

3.5. To this end, providing the right incentives between supply and demand is also essential. However, the draft FuelEU Regulation, at the moment, prescribes particular low carbon fuels, as all alternative fuels should be allowed, with no prior assessment of their global availability and cost. This may eventually lead to distortion of competition, while their availability presently and for the near future is negligible. The responsibility for the development and availability of renewable alternative fuels lies with the fuel suppliers and the uptake of cleaner fuels should be encouraged. For this to happen, the price gap between fossil and alternative fuels needs to be bridged and the cleaner fuels need to become more affordable and widely available. Efforts are required, involving the active contribution of all actors in the maritime value chain, especially fuel production and energy providers, engine manufacturers, but also ports, charterers and the workers' representatives in all involved sectors. This could potentially result in an increase of the demand for alternative fuels as envisaged by the FuelEU Regulation.

3.6. In mandating the uptake of cleaner fuels and biofuels in particular, the proposal seems to be ignoring the fact that such fuels may in reality never be available in sufficient quantities for international shipping and may not really be a viable alternative to fossil fuels. Imposing administrative fines in a situation where viable alternatives do not exist is punitive and a revenue-generating rather than an emissions-abatement measure.

3.7. The zero/low-carbon fuels required for shipping to decarbonise are currently unavailable, especially for deep-sea shipping, and will remain so in the near future. Huge investments are required for the production and worldwide availability of these fuels, which will have to be developed by out-of-sector stakeholders, namely, oil companies and energy suppliers more generally. In addition, alternative fuels, such as ammonia, methanol or hydrogen need a new generation of internal combustion engines and advancements in ship design and propulsion technologies, which come under the purview of engine manufacturers and shipyards, most of which are located in the Far East.

3.8. Pending the development of these alternative fuels, the long-term goals of the agreed IMO Initial Strategy for decarbonisation and the ambitious objectives of the European 'Green Deal' and 'Fit for 55 Package' cannot be achieved. More science-based profound knowledge is needed sooner in order to reduce decision-making risks and to be orientated towards the right investments. This is why the industry, along with several Member States with substantial maritime interests, made the proposal at the IMO to set up an R & D Board and Fund (the IMRB and IMRF proposal) to be funded

([5]) COM(2021) 557 final.
([6]) COM(2021) 559 final.

initially by a mandatory contribution from each ship over 5 000 gt per ton of fuel consumed. The purpose of this initiative is to expedite the development of alternative fuels that the shipping industry needs but which it cannot develop. It is the urgency of the situation that has prompted this initiative and the shipping industry's willingness to contribute. It is sincerely hoped that this initiative will gain further substantial support at the IMO.

3.9. Safety considerations should also remain a crucial parameter in the research and development of alternative fuels, which is a very demanding, capital-intensive and time-consuming process. Addressing the safety challenges of these new fuels will require the development of new regulations and technical rules for their safe design and their safe use on board ships.

3.10. Requiring ships to comply with a European fuel standard without guaranteeing the availability of safe and adequate quantities of low and zero-carbon in ports worldwide would be a matter of significant concern. The European Commission Staff Working Document published in December 2020 accompanying the Sustainable and Smart Mobility Strategy ([7]) forecasts that renewable and low carbon fuels will be as high as 5,5 % to 13,5 % of the fuel mix of shipping by 2030. The GHG intensity is determined on a 'well-to wake' basis [Article 3-Definitions, para (p)] according to the methodologies and the sustainability criteria set out in the proposed revised Renewable Energy Directive (RED), where a multiplier of 1,2 for advanced biofuels and biogas produced from feedstock and for renewable fuels of non-biological origin is retained only for shipping and aviation. Furthermore, as highlighted in the proposal, it is reasonable to redirect biofuels towards transport sectors that are difficult to electrify, such as the maritime, long-distance transport and aviation modes ([8]).

3.11. This additional MRV system specifies a methodology of lifecycle analysis (LCA) of fuels in the annex of the proposed Regulation. When companies intend to depart from the default values provided for in the Renewable Energy Directive (RED), they will be entitled to divert from the established default values for the tank-to-wake emission factors, provided that this is only done when values can be certified by one of the voluntary schemes recognised under RED (for 'well-to-tank' values) or by means of laboratory testing or direct emissions measurements ('tank-to-wake'). The methodology for calculating carbon intensity and the emission factors are critical issues that will have to be thoroughly examined.

3.12. The EESC considers that the proposed Regulation as a regional measure risks undermining the ongoing discussions on the IMO's Initial Strategy for the decarbonisation of international shipping, which are proceeding well, are producing concrete results and are the only ones with a global perspective. The IMO member governments also agreed to start discussing mid-and long-term measures, including Market-based Measures (MBMs), as soon as October 2021, according to the agreed IMO work plan for medium- and long-term measures. The related IMO work stream that still needs to be completed concerns the Life cycle GHG/carbon intensity guidelines for all types of fuels. Until this work is completed within the framework of the IMO, double standards should be avoided.

3.13. The EESC finds relevant the recent initiative of the EU Member State governments to propose a global Low GHG Fuel Standard for international shipping for consideration at the forthcoming 10th meeting of the Intersessional WG on GHG ([9]). The said proposal, inter alia, demonstrates for ships a pathway to compliance with the measure by proving that they have exclusively used fuels with a GHG emissions intensity at or below the limit value during the compliance period (e.g. blends of traditional fuels and renewable fuels), an approach similar to the IMO Marpol Annex VI (Regulation 14.1), which enforced the 2020 IMO Sulphur Cap for bunker fuels. The submitted paper also proposes a Well-to-Wake (WtW) certification scheme to be developed and validated by the IMO. In addition, given the ongoing discussions within the IMO on the GHGs Life Cycle Assessment, once an agreement on a global approach is reached at IMO level on matters of relevance to the FuelEU draft Regulation, the EU legislation needs to be fully aligned with the international rules in accordance with Recital 42 of the proposed Regulation.

([7]) SWD(2020) 331 final.
([8]) TEN-748, draft Opinion on the Review of the Renewable Energy Directive (See page 127 of this OJ), paragraph 4.17.
([9]) Document ISWG-GHG 10/5/3 (Austria et al) of 3.10.2021.

3.14. The IMO Decarbonisation Strategy has identified a list of candidate short-, medium- and long-term measures for CO_2 emission reduction. Taking a major step forward for the energy transition of the maritime sector, the IMO member governments, including all EU member States, at the International Maritime Organization (IMO) Marine Environmental Protection Committee (MEPC) 76th session, held from 10-17 June 2021, adopted a comprehensive package of legally binding technical and operational short-term measures to reduce CO_2 emissions from ships, which will enter into force on 1 November 2022.

3.15. More specifically, the measures adopted at MEPC 76 require ships of 400 gt and above to calculate their Energy Efficiency Existing Ship Index (EEXI) following technical means to improve their energy efficiency, and all ships above 5 000 gt to establish their annual operational Carbon Intensity Indicator (CII) and CII rating. Carbon intensity links the GHG emissions to the amount of cargo carried over the distance travelled. The IMO will review the effectiveness of the implementation of the CII and EEXI requirements by 1 January 2026 to determine if any further amendments are necessary.

3.16. International shipping at large is the world's largest cross-trader, transporting between third countries for more than 90 % of its trading capacity essential cargoes for the world economy, such as oil and oil products, gas, chemical products, iron and other ores, coal and fertilisers. Therefore, there must be global fuel availability of the required EU specification in ports around the world in order for international trade to run smoothly.

3.17. International shipping is primarily an SME-driven industry which, when it comes to bulk/tramp shipping is a genuinely entrepreneurial sector with the characteristics of a perfectly competitive market. This is because the sector comprises thousands of companies worldwide and is not dominated by a limited number of very large corporations or alliances, as is the case in liner shipping and most major industrial and service sectors globally. Therefore, SME-sized shipping companies do not have the bargaining power to distribute and cover new fuels in ports around the world.

3.18. The Commission impact assessment (IA) on the draft FuelEU Maritime regulation envisages an increased demand for renewable and low-carbon fuels (RLF) in the maritime transport sector, with the emphasis, inter alia, on liquid biofuels, decarbonised gas (including bio-LNG), e-fuels, decarbonised hydrogen-derived fuels (methanol and ammonia) and electricity. An increased uptake of biofuels is anticipated by the IA, while 'the importance of biofuels is also recognised in particular for "hard-to-decarbonise" sectors, such as aviation and maritime transport'.

3.19. There is the challenge of developing production and the required supply infrastructure of e-fuels worldwide. A new EU target of at least a 40 % share of energy from renewable sources in 2030 is set under the revised RED proposal. However, it is recognised that shipping has greater decarbonisation challenges compared to other sectors, due to the current lack of market-ready zero-emission technologies. Indeed, low-and zero-carbon fuels are not currently available for shipping in the market. In addition, the capital investment needed for developing production e.g. green-ammonia (e-ammonia), depending on the production methods and the specific fuel production pathways, is estimated to be approximately between USD 1 200 000 000 000-1 650 000 000 000 (UMAS, 2020) and do not include the investments required for the supply infrastructure worldwide.

3.20. Therefore, the target set for a 75 % average reduction in the greenhouse gas intensity of energy used on-board by ships by 2050 is overestimated. One of the biggest obstacles to decarbonising the maritime sector will be the provision of the new bunkering infrastructure that will be required in ports around the world to supply ships safely with alternative fuels. It is in the interests of the shipping industry for such infrastructure to be developed rapidly, so that new fuels are readily available globally, and from as many ports as possible, as this will make the price of zero-carbon fuels less expensive, thus facilitating compliance with the stated objectives of the proposed Regulation.

3.21. 'Drop-in' fuels, such as advanced biofuels e.g. Hydrotreated Vegetable Oils (HVOs), which have limited compatibility with all modern ship engines (all vessel types irrespective of trade) that can burn biofuels without requiring technical, safety or design adjustments, could be a partial solution at least in the bulk/tramp sector. However, it is the responsibility of fuel suppliers to make sure that when mixed with fossil fuels, the specified blends are fit for purpose for use on ships and are made available in sufficient quantities in EU ports. Biofuels imported into the EU market should meet the EU's sustainability criteria as laid down in the revised RED II Directive (Annex IX, Part A and B). The draft FuelEU Maritime Regulation shifts the responsibility for meeting RED's sustainability criteria to ships. Moreover, incentivising the uptake of biofuel blends of the specified quality purchased outside the EU could present enforcement challenges, putting at risk the achievement of emissions reduction targets.

3.22. All candidate e-fuels, such as green ammonia or green hydrogen [10] present certain market barriers (economical/technological/regulatory) that prevent their uptake as alternative marine fuels in the foreseeable future. The landscape of alternative marine fuels is not only fragmented but also undeveloped so their R & D should be reinforced and accelerated.

3.23. The methodology for calculating carbon intensity and the emission factors are critical issues that will have to be thoroughly examined, as well. Attention should be paid to the methane slip and the Indirect Land Use Change (ILUC) factor especially in relation to the uptake and use of biofuels and LNG. First generation biofuels cannot be considered long term sustainable materials due to their food-competitive land use and soil exhaustion.

3.24. Ultimately, as shipping is a truly global industry, global regulations are the most effective and efficient way forward. Any measures implemented at the EU level must be compatible with the regulations adopted by the IMO, striking a balance between international regulations and EU legislative initiatives.

4. **Specific comments**

4.1. The responsible entity (fuel supplier instead of ship owner): Ship operators cannot be held responsible for either the quality or the availability of specified fuels. The carbon intensity of marine fuels should be regulated globally and subject to the adequate availability of non-fossil alternatives. These are currently unavailable for deep-sea shipping and will remain so in the near future. Ships cannot be held responsible for bunkering fuels that are either technologically immature or only available in very limited quantities and/or limited geographical areas. This would be comparable to asking car users to use a specific fuel mix that is not widely available on the market.

4.2. An explicit obligation on charterers to assume their fair share of responsibility: The ‘polluter pays’ principle should apply in all cases. The responsibility of charterers, although recognised in the relevant European Commission legislative initiatives (EU ETS, FuelEU Maritime), does not explicitly oblige charterers to assume their responsibility. If the ship owner is made responsible for a ship’s emissions, they would be burdened with the higher CO_2 emissions caused by the charterer’s purely economic cost-benefit analysis, which would not be taking into account the negative environmental externalities. Such a situation would not only be unfair, but would also be counterproductive. As long as the charterer has no statutory responsibility, they will continue to base all operational decisions on cost considerations alone and will be exempt from the ‘polluter pays’ principle, which must apply properly in shipping as in all other sectors.

4.3. Avoiding double counting/requirements: This proposal introduces a second EU MRV system for the purposes of the proposed Regulation. While it is of the utmost importance that flexibility is safeguarded, the introduction of double counting or double requirements should be avoided as far as possible by homogenising MRV methodologies.

4.4. Avoiding the creation of an unworkable compliance mechanism: The draft proposal also creates a complex pooling compliance mechanism of excess carbon intensity credits of fuel used by over-compliant ships. This arrangement is subject to a pooling arrangement with harmonised penalties for non-compliance and credit transfer between different companies with over-performing and under-performing ships certified by the same verifier. Instead, a flexible mechanism is proposed for inclusion in the proposed Regulation, initially applying only to e-fuels [11] used by ships with a phased-in implementation schedule (similar to the deployment of Onshore Power Supply (OPS) — Article 5 of the proposed Regulation is relevant). If this is accepted, the requirements would be gradually extended to all renewable and low-carbon fuels (RLFs) (subject to a review clause and an impact assessment in the future, also addressing availability of RLFs for the maritime sector and issues of competition of RLFs with other transport modes, for example). Gradually, partnerships will be promoted between market players that have invested in ‘green’ fuels wishing to pool their compliance units and make joint notifications to the same accredited verifier.

([10]) As defined in TEN/718 on Hydrogen strategy (OJ C 123, 9.4.2021, p. 30).
([11]) E-fuels include e-ammonia, e-methanol, synthetic diesel, synthetic fuel oil and e-gas (p. 7, Annexes to COM(2021) 562 final).

4.5. Extension of exemptions for deployment of OPS after 2034: While recognising the need to prioritise the deployment of OPS in terms of delivering tangible cost-effective reductions of GHG emissions and air pollution at berth, focusing on container ships and passenger ships, the exemption from mandatory use of OPS for the above-mentioned shipping segments when infrastructure is not available in the port and when a ship's on-board on-shore power equipment is incompatible with the port's installation should not be limited after 2034.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure'

(COM(2021) 552 final)

(2022/C 152/25)

Rapporteur-general: **Dumitru FORNEA**

Referral	Council of the European Union, 20.9.2021
	European Parliament, 13.9.2021
Legal basis	Article 192 TFEU of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	9.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	209/3/5

1. **Conclusions and recommendations**

1.1. The Commission's initiative amending Directive 2003/87/EC of the European Parliament and of the Council [1] as regards aviation's contribution to the Union's economy-wide emission reduction target is a welcome step in reducing the climate impact of the aviation sector. We support the proposed amendments, but emphasise the need to maintain a level playing-field and protect social and working rights. While not the largest emitter of emissions in society or indeed in transport, aviation and all its stakeholders must play their part in helping us achieve a sustainable aviation industry. This can only be done through social dialogue and engagement with trade unions in the sector, who are a critical part of the climate transition.

1.2. In general we are opposed to the allocation of free allowances within the emissions trading system (ETS), unless for the purposes of ensuring fair competition. In the case of intra-EEA flights, there is less risk to a level playing-field; however, we must remain vigilant to carbon leakage, particularly in leisure and long-haul traffic. Therefore, we would support maintaining the proposed date of 2027 for full removal of free allowances and, in the meantime, adjust the free allowance allocations to focus on fair competition. By doing this, we can implement the ETS, improve the uptake of sustainable aviation fuels (SAFs) and decrease the level of free allowances, while avoiding distorting competition within the market.

1.3. It is imperative that the proposal acts to protect the level playing-field in order to support companies that provide decent work and social standards. It is also important to avoid long-term negative effects on working conditions due to unfair competition from companies not operating under the ETS. As such, we would recommend launching a 'social impact assessment' that considers the link between the application of the ETS, fair competition, and the potential social damage of carbon leakage. Furthermore, we propose two mid-term assessments, which would analyse the social, environmental and economic impact of the amended ETS. This should take place two years and four years after the amended ETS enters into force and should provide all stakeholders with an opportunity to review the application of the ETS and the aims of the programme. These assessments will also provide an opportunity to check the recovery of the industry against the aims of the ETS.

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(1) Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

1.4. Financial intermediaries should be excluded from the EU ETS trading scheme, so that only installations emitting carbon dioxide in their production processes are allowed to trade emission allowances. This is to eliminate any risk of speculation and is similar to the Chinese approach, which banned financial institutions from participating in their allowance trading system.

1.5. The majority of extra-EEA traffic runs through central hubs either within or outside the EEA. Currently, most passengers have a number of options for their extra-EEA flight through both internal and external hubs. However, with the increased cost of the ETS, there is a significant risk that EEA operators will be undercut by cheaper operations based in hubs outside the EEA. To counteract this, the allocation of free ETS allowances must be replaced by a targeted mechanism against competitive disadvantages in order to protect European airlines and European hubs.

1.6. The EU must promote a more ambitious, uniform global regulation on carbon pricing, and must have a mandate to negotiate for this at global level. In addition to its global mandate, we propose the application of one or both of these mechanisms in order to ensure fair and sustainable implementation of the ETS and support a broader application base in the short term:

a) introducing a carbon border adjustment mechanism;

b) replacing the free allocation system with targeted protection against unfair competition.

1.7. The ETS should support a move towards more sustainable modes of transport, including within the aviation sector, and should therefore promote a reduction in the use of business aviation. The ETS should encourage the use of sustainable mass transport and therefore force business jet users to pay higher charges.

1.8. ETS revenues should be invested in development projects that will further reduce the environmental impact of aviation, by supporting a reduction in cost and greater uptake of SAFs. It should also support the transition of airports, fuelers and ground handlers to new regulations being imposed on SAF usage in European airports through the ReFuelEU proposal. Revenues must also support a just transition for workers in the aviation industry who have been negatively affected by climate change. To implement this, an aviation social fund should be created that will allow for the training and transition of aviation workers. Such a fund could be managed by the European Commission, with the support of both employers and trade unions.

1.9. Through the ETS, the proposal should encourage operators to develop inter-modal transport networks in their major hubs in order to expand to a greater network of destinations, while also reducing unnecessary ultra-short-haul flights. This could be done by increasing the level of free allowances in their place elsewhere in the airline's network to areas that do not have convenient rail connections.

1.10. The EU should engage with European works councils (EWCs), sectoral social dialogue committees and other joint forums, such as the Aviation Roundtable, on the continued impact of the revised ETS throughout its implementation. Particular consideration should be given to social dialogue with workers and to understanding the needs and concerns they have in relation to sustainable aviation.

1.11. The special status of EU outermost regions should be retained and such regions should be exempt from the ETS as per Article 349 TFEU, which allows for derogations from the application of EU law in these regions.

2. **General comments**

2.1. We welcome the Commission's initiative amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target. While not the largest emitter of emissions in society or indeed in transport, aviation and all its stakeholders must play their part in helping us achieve a sustainable aviation industry and reach our climate objectives, as outlined in the Paris Agreement and in the 'Fit for 55' package.

2.2. Through such initiatives, stakeholder engagement and social dialogue, many of the social and economic threats to workers in the aviation sector can be mitigated, and we would welcome the Commission's efforts to ensure that all stakeholders, in particular trade unions and EWCs, are engaged on the topics of climate change and just transition throughout the passage of this proposal, as well as on all future work on sustainable aviation.

3. **Specific comments**

3.1. *Consideration of the effects of the COVID-19 pandemic*

3.1.1. The aviation industry has been among the hardest hit throughout the recent COVID-19 pandemic and, as such, this proposal must give consideration to allowing the aviation industry the space and time it needs to recover. However, it has become clear that the aviation industry has an inherent sustainability problem, in both the social and the environmental sense, and any recovery, including any support given to the sector, must consider efforts made to make the industry more sustainable in the long-term.

3.1.2. Data released by Eurocontrol show that the aviation sector still has a long way to go to recover to the traffic levels of 2019. In the summer of 2021, traffic levels returned to just 70 % of 2019 levels ([2]) and the general expectation of Eurocontrol is that 2019 levels of traffic will only return in 2023 ([3]). Given this, it is clear that the aviation industry has, and will continue to have, depleted levels of traffic well into 2023 at the earliest. Additionally, workers have been proportionately affected by the drop in traffic. While information on this remains hard to find, the European Transport Workers' Federation (ETF) estimates that approximately 60 % of ground staff workers were out of work during the pandemic ([4]). The creation of any measures that will distort competition during this recovery period could have adverse consequences both on workers and on the industry as a whole.

3.1.3. Nevertheless, we only support the allocation of free allowances within the ETS to prevent a distortion of competition or carbon leakage. Consideration must be given to the potential carbon leakage that might occur by airlines switching to cheaper destinations, particularly in the leisure market. There remains a risk that many typical leisure destinations could be overlooked in favour of destinations outside the EEA as they provide cheaper emissions charges compared to their EEA counterparts. For extra-EEA flights, further consideration needs to be given as there is a significant threat of third country operators exploiting the ETS and unbalancing the level playing-field.

3.1.4. As such, it is our view that while the date of the removal of free allowances should remain at 2027, free allowances should only be granted to protect fair competition. By doing this, this proposal can achieve its aims and protect the level playing-field as the industry tries to recover and compete under the new ETS.

3.2. *Fair competition and carbon leakage*

3.2.1. Aviation is a highly mobile and heavily liberalised global industry. Therefore, the sector is prone to significant competition, much of which does distort, or has the potential to distort, the market. This can clearly be seen in the social issues facing the aviation market, where companies have used favourable social conditions within the EEA and in third countries to exploit workers and reduce labour costs. This practice is now common in aviation and is a warning to us when considering environmental costs. As such, strong legislation is required to ensure there is no carbon leakage or exploitation of the ETS by countries or companies, in particular those outside the scheme. This is most relevant when considering inter-continental traffic, for example those passengers who transit through the EEA rather than having their point of departure or arrival destination in the EEA, or those who leave or arrive from the EEA but who transit through non-EEA hubs.

3.2.2. We welcome the proposal to incorporate the full application of the ETS on all intra-EEA flights as this will help maintain a level playing-field within the market. We also support the intention in the proposal to eliminate free allowances, but stress that such allowances should only be given in order to maintain fair competition. The scope of this application should not be limited to competition between airlines but should be expanded to ensure fair competition between EEA and non-EEA hubs competing for connecting traffic, as well as leisure destinations competing with non-EEA destinations.

3.2.3. When it comes to long-haul traffic, major EEA carriers and hubs face significant competition from air carriers and hubs in the Middle East. This competition is felt most when passengers do not arrive within the EEA, but rather transit through while travelling inter-continentally or when they leave from or arrive in the EEA but connect through a non-EEA hub. Given the proximity of other major aviation hubs outside the EEA, we must ensure airlines can remain competitive in this market. Traditionally, legacy carriers in this market have high levels of social standards and decent work. In other regions, particularly the Gulf region, workers are denied fundamental workers' rights, such as freedom of association, and

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([2]) https://www.eurocontrol.int/publication/eurocontrol-data-snapshot-16-recovery-wide-variations

([3]) https://www.eurocontrol.int/publication/eurocontrol-forecast-update-2021-2027

([4]) https://www.etf-europe.org/ground-handling-sector-fights-for-its-survival-as-more-than-half-of-airport-based-workers-are-out-of-work/

all measures must be taken to ensure carriers based in these countries do not benefit at the expense of European companies and European workers. Therefore, targeted protection mechanisms are needed to stop competitive disadvantages.

3.2.4. The price of EUA allowances has increased since January 2020 from about EUR 20/tonne to above EUR 70/tonne. On the demand side, installations, i.e. enterprises that need allowances as they emit CO_2 in their production processes, compete with financial institutions and intermediaries. The latter are fully aware that the former need allowances to conduct their business. Moreover, there is no market cap on price, as the penalty for emitting without an allowance does not remove the obligation to purchase such an allowance ([5]).

3.2.5. It is imperative that the proposal protects the level playing-field among these carriers, and to ensure there are no long-term negative effects to workers' social conditions due to unfair competition from those companies not operating under the ETS. To ensure a complete analysis of the challenges, we would recommend launching a social impact assessment that considers the link between the application of the ETS, fair competition, and the potential social damage of carbon leakage. Furthermore, we propose two mid-term assessments that would analyse the social, environmental and economic impact of the amended ETS. This should take place two years and four years after the amended ETS enters into force and should provide all stakeholders with an opportunity to review the application of the ETS and the aims of the programme. These assessments will also provide an opportunity to check the recovery of the industry against the aims of the ETS.

3.2.6. To further the fairness of the proposal, we propose the consideration of two additional elements to the proposal:

a) Carbon border adjustment mechanism (CBAM)

The application of a CBAM will limit carbon leakage and encourage non-EU actors to improve their own environmental footprint. The aviation industry is not bound by borders, and, as such, it is difficult to legislate within the EU borders, as much of the traffic will operate outside. As mentioned previously, higher levels of social standards in the EU aviation sector must be protected as a priority, and a CBAM will support this. As the Commission supports the growth of the aviation sector through the development of comprehensive air service agreements with third countries, it should consider applying a CBAM to transfer flights from non-EU hubs, or other means of supporting the sustainable growth of extra-EEA operations.

b) Further measures to protect the level playing-field

The revision of the EU ETS must address the risk of carbon leakage. Carbon leakage is a significant threat to the EEA aviation market, given its proximity to a number of hubs which run a significant amount of extra-EEA traffic. Currently, most passengers have a number of options for their extra-EEA flight, which includes both internal and external hubs. However, with the increased cost of the ETS, there is a significant risk that EEA airlines will be undercut by cheaper operations based in hubs outside the EEA. To counter this, the allocation of free allowances must be replaced by a targeted mechanism against competitive disadvantages, in particular to protect European airlines and hubs.

3.3. *Consideration for price modulation based on aircraft capacity*

3.3.1. Broader consideration should be given to the possibility of applying a modular pricing system for ETS allowances that follows the 'polluter pays' principle and promotes mass transport rather than private transport. As of September 2021, business aviation had increased by 27 % compared to 2019 levels ([6]), likely as a result of the reduction in capacity within the scheduled passenger aviation sector. Unlike scheduled passenger aircraft, business jets have a significantly lower passenger capacity. Despite this, they are treated in the same way as aircraft that have much higher capacity.

3.3.2. The ETS should support a move to more sustainable modes of transport, including within the aviation sector, and should therefore promote a reduction in the use of business aviation. The ETS should follow the 'polluter pays' principle, thereby forcing business jet users to pay higher charges. Operational measures could also be considered to discourage the use of business jets, by prioritising scheduled passenger traffic in other ways such as in network charges and airport slots.

([5]) https://zpp.net.pl/en/press-release-new-eu-emissions-trading-scheme-how-to-mitigate-the-risks-for-european-consumers-and-smes/
([6]) https://www.eurocontrol.int/sites/default/files/2021-09/covid19-eurocontrol-comprehensive-air-traffic-assessment-30092021.pdf

3.4. *Reinvestment of ETS revenues*

3.4.1. Revenues earned from the ETS must be invested in the sector to support a socially and environmentally sustainable sector as well as a just transition. It is well known that the aviation industry's transition to carbon neutrality will require significant investment and the ETS is an opportunity to provide the necessary investment for this. This investment should focus on increasing the availability and usage of SAFs, while also driving down their cost to ensure users can maintain profitability while decarbonising the sector.

3.4.2. We welcome the Commission's broad ambition in the aviation-related aspects of the 'Fit for 55' package, and support the continued development of sustainable aviation measures in both the revision of the ETS directive and the proposal for a Regulation on ensuring a level playing-field for sustainable air transport. These two proposals are complimentary and, as such, the revenues made from the ETS should support their aims. Therefore, ETS revenues should be used to promote access to and reduce the cost of SAFs throughout the EEA. Furthermore, the ETS could provide financial aid to airports, fuelers and ground handling companies to transition to the new requirements for SAF availability at airfields.

3.4.3. The revenues should also be reinvested in development projects that will further reduce the environmental impact of aviation. Technology such as hydrogen fuels are an option to reduce the impact of aviation in the long-term. Such technology, however, is cost prohibitive and remains far away from reaching application in the market, although investment in hydrogen projects and other alternative fuels will support cost reduction and higher uptake over time.

3.4.4. Revenues must also support a just transition for workers in the aviation industry who have been negatively affected due to climate change. It is anticipated that certain aviation infrastructure will become defunct over time as technology develops. These workers could be left without jobs, and reskilling and upskilling opportunities are required so that these workers can transition to new green and sustainable jobs. To implement this, an aviation social fund could be created that will allow for the training and transition of aviation workers. Such a fund could be managed by the European Commission, with the support of both employers and trade unions.

3.4.5. In addition to the fund, the Commission should engage with EWCs, sectoral social dialogue committees and other joint forums, such as the Aviation Roundtable, on the continued impact of the revised ETS throughout its implementation. Particular consideration should be given to engaging in social dialogue with workers and to understanding the needs and concerns they have in relation to sustainable aviation and the just transition in the sector.

3.5. *Expansion of inter-modal transport*

3.5.1. Inter-modal transport is an easy and cost-effective way to immediately reduce the climate impact of transport. Today, many airlines already allow passengers to purchase inter-modal tickets, particularly through agreements with rail operators. Such agreements allow for an overall reduction in flights, but also promote the use of sustainable mass transport in an efficient way.

3.5.2. The proposal should encourage operators to develop inter-modal transport networks in their major bases to allow expansion to a greater network, while also reducing unnecessary ultra-short-haul flights. This could be encouraged by increasing the level of free allowances in their place elsewhere in the airline's network to areas that do not have convenient rail connections when airlines move routes to non-aviation modes of transport.

3.6. *Regional connectivity*

3.6.1. In the absence of an alternative form of transport, there is a risk that the ETS could lead to reduced connectivity to remote regions of Europe. It is essential that any action taken must not threaten connectivity to peripheral European regions and Member States.

3.6.2. Peripheral regions rely on aviation to ensure their connectivity and economic development. Their reliance is due to their remoteness, small size, insularity and heavy dependence on connectivity to the continent for goods, access to services, connectivity and territorial cohesion.

3.6.3. Additionally, these regions have some of the lowest GDP rates in Europe and, as such, they must be protected and promoted. Therefore, we propose that the special status of EU outermost regions (Guadeloupe, French Guyana, Martinique, Mayotte, Reunion Island, St. Martin, Azores, Madeira, and Canary Islands) be retained, and that such regions be exempt from the ETS as per Article 349 of the TFEU, which allows for derogations from the application of EU law in these regions.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund'

(COM(2021) 568 final — 2021/0206 (COD))

(2022/C 152/26)

Rapporteur: **Thomas KATTNIG**

Co-rapporteur: **Alena MASTANTUONO**

Referral	European Parliament, 13.9.2021
	Council, 20.9.2021
Legal basis	Article 91(1) point (d), Article 192(1) and Article 194(1) point (c) of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
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Plenary session No	565
Outcome of vote	
(for/against/abstentions)	194/3/9

1. **Conclusions and recommendations**

1.1. The EESC welcomes the establishment of a Social Climate Fund in order to mitigate the negative social and economic impacts of the new carbon pricing and in order to provide funds to Member States to support their measures addressing the social impact of this emissions trading on financially weaker households, micro-enterprises and transport users. The EESC also recognises that with this regulation the Commission credibly demonstrates its willingness to combat energy and mobility poverty.

1.2. Nevertheless, the EESC is convinced that the Social Climate Fund will not provide sufficient financial support to responsibly face the socioeconomic effects of the carbon pricing. The enormous challenge of designing an effective and fair compensation mechanism in a heterogeneous economic area comprising 27 Member States requires more far-reaching accompanying measures and resources at EU and national level. The EESC calls on Member States to exploit the synergies of the Social Climate Fund with other available financial resources and to use it in the most efficient way.

1.3. The measures and transformation steps envisaged by the Fit for 55 package will lead to massive changes and must not lose sight of the social and economic situation of the individual Member States. Otherwise, societal acceptance of these measures would be jeopardised. At Member State level, measures accompanying the package must already be discussed and implemented now. To achieve a just ecological transformation, the focus here must be on a just transition for all.

1.4. The EESC believes that the purpose of higher carbon pricing is in any case not to increase revenue, but to steer market behaviour towards low-emission technologies. There is therefore a strong argument for the Commission to provide additional financial resources. Furthermore, the time limit of 2032 does not seem conclusive.

1.5. Some of the stakeholders, including the social partners, representing both employers and employees, have been sceptical and even negative about extending emissions trading to buildings and road transport, pointing to the expected social and economic impact of an increase in heating and fuel prices on financially weaker households, medium-, small- and micro-enterprises and transport users. The danger of not taking the population along with us in the course of European climate policy and a flare-up of widespread protests, such as the 'yellow vests' protests, must be prevented at all costs. In this regard, the Commission should subject its plans to a thorough examination.

1.6. The EESC regrets that the Commission did not analyse the impact of the Fit for 55 package on individual Member States, nor on different sectors. It is of the opinion that a specific impact assessment of the Social Climate Fund creation would have deserved to be carried out.

1.7. The EESC welcomes the obligation of Member States to submit a comprehensive package of measures and investments as their Social Climate Plan along with the updated version of their National Energy and Climate Plan according to the Governance Regulation. The EESC calls for the involvement of social partners, chambers of commerce, civil society, youth organisations as well as local and regional authorities in the elaboration of the national Social Climate Plans by the Member States.

1.8. The EESC is concerned that the costs of an emissions trading system for buildings and transport would outweigh the desired benefits and could lead to uncontrolled and therefore existence-threatening price spikes. The EESC is therefore generally critical about the Social Climate Fund being tied to the introduction of an ETS for buildings and transport and would welcome a specific heading in the EU budget dedicated to the social impact of the green transition. Rather, the introduction of a Social Climate Fund at EU level should be pursued in principle.

1.9. The EESC notes that efficient use of the resources from the Fund must be ensured and fraud, corruption and conflicts of interest associated with the measures supported by the fund must be prevented.

1.10. In terms of the rule of law, it welcomes the measures proposed by the Commission for an effective and efficient internal control system and the announcement to recover unduly paid or misused amounts. Furthermore, the EESC also wonders whether the EU procedure for reducing EU funds when Member States violate the rule of law will apply to the disbursement of the funds.

1.11. The EESC requests more clarification regarding the financing of the Fund. The proposal foresees that the financing will be based on a volatile EU ETS market. Therefore, the EESC does not understand why a fixed amount of EUR 72,2 billion is proposed. The volatility in prices will determine the budget of the Fund. This stresses, inter alia, a necessity for a more stable funding. The EESC proposes to introduce partial financial flexibility in the Fund depending on the actual price development of the allowances (in which the allocation could be increased along with the increasing price).

1.12. When considering the distribution of the Fund among Member States, the EESC stresses that the carbon pricing might have a different impact on individual Member States and it can be also contradictory to national measures already in place, as highlighted by the Irish Parliament in its reasoned opinion on subsidiarity.

1.13. The EESC welcomes the approach by which gender equality and equal opportunities for all, as well as the mainstreaming of these objectives and also questions regarding accessibility for persons with disabilities, are pursued and promoted when developing and implementing the National Plans to ensure that no one is left behind. The planned carbon pricing particularly affects women, as they make up 85 % of single parents. In single-parent families, the risk of child poverty is especially high.

1.14. The EESC knows very well that the Social Climate Fund represents a medium-term reaction to the problem of compensation of higher costs of the green transition to the vulnerable entities. However, the current situation in energy price development requires an immediate solution. The EESC welcomes the Communication from the Commission, which provides Member States with a ‘toolbox’ to address the immediate impact of the current increase in wholesale prices for natural gas and electricity and to strengthen the resilience to future price shocks. Short-term national measures include emergency income support for households, aid for businesses and targeted tax cuts. In order to align the help with the toolbox, the EESC suggests to broaden the scope of the Social Climate Fund to vulnerable small and medium-sized enterprises. This reaction is compatible with the mission of the Social Climate Fund and respects the relevant EU rules.

1.15. The EESC calls on the Member States to support the development and provision of affordable zero- and low-emission mobility and transport services. The EESC considers the provision of public passenger transport services, within the limits of legal possibilities, to be the backbone of sustainable and affordable mobility.

2. **Summary of the Commission document**

2.1. Based on the European Green Deal strategy, in its Communication of September 2020, the Commission called for 'Stepping up Europe's 2030 climate ambition' ([1]), proposed to make the European Union's climate targets more ambitious and presented a plan to raise the binding target for the reduction of net emissions to at least 55 % by 2030. On 11 December 2020, the European Council endorsed this target, emphasising the importance of considering fairness and solidarity aspects and leaving no one behind, and on 25 May 2021 it reaffirmed these conclusions and asked the European Commission to put forward its legislative package together with an in-depth examination of the environmental, economic and social impact at Member State level.

2.2. In order to implement the European Climate Law and the Conclusions of the European Council, on 14 July 2021, the Commission proposed the Fit for 55 package which reviews some pieces of the climate and energy legislation currently in force and proposes new initiatives. The Fit for 55 package, NextGenerationEU and the Multiannual Financial Framework for the period 2021-2027 will help deliver the twofold transformation — ecological and digital — that Europe is striving for.

2.3. According to the Commission, the more ambitious climate target of the European Union also means that contributions from all sectors must be increased. Within the framework of the revision of Directive 2003/87/EC of the European Parliament and of the Council ([2]) ('the ETS Directive'), it therefore proposed emissions trading for buildings and road transport. In order to address the social and distributional impacts of emissions trading for the two new sectors, buildings and road transport, on the financially most vulnerable, the Commission proposed as part of the Fit for 55 package the regulation establishing a Social Climate Fund.

2.4. In the period 2025 to 2032, the Social Climate Fund is intended to mitigate the impact of the new carbon pricing and to provide funding to Member States in order to support their measures to address the social impact of this emissions trading on financially vulnerable households, micro-enterprises and transport users.

2.5. Support is to be provided primarily through temporary income support, as well as measures and investments in order to reduce dependence on fossil fuels by increasing the energy efficiency of buildings, greater decarbonisation of heating and cooling of buildings, also by integrating energy from renewable sources, and improving access to zero- and low-emission mobility and corresponding means of transport. At least 50 % of the financial resources required for the requested measures are to be provided by the Member States themselves.

2.6. The National Energy and Climate Plans (NECP) set out how Member States intend to address energy efficiency, renewable energies and the reduction of greenhouse gas emissions, and how they are already dealing with energy poverty within current legislation. The Commission monitors and reports on progress as part of the State of the Energy Union Report. Member States should propose a comprehensive package of measures and investments to be financed by the Fund and submit it as their Social Climate Plan, together with the updated version of their National Energy and Climate Plans in accordance with the Governance Regulation.

2.7. Member States should report to the Commission in their biennial progress reports on the implementation of the National Energy and Climate Plans in accordance with the Governance Regulation on the progress in implementing the measures and investments within their Social Climate Plans.

2.8. The implementation of the Fund through the Member States' Social Climate Plans is also consistent with the policies and measures supported by other EU instruments to promote a socially just transition. These include the European Pillar of Social Rights Action Plan ([3]), the aim of which is a socially compatible and just ecological transformation for all Europeans, the European Social Fund Plus (ESF+), the just transition plans under Regulation (EU) 2021/1056 of the European

([1]) COM(2020) 562 final.

([2]) Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

([3]) Approved by the European Council on 24 and 25 June 2021.

Parliament and of the Council [4], Member States' long-term strategies for the renovation of buildings under Directive 2010/31/EU of the European Parliament and of the Council [5], and the Energy Poverty Observatory, which supports Member States' efforts to reduce and monitor energy poverty as well as related policy mixes in accordance with the Commission Recommendation on energy poverty [6].

2.9. The majority of the revenues from the new emissions trading will go to Member States' national budgets and should, according to the Commission's idea, be used for climate-related purposes, such as addressing the social impact of the new emissions trading. Member States are encouraged to use these revenues, as well as additional funds from other programmes of the European Union, for measures that support the socially compatible decarbonisation of sectors.

2.10. The total financial endowment of the Fund for the period 2025-32 amounts to EUR 72,2 billion at current prices. The Commission will shortly present a proposal for a targeted revision of the Regulation of the Multiannual Financial Framework for 2021-2027 in order to include additional expenditures of the European Union to the amount of EUR 23,7 billion for the period 2025-2027. These funds should be made available ahead of schedule in order to initiate and accompany the smooth introduction of the new ETS.

2.11. In principle, due to its direct link to the new ETS, the financial endowment of the Fund should correspond to 25 % of the revenues expected from the inclusion of buildings and road transport in the scope of the ETS Directive.

2.12. The annual distribution of the commitments of the funds should be aligned in accordance with the objectives of the Fund. This results in a profile of early allocation of funds in line with the Fund's objective to mitigate the impact of the extended scope of the ETS Directive on financially weaker households, micro-enterprises and transport users. In order to anticipate the consequences of the extension, support is already available from 2025.

2.13. The Porto Declaration of 8 May 2021 confirmed the European Council's commitment to work towards a social Europe and its determination to further intensify the implementation of the European Pillar of Social Rights at EU and national level, with due respect for the respective competences and the principles of subsidiarity and proportionality.

2.14. The implementation of the Fund should be in line with the principle of sound financial management, including effective prevention and prosecution of fraud, such as tax fraud, tax evasion, corruption and conflicts of interest.

3. **General comments of the EESC**

3.1. The European Economic and Social Committee (EESC) supports the important steps taken to achieve the goals of climate neutrality and climate resilience by 2050 pursued by the European Green Deal (EGD). It recognises the Commission's awareness that the climate crisis and energy transition are not purely technical and structural challenges, but also social, economic and distributional ones. The EESC welcomes the establishment of a Social Climate Fund, as proposed in the present Regulation, in order to mitigate the negative social and economic impacts of the new carbon pricing and to provide funds to Member States to support their measures addressing the social impact of this emissions trading on financially weaker households, micro-enterprises and transport users. The EESC also recognises that with this Regulation the Commission credibly demonstrates its willingness to combat energy and mobility poverty.

3.2. Nevertheless, the EESC is convinced that the Social Climate Fund will not provide sufficient financial support to responsibly address the socioeconomic effects of the carbon pricing. The enormous challenge of designing an effective and fair compensation mechanism in a heterogeneous economic area comprising 27 Member States requires more far-reaching accompanying measures and resources at EU and national level. The EESC calls on Member States to exploit the synergies of

(4) Regulation (EU) 2021/1056 of the European Parliament and of the Council of 24 June 2021 establishing the Just Transition Fund (OJ L 231, 30.6.2021, p. 1).
(5) Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).
(6) Commission Recommendation (EU) 2020/1563 of 14 October 2020 on energy poverty C/2020/9600 (OJ L 357, 27.10.2020, p. 35).

the Social Climate Fund with other available financial resources and to use it in the most efficient way. At the same time, the introduction of a Social Climate Fund must be seen in the context of the entire Fit for 55 package.

3.3. The EESC points out that the envisaged climate measures and their impacts may further exacerbate already existing inequalities. The EESC calls on the Commission, the Council and the Parliament to place the principle of a just transition at the centre of their measures to mitigate climate change.

3.4. The measures and transformation steps envisaged by the Fit for 55 package will lead to massive changes and must not lose sight of the social and economic situation of the individual Member States. Otherwise, societal acceptance of these measures would be jeopardised. At Member State level, measures accompanying the package must already be discussed and implemented now. To achieve a just ecological transformation, the focus here must be on a just transition for all.

3.5. The volume of the Fund will amount to EUR 72,2 billion between 2025 and 2032, using 25 per cent of ETS revenues from the transport and buildings sectors. Compared to the challenges posed by such an extension of the ETS, this is a very small amount. The EESC believes that the purpose of higher carbon pricing is in any case not to increase revenue, but to steer market behaviour towards low-emission technologies. There is therefore a strong argument for providing additional financial resources on the part of the Commission and the Member States. Furthermore, the time limit of 2032 does not seem conclusive.

3.6. Some stakeholders, including the social partners, representing employers and employees, have been sceptical and even negative about extending emissions trading to buildings and road transport, pointing to the expected social and economic impacts of an increase in heating and fuel prices on financially weaker households, medium-, small- and micro-enterprises and transport users. The danger of not taking the population along with us in the course of European climate policy and a flare-up of widespread protests, such as the 'yellow vests' protests, must be prevented at all costs. In this regard, the Commission should subject its plans to a thorough examination.

3.7. The EESC regrets that the Commission did not analyse the impact of the Fit for 55 package on individual Member States, nor on different sectors. It is of the opinion that a specific impact assessment of the Social Climate Fund creation would have deserved to be carried out.

3.8. Low-income households already face different difficulties in the current system, for which, in addition to short-term support, long-term and thus sustainable solutions are needed. In the EESC's view, the EU needs robust funding at EU level that will mitigate the socioeconomic impact of the climate measures and ensure a just transition. Therefore, the introduction of a social climate fund at EU level is also fundamentally necessary in the EESC's view and should not be tied to the introduction of an ETS on the buildings and transport sectors. In particular, based on a study by the European Climate Foundation ([7]), according to which 'an expanded ETS alone would not deliver the substantial emission reductions needed in road transport and buildings'.

3.9. Although the EESC welcomes the establishment of the proposed Social Climate Fund in principle, it points out that its financing depends on the introduction of an emissions trading system for buildings and transport (Article 26). Housing and mobility are basic needs and their provision is therefore part of services of general interest. The EESC is concerned that the costs of an emissions trading system for buildings and transport would outweigh the desired benefits and could lead to uncontrolled and therefore existence-threatening price spikes. The EESC is therefore generally critical about the Social Climate Fund being tied to the introduction of an ETS for buildings and transport and would welcome a specific heading in the EU budget dedicated to the social impact of the green transition. Rather, the introduction of a Social Climate Fund at EU level should be pursued in principle.

3.10. The Fund provides for social compensation payments on the one hand, and incentives for electric vehicles, as well as investments in the charging infrastructure and the decarbonisation of buildings, on the other hand. However, the needs of low-income households should be taken into account and measures linked to electrification of mobility should be all-embracing and future-looking, allowing low-income households the use of e-urban mobility or of new business models such as carsharing. The EESC points out that the promotion of zero- and low-emission mobility should not only

([7]) European Climate Foundation Decarbonising European transport and heating fuels — Is the EU ETS the right tool? https://europeanclimate.org/wp-content/uploads/2020/06/01-07-2020-decarbonising-european-transport-and-heating-fuels-full-report.pdf concentrate on electromobility, but that, where appropriate, other alternative and low-cost fuels such as biofuels should also be promoted. The EESC also points out the need to promote low-emission solutions when, for financial or technical reasons, zero-emission alternatives are not possible. In this context, the EESC points out that low-income households should as a matter of priority replace their old, polluting cars with more fuel-efficient vehicles, which requires a thorough re-regulation of the European used car market. It is important that these aspects of a just transition are taken into account by Member States when drawing up their Social Climate Plans and by the Commission when assessing them.

3.11. When considering the distribution of the Fund among Member States, the Commission has sought a formula that takes into account population size (including the proportion of rural areas), per capita gross national income, the proportion of vulnerable households and households' emissions from fuel combustion. The EESC fears that this will still not be sufficient to take account of inequalities within and between countries. A relatively poor Member State with lower inequality within a country could end up benefiting less than a rich Member State with high inequality.

3.12. Member States must submit, along with their National Energy and Climate Plans, Social Climate Plans by 2024 identifying vulnerable groups and measures. In this context, the major differences in commitment and institutional capacities raise the question of whether this will work. The major differences in the way Member States addressed just transition in the various National Energy and Climate Plans may give a foretaste of what to expect. The EESC therefore calls for the involvement of social partners, chambers of commerce, civil society, youth organisations as well as local and regional authorities in the elaboration of the national Social Climate Plans by the Member States.

3.13. The EESC recognises that with this Regulation, as in a number of other documents, such as the Communication and Recommendation on energy poverty (C2020, 9600 final) or the Renovation Wave published in winter (COM(2020) 662 final, SWD(2020) 550 final), the Commission is again placing great emphasis on combating energy poverty. Nevertheless, further efforts are necessary.

3.14. The Energy Poverty Observatory estimates that a total of more than 50 million households in the European Union are affected by energy poverty. Based on the findings of the European Energy Poverty Observatory and the newly surveyed European Energy Poverty Index, a European action plan to eradicate energy poverty should be developed in cooperation with stakeholders, including consumer organisations and NGOs working to combat poverty, such as the European Anti-Poverty Network, to ensure that public action increasingly targets the underlying causes of energy poverty.

3.15. Accordingly, concrete measures against energy poverty are needed at both national and European level. These include better access to subsidies for thermal renovations or the replacement of heating systems for energy-poor households, binding basic supply models and general protective provisions for consumers in the energy sector.

3.16. In this context, the EESC draws attention to Principle 20 of the European Pillar of Social Rights, which states: 'Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need.'

3.17. The EESC notes that efficient use of the resources from the Fund must be ensured and fraud, corruption and conflicts of interest associated with the measures supported by the fund must be prevented. In terms of the rule of law, it welcomes the measures proposed by the Commission for an effective and efficient internal control system and the announcement to recover unduly paid or misused amounts.

3.18. The EESC recommends that the Social Climate Fund be a systemic instrument, comprehensive with the other vehicles to compensate for the increasing costs of the green transition to the EU and the Member States, which substantially contributes to reach the sustainability targets.

3.19. The EESC requests more clarification regarding the financing of the Fund. The proposal foresees that the financing will be based on a volatile EU ETS market. Therefore, the EESC does not understand why a fixed amount of EUR 72,2 billion is proposed. The volatility in prices will determine the budget of the Fund. This stresses, inter alia, a necessity for a more stable funding. The EESC proposes to introduce partial financial flexibility in the Fund depending on the actual price development of the allowances (in which the allocation could increase along with the increasing price).

3.20. The massive increase in wholesale prices for natural gas and electricity is leading to massive financial burdens for consumers. The EESC knows very well that the Social Climate Fund represents a medium-term reaction to the problem of compensation of higher costs of the green transition to the vulnerable entities. However, the current situation in energy price development requires an immediate solution. The EESC welcomes the Communication from the Commission, which provides Member States with a 'toolbox' to address the immediate impact of the current increase in wholesale prices for natural gas and electricity and to strengthen the resilience to future price shocks. Short-term national measures include emergency income support for households, aid for businesses and targeted tax cuts. In order to align the help with the toolbox, the EESC suggests to broaden the scope of the Social Climate Fund to vulnerable small and medium-sized enterprises. The EESC supports the Commission in its plans to support investments in renewable energies and energy efficiency, to examine possible measures in the field of energy storage and gas reserves procurement, and to assess the current electricity market design.

4. **Specific comments**

4.1. The EESC welcomes the approach that gender equality and equal opportunities for all, as well as the mainstreaming of these objectives and also questions regarding accessibility for persons with disabilities, are pursued and promoted when developing and implementing the National Plans to ensure that no one is left behind. After all, the planned carbon pricing particularly affects women, as they make up 85 % of single parents. In single-parent families, the risk of child poverty is especially high. In this context, the EESC renews its call on the European Commission to initiate as soon as possible a revision of the decision on services of general economic interest (SGEI) in relation to the target group of social housing and to make clear that housing policy must not be limited to the sole objective of helping persons close to the poverty line, but must provide adequate, accessible and long-term affordable housing for all citizens affected by the European housing crisis, in particular homeless persons, young couples, single parents or families with many children, workers and the middle class in general ([8]).

4.2. The rise in fossil fuel prices can disproportionately affect financially weaker households, micro-enterprises and transport users who spend a greater proportion of their income on energy and transport, who in certain regions do not have alternative affordable mobility and transport options and who may lack the financial capacity to invest in the reduction of fossil fuel consumption. The EESC therefore welcomes that the focus of the Commission's proposal is on the needs of vulnerable households, vulnerable micro-enterprises and vulnerable transport users, including the granting of free access to public transport or adjusted tariffs, the promotion of a sustainable mobility on demand and common mobility services. Also, Member States are invited to support the development and provision of affordable zero- and low-emission mobility and transport services. The EESC considers the provision of public passenger transport services, within the limits of legal possibilities, to be the backbone of sustainable and affordable mobility. In this sense, increased compensation for public service obligations that better meet ecological and social requirements is necessary, and this in turn requires national governments, regions and municipalities to provide financial support and create financial instruments.

4.3. In the Fit for 55 package, the Commission provides for, among other things, the inclusion of road transport in the EU emissions trading, which means that in the medium term, the costs of conventional motorised private transport will rise, provided it is powered by fossil fuels. The Commission is aware that this will lead to disadvantages for certain groups of the population. In this context, it addresses the issue of mobility poverty, points out the need for compensation in the Climate Change Fund ([9]) and makes initial proposals on how this should be designed. However, the Commission does not provide an estimate of how many persons could be affected by this throughout the EU, nor does it provide a definition or a set of indicators for specifying mobility poverty.

4.4. A study on mobility and re-entry into employment in rural areas (Mobility4Job ([10])) found that only 50 per cent of unemployed persons had a car at their disposal at any time, while the population average was 80 per cent. As in the Costs project, it shows that households react to falls in income, among other things, by saving their private vehicle. This means that mobility limitations only become visible at a later point in time, for example when looking for a job, when relevant

([8]) TEN/707 — Universal access to housing that is decent, sustainable and affordable over the long-term (OJ C 429, 11.12.2020, p. 93).
([9]) COM(2021) 568.
([10]) Unterwegs zwischen Erwerbs- und Familienarbeit (54) — Portal der Arbeiterkammern und des ÖGB Verlags *(On the Road Between Gainful Employment and Family Work (54) — Portal of the Chambers of Labour and the ÖGB Publishing House).*

mobility alternatives are not available and potential working locations cannot be reached. The purely percentual share of mobility costs in income is therefore not a sufficient indicator of whether and to what extent there is a limitation in mobility options. Mobility poverty is a consequence of the combination of several variables: first and foremost income and the compulsion to own a car if no alternative mobility options are available.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on ‘Proposal for a Regulation of the European Parliament and of the Council on measures against transport operators that facilitate or engage in trafficking in persons or smuggling of migrants in relation to illegal entry into the territory of the European Union’

(COM(2021) 753 — 2021/0387(COD))

(2022/C 152/27)

Rapporteur-general: **Cristian PÎRVULESCU**

Referral	European Parliament, 13.12.2021
	Council, 16.12.2021
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Plenary Assembly decision	9.12.2021
Section responsible	External Relations
Adopted at plenary	9.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	159/15/09

1. **Conclusions and recommendations**

1.1. The Committee welcomes the proposal and considers possible sanctions on transport operators to be a justified action to be taken by the EU and the Member States.

1.2. However, it points out that the crisis that triggered the legislative response — the one at the Belarus-EU border — is more complex and has far wider implications that need to be addressed beyond the proposed instruments.

1.3. The Committee is very concerned about the authoritarian trajectory of the Belarusian government and condemns any act of repression and intimidation against citizens, the media, political parties, CSOs and the social partners. It also condemns the way the Belarusian government organised the transfer of persons from third countries to its own territory with the aim of forcing the crossing of EU borders. This is an unacceptable act of exploiting the lives and aspirations of vulnerable persons and endangering their health and safety.

1.4. The EESC puts at the centre of its concern the respect for the dignity of all persons and the protection of their fundamental rights. The EU should respond first by restoring the dignity and rights of those affected.

1.5. Thus, the EESC calls for an immediate end to push-backs from the EU territory to a country where the safety of people is in danger. All persons crossing the EU border need to be able to make an asylum claim, if they so wish.

1.6. The EESC urges the Belarusian government to ensure that people present on its territory are not mistreated, can make an asylum claim, and are not returned to their countries of origin if their life and safety is endangered there, in full compliance with the non-refoulement principle.

1.7. The EU institutions must engage with Belarus on a multilateral basis, ensuring that the country observes the international treaties regulating asylum and human rights protection.

1.8. According to Frontex, from January to October 2021, approximately 6 571 people crossed the eastern EU border, 3 868 of them being Iraqi citizens ([1]). Iraqi citizens have one of the highest rates of recognition of the right to receive international protection (44 % positive first instance decisions in 2020, according to the EASO) ([2]). Thus, the Commission's proposal should fully explore the complementarity with the New Pact for Migration and Asylum and consider the persons involved as possible beneficiaries of international protection.

1.9. The EESC emphasises the need to create safe routes for applying to receive international protection and safely migrating under EU, national and international law. The development of safe routes will decrease the need for smugglers and traffickers, and will better protect the safety and rights of all persons involved.

1.10. The EESC urges the EU institutions to devise a more comprehensive system of sanctions against the Belarusian government for its role in this crisis, in which the participation of transport carriers is just one component. The actions on the territory of Belarus could not have been organised without the approval of the highest levels of government and the participation of various state forces, including the border police.

2. **General comments**

2.1. The EESC welcomes the direction taken by the Commission in basing the action on existing international regulations: the United Nations Convention Against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime, and the Protocol against the Smuggling of Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime.

2.2. It also points out that there are other international regulations that are relevant to this situation: the 1951 Convention Relating to the Status of Refugees and its 1967 Protocol, read in conjunction with the Universal Declaration of Human Rights. We should also bear in mind the content of the European Convention on Human Rights and Fundamental Freedoms. The EU has one of the most comprehensive fundamental rights protection regimes in the world, and all its regulations and actions should be in line with the Charter of Fundamental Rights.

2.3. Regarding the consistency with other EU policies, the proposal indicates the complementarity with the Union's external action including its common foreign and security policy, without being specific on the supporting measures and actions in this field. The proposal also mentions that appropriate humanitarian measures should accompany the measures, but they are not specified. The EESC suggests that the section be amended to include the complementarity with the New Pact on Migration and Asylum and as well with the European Neighbourhood Policy. The proposal needs to be amended to specify the humanitarian measures envisaged.

2.4. In this context, the EESC calls for effective European solidarity with the EU Member States situated at the border and direct support for them in facing the current crisis. At the same time, they should be reminded that protecting the fundamental rights of persons, including migrants and possible refugees, is a responsibility enshrined in the EU Treaties and the Charter of Fundamental Rights.

2.5. All of the possible actions against transport operators — the prevention of any further expansion or the limitation of current transport operations, the suspension of licences or authorisations granted under Union law, the suspension of the right to fly over the Union, transit through the territory of the Union or call into Union ports, the suspension of the rights to refuel or carry out maintenance within the Union or the suspension of rights to operate to, from and within the Union — should be used in a proportionate and targeted manner, bearing in mind the overall objective of limiting trafficking in persons and smuggling of migrants.

2.6. The proposal indicates that the overall aim of the Regulation is to limit trafficking in persons and smuggling of migrants. According to Frontex, from January to October 2021, 6 571 people crossed the eastern EU border, 3 868 of them being Iraqi citizens. Iraqi citizens have one of the highest rates of recognition of the right to receive international protection. On the basis of these figures, these persons need to be considered not just regular migrants but potential legitimate seekers of international protection. Thus, the proposal should be updated to recognise this fact. The proposal should also contain very specific measures to allow persons in Belarus and the EU countries to apply for international protection.

([1]) Frontex Migratory Map, https://frontex.europa.eu/we-know/migratory-map/ Accessed 1.12.2021.
([2]) EASO Asylum Trends — 2020 Overview, https://euaa.europa.eu/sites/default/files/EASO-asylum-report-2021.pdf Accessed 1.12.2021.

2.7. The EESC is increasingly worried that using the term ‘migrant’ has a discriminatory and derogatory connotation. Migrants are human beings whose fundamental rights are to be protected, including their dignity. Most of them leave their countries for very serious reasons, including fear for their lives, and in these cases, they should have the right to seek international protection, and be well treated throughout the journey and application process.

2.8. The proposal adequately builds a framework for targeting transport operators but fails in acknowledging the responsibility of state and government actors. In the case of Belarus, the national carrier is a company working under direct government supervision. Several government and state bodies were directly involved in the process of flying people to Belarus and bringing them to the border.

2.9. The sanctions need to be extended and directly target the public and state players responsible for organising the actions referred to in the Regulation. Ultimately, the government has all the legal and institutional means to stop such actions by transport operators and an even clearer responsibility when they are directly involved. Thus, targeting the transport operators only is not targeting the causes of the crisis but its instruments.

2.10. The EU has been the largest grant donor in Belarus. Since 2016, the financial allocation for Belarus has amounted to around EUR 30 million in annual grant assistance, with a current portfolio standing at close to EUR 135 million of commitments. The EESC welcomes the launch of a comprehensive in-depth review of EU-Belarus relations, which includes financial cooperation, and hopes that the review will lead to renewed and more effective pressure on Belarus to respect the rule of law, democracy and human rights, and also work as a deterrent to further actions that could lead to a similar crisis at the EU border.

Brussels, 9 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — New EU Forest Strategy for 2030'

(COM(2021) 572 final)

(2022/C 152/28)

Rapporteur: **Simo TIAINEN**

Referral	European Commission, 10.8.2021
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	25.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote (for/against/abstentions)	227/1/6

1. **Conclusions and recommendations**

1.1. In its 'New EU forest strategy for 2030', the European Commission quite correctly states that forests play a multifaceted role and have significant economic, social and environmental potential. The vitality and health of forests are of fundamental importance, for both environmental and climate reasons, and in terms of enhancing forest-based economic development and people's welfare. While the Committee acknowledges that the forest strategy addresses economic and social opportunities, this should be done in a more comprehensive way. The EESC also notes that there is no answer regarding how to remunerate the non-commercial ecosystem services provided by forests, and thus by forest owners. The strategy describes a few positive examples, and the Committee calls for a truly convincing and sustainable solution for the future.

1.2. The forest strategy should bridge the various policy fields and strategies relating to forests and the forest-based bioeconomy. The EESC also stresses the importance of making decisions at the right level, in accordance with competences and the principle of subsidiarity. As forests differ a lot across the EU, there are no one-size-fits-all solutions, and forest management and forest management planning are best addressed at national level to contribute to common goals. An EU-level framework in turn is necessary with respect to issues relating to the single market and to environmental and climate issues that cannot be solved through national measures only and which often call for international action as well.

1.3. Advanced cooperation is needed at all levels of policymaking, and the EESC highlights the need for civil society representatives, including businesses, trade unions and environmental organisations, to be closely involved in the further development and monitoring of the strategy, pointing to the central role of forest-owners, industries and workers in sustainable forest management and the forest-based bioeconomy.

1.4. The EESC calls for coherence, certainty, stability, clarity and consistency in the policy and regulatory framework. It is crucial not to introduce initiatives that overlap or contradict with existing widely adopted sustainability definitions, principles, criteria, indicators, guidelines and schemes. Protection of property and free enterprise are also principles that need to be upheld.

1.5. Due to a wide range of issues with unclear implications, the EESC calls for a comprehensive impact assessment of the strategy to identify the implications for market conditions, rural areas and the various funding needs, including for research and innovation, skills development, infrastructure, climate change mitigation and adaptation, and biodiversity enhancement.

1.6. The EESC welcomes the fact that the strategy pays due attention to adaptation to climate change, given that global warming transforms the conditions of trees and all organisms and is associated with forest disasters, with deadly consequences for both the environment and the economy. The EESC also stresses the need for a holistic view of the role played by forests and the forest-based bioeconomy in climate change mitigation, so as to ensure the best combination of sequestration, storage and substitution to achieve a post-fossil-fuel economy. Moreover, the Committee — like the European Commission's forest strategy — highlights the significance of an integrated approach to forest management and biodiversity protection.

1.7. The EESC encourages research into the linkages between climate change, forest ecosystems and forest management and calls for the systematic collection and sharing of reliable data on the state of forests. The EESC also highlights the importance of innovation in the fields of sustainable and climate-resilient biomass production, new forest-based products, and circular economy practices, making full use of digital technologies.

1.8. The digital and green transitions of forest-based activities require new skills, which must be considered particularly in vocational training, and in organising upskilling and reskilling. The EESC points out the importance of creating quality jobs and providing workers with opportunities and adequate working conditions in the wood-based bioeconomy. It highlights the role of social dialogue in the development of skills and health and safety at work. Cooperation is also needed to enhance public awareness of modern, forest-based activities, especially among young people.

1.9. A favourable environment is needed for productive investment throughout value chains, to realise the innovation and employment potential of the forest-based bioeconomy. The EESC also emphasises the need for investment in infrastructure, to facilitate logistics and enable digitalisation in forest-based activities.

1.10. To contribute to global development, the EESC calls on the EU to actively promote a level playing field for EU enterprises competing in international bioeconomy markets and to enhance the global implementation of international agreements that contribute to the protection and sustainable use of forests.

2. **General comments: policy framework**

2.1. The 'New EU forest strategy for 2030' updates the existing 2013 EU forest strategy to take account of recent developments and to respond to the objectives of the European Green Deal, with the aim of achieving a modern, carbon-neutral, resource-efficient, competitive and socially fair EU. The EESC already submitted its views on the progress report for the previous strategy ([1]).

2.2. Forests play an important role in the implementation of the Green Deal, as they are intrinsically linked to the various building blocks of the deal, i.e. promoting sustainable industries, energy, transport, building and food systems, as well as tackling climate change, biodiversity loss and environmental pollution.

2.3. Forests are also a major global issue and relevant to many of the United Nations Sustainable Development Goals (SDGs), including those related to life on land, climate action, poverty reduction, health and well-being, industry and innovation, decent work, and economic growth.

2.4. Considering the multifaceted role and potential of forests in terms of economic, social and environmental benefits, the Committee believes it is important to develop all the functions of forests so as to generate the best possible overall benefit.

2.5. It is of fundamental importance to sustain the vitality and health of forests, for both environmental and climate reasons, and in terms of enhancing forest-based economic development and people's welfare. While the Committee acknowledges that the forest strategy addresses economic and social opportunities, this should be done in a more comprehensive way. The EESC also notes that there is no answer regarding how to remunerate the non-commercial ecosystem services provided by forests, and thus by forest owners. The strategy describes a few positive examples, and the Committee calls for a truly convincing and sustainable solution for the future.

([1]) The EESC opinion on the *European Commission Progress Report on the EU Forest Strategy* (OJ C 47, 11.2.2020, p. 87).

2.6. The EESC believes that the forest strategy should bridge the various policy fields and strategies relating to forests and the forest-based bioeconomy. This will require cross-sectoral cooperation, covering research, innovation, industrial, employment and fiscal policies, in addition to climate and environmental policies and the rural development dimension of agricultural policy.

2.7. The EESC also stresses the importance of making decisions at the right level, in accordance with competences and the principle of subsidiarity. As a general rule, issues relating to the single market require solid EU-level measures. An EU-level framework is also necessary with respect to environmental and climate issues that cannot be solved through national measures only — and which often call for international action, too.

2.8. In contrast, forest management and forest management planning are best addressed at national level to contribute to common goals. The EESC thus finds the involvement of and support by Member States to be crucial for implementing the strategy. The national strategic plans for forests have an essential role to play here, including by incorporating climate and biodiversity aspects into the plans and by identifying ways of providing forest-owners with economic compensation for non-commercial forest ecosystem services. There are no one-size-fits-all solutions, given that the features of forests vary considerably across the EU. The significance of forests in the national economies of the Member States also vary, as does forest ownership, which ranges from public-sector owners and big private companies and investors to small family owners.

2.9. The EESC believes it is important to share good practices between Member States and develop cooperation between the Commission and the Member States, based on revised working practices rather than new formal bodies. The EESC also highlights the need for civil society representatives, including businesses, trade unions and environmental organisations, to be closely involved in the further development and monitoring of the strategy, and points to the central role of forest-owners, industries and workers in sustainable forest management and the forest-based bioeconomy. Investment in the capacity building of stakeholders and competent authorities is necessary for the implementation of the strategy.

2.10. Given the key role of private forest-owners and enterprises, full account must be taken of the protection of property and free enterprise. Broadly speaking, it is not feasible to control product ranges, raw material choices, or operational practices; what is feasible is to set science-based and technology-neutral framework conditions, under which bioeconomy actors can innovate, invest and operate. This applies, for example, to implementation of the cascade principle, which needs to be market-based.

2.11. The EESC calls for coherence, certainty, stability, clarity and consistency in the policy and regulatory framework, considering the long investment cycles of many bioeconomy activities. It is crucial not to introduce initiatives that overlap or contradict with existing widely adopted sustainability definitions, principles, criteria, indicators, guidelines and schemes. Moreover, any initiatives must avoid excessive red tape such as multiple data collection and reporting.

2.12. In the EESC's view it is vital that the above principles related to decision-making level, ownership, stability, coherence and avoidance of overlaps be carefully considered and fully adhered to in further work. This applies in particular to the initiatives on the monitoring system, indicators and thresholds for sustainable forest management, a closer-to-nature certification scheme and forest-related criteria for sustainable finance.

2.13. All in all, the implications of the strategy are unclear and some of its initiatives may weaken forest-based value chains and jeopardise jobs, especially in rural areas, by limiting sustainable wood harvesting. The EESC therefore urges that a comprehensive impact assessment be carried out of the strategy to evaluate its cumulative economic, social and environmental implications. This is also needed in order to identify the various funding needs, including research and innovation, skills development, infrastructure, climate change mitigation and adaptation, and the protection and enhancement of biodiversity.

3. **Specific comments: the role of forests in climate change and biodiversity**

3.1. Forests play a considerable role in natural processes: in controlling the cycles of carbon, water and nutrients, in soil formation, and in maintaining biodiversity. On the other hand, forests themselves are remarkably vulnerable to the impacts of climate change.

3.2. In the EU, total forest area and the area of protected forests have increased in the last decades, wood increment exceeds felling, and forests are a major carbon sink ([2]). By contrast, deforestation is continuing at the global level — especially in tropical areas — turning these forests into a source of emissions and contributing significantly to ongoing loss of biodiversity ([3]). The EESC thus emphasises the need also to consider the role of forests on a global scale and calls on the EU to actively promote the global implementation of international agreements that contribute to the protection and sustainable use of forests.

3.3. Forests and the forest-based bioeconomy play a multiple role in climate change mitigation: through the sequestration and storage of carbon and through the substitution of fossil-based raw-materials, energy and products. It follows that there are synergies and trade-offs between various measures ([4]). The EESC therefore highlights the need to consider all these mechanisms in a holistic way when seeking the most sustainable solutions for achieving a post-fossil-fuel economy.

3.4. Carbon sequestration is not just a matter of forest land area but is primarily one of forest growth and vigorous photosynthesis. In addition to afforestation and reforestation, the active management, use and renewal of forests are therefore essential to harnessing the potential of forests as a carbon sink.

3.5. The role of forests in carbon storage is also manifold, as carbon is stored not only in trees and soil, but also in wood-based products. Long-lasting wood products such as buildings and high-quality furniture are the most effective in this sense. Shorter-living forest-based products also retain their carbon content, as long as they are recycled. Moreover, when forest-based renewable feedstocks are used to substitute fossil ones, the release of carbon from fossil storage is avoided.

3.6. The EESC also calls for the vulnerability of forests to climate change and need for adaptation to be thoroughly addressed, as warming transforms the conditions of trees and all organisms and is accompanied by forest disasters caused by increased drought, fires, storms and pests. On the other hand, forests contribute to climate change adaptation by providing protection against erosion, landslides and floods.

3.7. Forests, including managed forests, are also crucial to biodiversity, as they provide the habitats of most terrestrial biodiversity. Biodiversity can be sustained in various ways: through protecting endangered species, through creating protected areas with limited or no human activities allowed in them, or through implementing forest management practices that enable biodiversity to be maintained alongside the socioeconomic use of forests.

3.8. Considering that the majority of forests are managed, the EESC highlights the significance of an integrated approach to forest management and biodiversity protection, which enables the multiple functions of forests to be combined. The Committee recognises the market-based and voluntary biodiversity protection and carbon sequestration measures by forest owners and endorses the exploration and development of crediting schemes for such measures.

3.9. Both the carbon sequestration capacity and biodiversity of forests vary considerably across the Member States. The differences are partly related to different natural conditions and partly stem from the mode of forest management and use over time. The need to protect and restore forests thus also varies across the EU, which must be recognised when determining the forests to be restored or protected.

3.10. The EESC encourages continuing research into the physical, chemical and biological processes of forests and the linkages between climate change, forest ecosystems and human activities, so as to ensure that forest management practices are based on sound science. It is also important to systematically monitor and share data on the state of forests, making full use of digital tools and systems, while ensuring adequate data protection and reliability.

3.11. The EESC endorses the initiative of planting 3 billion trees as a practical demonstration project, including proper planning of sites and species, allocation of human and financial resources, planting, management, and close monitoring of developments and results. This afforestation must not result in competition with land use for food production or ignore the need to maintain an open landscape in some places.

([2]) https://forest.eea.europa.eu/news/summary-for-policy-makers-state-of-europe2019s-forests-2020
([3]) http://www.fao.org/state-of-forests/en/
([4]) https://ec.europa.eu/jrc/en/science-update/forest-based-bioeconomy-and-climate-change-mitigation-trade-offs-and-synergies

4. **Specific comments: the economic and social role of forests**

4.1. Forests respond to a wide variety of everyday needs, providing raw material for industrial and consumer products, space for recreation, and healthy food for direct household use. Forests thus play an essential role in both the wood- and non-wood-based bioeconomy, as well as contributing to health and mental well-being.

4.2. The forest-based bioeconomy rests on diverse value chains, covering forest-owners and many kinds of industries and services, from forest machine and transport entrepreneurs to wood-processing companies, and from local micro-enterprises, cooperatives and SMEs to big international companies. Consequently, the forest-based bioeconomy provides jobs in many fields and in various locations, with high importance for rural areas.

4.3. Most roundwood in the EU is used as industrial raw material (logs and pulpwood), while the use of wood for fuel varies considerably between the Members States ([5]). Except in the case of printing paper, global demand is predicted to grow for both traditional and new wood-based products. The EESC recommends ensuring that norms and standards do not hamper, but rather encourage, the use of wood-based products and construction, while also ensuring that consumers are correctly informed about the possible presence of non-wood materials in those products through appropriate labelling.

4.4. Current good practices suggest that different kinds of trees and different parts of a tree are used for the purpose and products to which they are best suited and, in this way, generate the greatest added value without wasting natural resources. Much forest-based energy is produced from thinnings, logging residues or side-streams of woodworking. Pulp mills are a good example of plants that produce electricity and heat as a by-product. Moreover, side-streams and residues are used as raw materials in existing industrial processes and, increasingly, for new bioproducts.

4.5. The EESC highlights the importance of intensively developing technologies and solutions for sustainable and climate-resilient biomass production, energy and material efficiency, and circular economy practices across forest-based value chains. Digital technologies, including AI, have considerable potential to support the development and optimisation of forest management, industrial processes, logistics and interaction between supply-chain partners.

4.6. The most far-reaching innovations generate new materials and products, including biochemicals, advanced biofuels and textile fibres, some of which are low-volume products with high added value. As the development of new products is often carried out in the context of current production, traditional production units give rise to new business ecosystems that involve a wide variety of enterprises, particularly SMEs.

4.7. Development of skills is one prerequisite of the digital and green transition for forest-based activities. It is also a necessary means to ensure that no one is left behind. The new demand for skills must be considered in vocational training and university studies, as well as in organising upskilling and reskilling. Moreover, practical advisory services are needed, to help businesses, especially small enterprises, meet the new requirements.

4.8. The EESC highlights the role of social dialogue in developing skills and health and safety at work. Allocating ESF+ funds to enhancing quality jobs and adequate working conditions in the wood-based bioeconomy may help to combat poverty and reduce migration from rural areas. Poverty reduction also contributes to reducing illegal wood felling, especially for heating purposes.

4.9. As forest-related jobs are dominated by men and as the average age of people in these jobs is relatively high, it is important to attract more female workers and entrepreneurs, as well as young people, into the sector. This will require cooperation to develop the image of forestry and forest-based industries, and to increase public awareness of the opportunities provided by the modern bioeconomy. Solid societal communication is also needed on the ways of and prerequisites for enhancing the vitality and resilience of forests.

([5]) https://ec.europa.eu/eurostat/documents/3217494/12069644/KS-FK-20-001-EN-N.pdf/a7439b01-671b-80ce-85e4-4d803c44340a?t=1608139005821

4.10. To realise the innovation and employment potential of the forest-based bioeconomy, a favourable environment is needed for productive investment throughout value chains. The EESC also emphasises the need for proper infrastructure, including in rural areas. The forest-based bioeconomy requires transport infrastructure that meets the logistical needs of forestry and of the production and distribution of forest-based bioproducts. Proper digital infrastructure is another essential prerequisite of the modern bioeconomy.

4.11. The EESC encourages the Member States to use EU funds and national funding, including rural development funds, to enhance the forest-based bioeconomy. Support schemes that hinder or distort bioeconomy markets must be avoided, paying specific attention to existing subsidies and other incentives for the burning of wood.

4.12. EU enterprises also need a competitive trading environment that enables them to export sustainable forest-related products and solutions to other countries and to compete successfully with imports from outside the EU. The EESC calls on the EU to promote same rules in international bioeconomy markets and to make use of pan-European and international partnerships and foreign trade agreements to promote the EU's climate ambition and the sustainability of forest use outside the EU.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

Opinion of the European Economic and Social Committee on ‘Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757’

(COM(2021) 551 final — 2021/0211 (COD))

‘Proposal for a Decision of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030’

(COM(2021) 571 final — 2021/0202 (COD))

(2022/C 152/29)

Rapporteur: **Stefan BACK**

Referral	European Parliament, 13.9.2021
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Outcome of vote	
(for/against/abstentions)	219/3/13

1. **Conclusions and recommendations**

1.1. The EESC welcomes the ambition to accelerate and raise the reduction of CO_2 emission in order to comply with the objectives set in the European Climate Law and the European Green Deal and fully supports the overarching objective of a 55 % CO_2 reduction by 2030 and a carbon neutral economy by 2050.

1.2. The EESC is supportive of the proposed measures and for that reason also sees it as extremely important that the problems inherent in the envisaged transition are addressed and resolved in an adequate manner. This, in our opinion, is a fundamental condition for success.

1.3. It is therefore important that the potentially negative effects of the proposed measures on the competitiveness of European industry and service providers, both in carbon intensive sectors and in general, are analysed very carefully and measures are taken in order to prevent, as far as possible, negative effects on the economy and negative social effects such as unemployment, energy poverty or mobility poverty.

1.4. The EESC takes note that the resources available for upskilling and reskilling and for the solution of negative social effects following from the ETS proposal will depend on the fate of proposals still pending before the co-legislators, including the creation of a Social Climate Fund. The EESC, while approving these proposals as such, still questions whether the resources available will be sufficient even if the financing proposals were approved without significant amendments.

1.5. It is also necessary to consider the way climate issues are dealt with worldwide and to avoid divergences that may put European business at a disadvantage. The EESC refers in this connection to its opinion on the Carbon Border Adjustment Mechanism (CBAM), among others.

1.6. The accelerated pace and the high ambition level of CO_2 reductions and reduced availability of greenhouse gas allowances will mean higher costs for all sectors covered by the ETS system. While some sectors will be protected by the CBAM (Carbon Border Adjustment Mechanism), this will negatively influence competitiveness on the world market unless a substantial number of states follow the EU lead, which is still not known. Measures to support exports may be required and the EESC points to the need to find efficient solutions that are compatible with the WTO framework, to which end the European Commission should take immediate political action. In addition, all of the EU's bilateral trade agreements need to be modified accordingly.

1.7. The EESC also questions whether the increased cost level provoked by the modifications of the ETS may have negative effects on the prospects of recovery following the COVID-19 crisis.

1.8. EESC draws attention to the fact that maritime transport is one of the sectors where CO_2 reduction is particularly difficult and costly on the 2030 horizon, but that the sector has nonetheless indicated that it will achieve climate neutrality by 2050. The European Commission should look into whether the planned inclusion of maritime transport might provoke a general price increase on emission allowances with repercussions on all ETS sectors.

1.9. The EESC welcomes in principle the proposal to extend the applicability of the ETS to third country vessels and to journeys from and to third country ports, but nevertheless draws attention to the ongoing work within the IMO (International Maritime Organization) to reach a global solution with respect to maritime transport emissions and encourages the EU to actively work toward the achievement of an IMO solution.

1.10. Regarding the chosen solution for extending ETS to buildings and road transport in the form of a parallel system with fuel distributors as trading subjects, the EESC notes that the main impact on those responsible for buildings, transport operators or owners of passenger cars will be a price signal, to the extent that the fuel distributor allows the trading costs to influence the fuel price with considerable effects on households/consumers and companies.

1.11. Since in this instance the actors subject to ETS are not the actual actors in the sectors concerned — that is, road transport or management of buildings — but fuel distributors, the possibilities of those in the sector concerned to influence their situation is very limited and, in many cases, non-existent. What is introduced is a price signal, with similar effects to, for instance, a tax increase. The usual added value of the ETS system is therefore largely absent.

1.12. Effects of the extension to road transport may be particularly strong on households which, for financial or other reasons, cannot choose an electric or alternative fuel vehicle or for heavy duty transport where, in particular regarding long distance transport, so far, no real alternatives to fossil fuels are available.

1.13. With regard to the extension to road transport, the EESC notes that this measure was decided against the sceptical views of the private sector, trade unions and NGOs. These views seem to have carried little weight compared to those of private citizen and academia. As legislation is a political process with societal effects, the EESC takes the view that broad consideration of effects on society, including economy and employment, should be key in that decision making.

1.14. The EESC draws attention to the fact that EU domestic navigation, buildings and road transport will remain subject to the Effort Sharing Regulation (ESR) and that ETS results in those sectors will count towards Member States' efforts to meet the ESR obligations. The transport sector is also affected by emissions standards, and the buildings sector by energy efficiency provisions, and both are additionally affected by the Renewable Energy Directive. The EESC therefore points to the need for the Commission and Member States to deal with the interface between the systems in a smooth and transparent manner.

1.15. The EESC approves the proposal to adjust volumes and improve stability and foreseeability regarding the Market Stability Reserve. Likewise, the EESC welcomes the creation of a Market Stability Reserve including with respect to emission trading for road transport and buildings.

2. **Background**

2.1. The Commission has submitted the following two proposals updating and extending the Emissions Trading System:

— Proposal for a Directive amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757, (COM(2021) 551 — 2021/0211 (COD)) (the ETS Proposal)

— Proposal for a Decision amending Decision (EU) 2015/814 as regards the number of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030, (COM(2021) 571 — 2021/0202 (COD)) (the Market Stability Proposal)

2.2. The proposals are part of the Fit for 55 package, which is intended to establish the regulatory framework for reaching the target set in the Climate Law to reduce CO_2 emissions by at least 55 % by 2030 as compared to 1990 in a fair, cost-efficient and competitive way.

2.3. This objective is to be achieved through thirteen legislative proposals, seen as inter-connected and containing pricing, target-setting, standard-setting and support measures.

2.4. The proposals at issue here are those intended to establish a stronger emission trading system and extending emissions trading to maritime, road transport and buildings. Further proposals concerning ETS in the aviation sector are being dealt with in a separate opinion.

2.5. The proposals link up with the proposals for an updated Energy Taxation Directive ([1]) and the proposal for a Carbon Border Adjustment Mechanism (CBAM) ([2]). There is also a link to the proposal for a Regulation establishing a Social Climate Fund ([3]) which is intended to mitigate negative social impacts following from the ETS proposal.

2.6. The increased target for lowering emissions, from 43 to 61 % by 2030, means an increased yearly decrease of emissions from the current 2,2 to 4,2 %. This is to occur through a reduction of the number of allowances available each year. With respect to those sectors that are to be safeguarded by the proposed Carbon Border Adjustment Mechanism (CBAM) (cement, electricity, fertilisers, iron and steel and aluminium), there will be no free allowances when the mechanism has been fully phased in. This will also be the case with respect to buildings and road transport where no carbon leakage risk is expected.

2.7. With respect to the extension of the emissions trading system to road transport and buildings there is also a link to the proposal for an updated Effort Sharing Regulation ([4]).

3. **General comments**

The ETS proposal in general

3.1. The EESC welcomes the ambition to accelerate and raise the reduction of CO_2 emission in order to comply with the objectives set in the European Climate Law and the European Green Deal. The EESC fully supports the overarching objective of a 55 % CO_2 reduction by 2030 and a carbon neutral economy by 2050. The EESC also supports, as such, the polluter pays principle. As also demonstrated by the recent IPCC report, urgent and strong measures are needed to mitigate climate change.

3.2. It is therefore important that the potentially negative effects of the proposed measures on the competitiveness of European industry and service providers, both in carbon intensive sectors and in general, are analysed very carefully and measures are taken in order to prevent, as far as possible, negative effects on the economy and negative social effects such as unemployment, energy poverty or mobility poverty.

([1]) https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52021PC0563.
([2]) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0564&qid=1634050477623.
([3]) https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0568.
([4]) https://ec.europa.eu/info/sites/default/files/proposal-amendment-effort-sharing-regulation-with-annexes_en.pdf.

3.3. It is also necessary to consider the way climate issues are dealt with worldwide and to avoid divergences that may put European business at a disadvantage and/or cause social problems such as energy or mobility poverty. The EESC regrets that too little attention seems to have been given to these problems and that the solutions offered do not appear fully sufficient.

3.4. Regarding social effects, there will be an obvious need for reskilling and upskilling to enable the workforce to adapt and meet new skills requirements. Furthermore, effects on households such as higher costs for electricity and mobility are likely to cause energy and mobility poverty, with the latter being particularly prevalent in distant and sparsely populated regions. There are plans to deal with those problems through various mitigation measures to be financed largely by ETS revenues, including those falling to the Member States and those to finance the proposed Social Climate Fund. The EESC takes note that the resources available for the solution of those problems will depend on the fate of proposals still pending before the co-legislators. The EESC believes that the costs for dealing with these problems will be considerable and lasting. The EESC therefore also questions whether the resources available will be sufficient even if the financing proposals were approved without significant amendments bearing in mind the number of people involved and the time needed for the envisaged transition.

3.5. The accelerated pace and the high ambition level of CO_2 reductions and reduced availability of greenhouse gas allowances, while bringing environmental benefits, will also mean higher costs for all sectors covered by the ETS system. While cost effects will be reduced by the availability of free allowances and for some sectors through the CBAM, these measures will not apply to all sectors that use energy in various processes and that will face third country competition on the internal market. Furthermore, those measures will not protect EU enterprises from a competitive disadvantage on external markets, due to the increased cost level.

3.6. The EESC also draws attention to the fact that the question remains open whether zero-emission products will become sufficiently attractive to compensate the cost difference caused by the ETS or whether measures with equivalent cost effects to those of the ETS will be generally introduced on world markets. If that is not the case the competitiveness of European business on world markets may become problematic.

This raises the question whether products or services to be exported to third countries should be exempted from the ETS or whether other support measures should be considered. It seems doubtful whether innovation support, which appears to be the only support measure compatible with the WTO framework, is sufficient to resolve a possible competitiveness problem.

3.7. A further question is whether the increased cost level provoked by the modifications of the ETS may have negative effects on the prospects of recovery following the COVID-19 crisis. The EESC questions whether this risk has been sufficiently taken into account.

3.8. The EESC is pleased to note that the ETS proposal provides for the revenues of the ETS system to be used in various ways — through the Commission own resources or according to provisions regarding the use of revenues by Member States — to promote sustainability, including social effects on the transition to a carbon neutral society.

3.9. The EESC underscores that the above remarks should not be seen as questioning the urgent need for action to mitigate the negative climate effects of emissions, but as a caveat regarding the risk of negative effects, both socially and on competitiveness, if issues such as those pointed out above are not addressed and resolved.

Maritime transport extension

3.10. The EESC welcomes the fact that all ships arriving at or departing from EU ports will be subject to the same rules. Nevertheless, the cost level of EU ship owners or operators otherwise falling under the ETS will be higher than that of non-EU competitors, which also in some cases lower their costs through social dumping. The EU needs to pay attention to the effects of reduced competitiveness of EU shipping.

3.11. It should also be considered that maritime transport is one of the sectors where CO_2 reduction is particularly difficult and costly, and that therefore inclusion of maritime transport might provoke a general price increase on emission allowances which would have repercussions on the competitiveness of ETS sectors in general.

3.12. According to the ETS proposal, ETS trading in the maritime sector is limited to ships with a gross tonnage over 5 000 gross tons in accordance with Regulation (EU) 2015/757 of the European Parliament and of the Council [5] on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport. This may provoke perverse effects in the form of increased newbuilding of ships below 5 000 tons or reconstruction of ships to pass under the 5 000 gross tons limit. A reasonable solution would be to lower the threshold considerably, and make ETS apply to — for instance — ships above 400 gross tons. A further solution could be to adapt the monitoring obligation accordingly.

3.13. While welcoming in principle the proposal to extend the applicability of the ETS to third country vessels and to journeys from and to third country ports, the EESC nevertheless draws attention to the ongoing work within the IMO to reach a global solution with respect to maritime transport emissions and encourages the EU to actively work toward the achievement of an IMO solution.

Buildings and road transport extension in a parallel system

3.14. The chosen solution in the form of a parallel system with fuel distributors as trading subjects means that the main impact on those responsible for buildings, transport operators or owners of passenger cars will be a price signal, to the extent that the fuel distributor allows the trading costs to influence the fuel price. If that happens, effects may be considerable both on households/consumers and companies.

3.15. With regard to the extension to road transport, the EESC notes that this measure was decided against the sceptical views of the private sector, trade unions and NGOs. These views seem to have carried little weight compared to those of private citizen and academia. As legislation is a political process with societal effects, the EESC takes the view that broad consideration of effects on society, including economy and employment, should be key in that decision making.

3.16. Effects may be particularly strong on households which, for financial or other reasons, cannot choose an electric or alternative fuel vehicle or for heavy duty transport where, in particular regarding long distance transport, so far, no real alternatives to fossil fuels are available.

3.17. With increased demand alternative fuel prices are also likely to go up, in particular bearing in mind the strict legislation on renewable fuels, which limits availability and provokes higher costs.

3.18. An essential feature, and an essential added value of the ETS, appears to be that it encourages the actors in the sectors concerned to take action to reduce the burdens imposed by the system by changing their behaviour or develop in various ways. Since in this instance the actors subject to ETS are not the actual actors in the sectors concerned — that is, road transport or management of buildings — but fuel distributors, the possibilities of those in the sector concerned to influence their situation is very limited and, in many cases, non-existent. What is introduced is a price signal, with similar effects to, for instance, a tax increase. The usual added value of the ETS system is therefore largely absent.

The interface between ETS in maritime transport, buildings and road transport and the Effort Sharing Regulation (EU) 2018/842 of the European Parliament and of the Council [6] (ESR)

3.19. The EESC takes note that EU domestic navigation, buildings and road transport will remain subject to the ESR and that these sectors will be impacted by other new rules linked to the Fit for 55 package, including the proposals for Energy Efficiency Directive [7], the Renewable Energy Directive [8] and the emission requirements for motor vehicles. This seems to mean that the emission levels resulting from ETS in those sectors will count towards Member States' efforts to meet the ESR obligations. It also seems to mean that Member States retain the regulatory capacity to impose further obligations on those

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(5) Regulation (EU) 2015/757 of the European Parliament and of the Council of 29 April 2015 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport, and amending Directive 2009/16/EC (OJ L 123, 19.5.2015, p. 55).

(6) Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26).

(7) COM(2021) 558 final

(8) COM(2021) 557 final

sectors to help achieve their ESR obligations, with the ESR provisions on flexibility and fairness applying at the same time. The EESC therefore draws attention to the importance that the Commission and the Member States deal with the interface between the various systems in a smooth and transparent manner.

The Market Stability Proposal

3.20. The EESC takes note of the adjustment of the calculation of the total number of allowances to enable the Market Stability Reserve to also deal with the aviation and maritime sectors as well as the amendment of the so-called intake rate to introduce an element of flexibility by creating a buffer market stability reserve.

3.21. Likewise, the EESC welcomes the creation of a Market Stability Reserve as such, including with respect to emission trading for road transport and buildings.

3.22. The EESC is pleased to note the amendments to Decision (EU) 2015/1814 of the European Parliament and of the Council [9] on the Market Stability Reserve and the intention to take account of the needs of aviation and maritime transport as well as buildings and road transport. The EESC appreciates the objective of improving foreseeability and stability regarding the availability of allowances. The EESC is likewise pleased to note the proposal to prolong the doubling of percentages and allowances to enable a sufficient number of allowances to be placed in the Market Stability Reserve.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

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(9) Decision (EU) 2015/1814 of the European Parliament and of the Council of 6 October 2015 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC (OJ L 264, 9.10.2015, p. 1).

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism'

(COM(2021) 564 final — 2021/0214 (COD))

(2022/C 152/30)

Rapporteur: **Andrés BARCELÓ DELGADO**

Co-rapporteur: **John COMER**

Referral	European Parliament, 13.9.2021
	Council, 21.9.2021
Legal basis	Article 192(1) and Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	25.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	179/3/7

1. **Conclusions and recommendations**

1.1. The EESC welcomes the Commission proposal to set a Carbon Border Adjustment Mechanism (CBAM) with the aim of raising awareness on the EU climate ambition and to establish a level playing field within the Single Market.

1.2. The EESC calls for the impact assessment to be extended to the export activities of the sectors included in the scope of the CBAM. The EU must continue to pursue its climate ambition but, at the same time, it needs to guarantee European industry a level playing field in the international arena by enabling it to compete in the single market and export to international markets.

1.3. The EESC encourages EU legislators to explore how to handle exports in order to allow EU industry to remain competitive in international markets. The EESC recommends an impact assessment to find out how the WTO rules must be interpreted or adapted in such a way that they support the goals and efficiency of the CBAM in order to contribute to the avoidance of industrial CO_2 emissions worldwide.

1.4. Many important topics will need further development through delegating acts for implementation. Therefore, considering this point together with the previous one, it is almost impossible to figure out what the consequences of implementation will be for each manufacturing sector. Doubts about several key details of the proposed Regulation make it difficult to assess it until the legislative process has progressed further. However, uncertain framework conditions must be avoided, especially when assessing CO_2 for imports, so as not to undermine the proactive and anticipatory measures taken by European companies to protect the climate.

1.5. The EESC asks European legislators to directly allocate revenue from the CBAM to support the industrial transition of the affected sectors. Some economic sectors suffering from unfair climate competition might need additional support, in recognition of their efforts, as they might become less competitive against those which do not internalise the climate/environmental footprint.

1.6. The EESC prompts the European Union to help less developed countries improve their technological capabilities, to avoid the risk of CBAM circumvention.

1.7. A sound verification of the actual emissions embedded in imported products will be key to a fair deployment of the CBAM. The EESC recommends that the Commission set specific requests to authorised verification bodies.

1.8. The Committee notes the need for a strong industrial footprint in Europe which is fully competitive, and climate responsible.

1.9. At the same time as the legislative procedure, the Commission is requested to carry out an impact study on the possible effects of the CBAM along the value chain, as a consequence of its implementation.

1.10. The introduction of CBAM would cause a major change in the world trading system. The EU must take all necessary steps to ensure that CBAM does not lead to an increase in GHG emissions in other parts of the world with the potential for extra global emissions. The CBAM must not in any way lead to the deindustrialisation of the EU. The EU must balance its climate ambition with the real fact that reducing greenhouse gas (GHG) emissions is a global issue.

1.11. The political dimension of the CBAM has not been sufficiently highlighted. The final decisions regarding the CBAM will largely be based not only on discussions within the EU but also on the negotiations that will be necessary with trading partners to agree on an outcome and avoid a trade conflict.

1.12. The EESC has a reasonable expectation that a functioning CBAM system will make employment in the climate-friendly transformed former CO_2-intensive companies and sectors more robust. However, it also warns of the risk of failure of the CBAM, in conjunction with the ETS system. The complete abolition of free allocation with the introduction of the CBAM could lead to major job losses in the EU.

1.13. The CBAM will support both the EU climate ambition and a stronger future industrial footprint in Europe. Obvious risks, such as difficulties in the verification of provided information about CO_2 emissions from third countries and possible circumvention must be taken into account when implementing the CBAM, during and after the transition period.

2. **Gist of the Commission proposal**

2.1. On 14 July, the Commission published the ‘Fit for 55: delivering the EU’s 2030 Climate Target on the way to climate neutrality’ package ([1]), It includes a proposal on the Carbon Border Adjustment Mechanism (CBAM) ([2]), which is closely linked to the revision of the Emissions Trading System (ETS) Directive ([3]). The fit for 55 package itself arises as a consequence of the European Green Deal Communication ([4]), which was presented on 15 December 2019.

2.2. The proposal provides for a ‘notional ETS’ to be applied to imports of several industrial products and electricity. The sectors covered in the first phase are: cement, steel, fertilisers, aluminium and electricity.

2.3. For those materials with more intensive downstream processing, the proposal already includes many downstream products. Nevertheless, there is a reference to ‘complex products’ which could enlarge the scope of the proposal.

2.4. The CBAM administrative burden rests with the Commission, the Member States and importers into the EU market.

([1]) COM(2021) 550 final
([2]) COM(2021) 564 final
([3]) COM(2021) 551 final
([4]) COM(2019) 640 final

2.5. The ‘notional ETS’ mirrors the current ETS with some key differences: emission certificates will not be tradeable and importers will have to surrender those certificates at the current CO_2 price in the EU, based on the embedded emissions in the products to be imported into the EU.

2.6. The list of sectors and products covered by the CBAM is specified in Annex I of the proposal. The Commission would enlarge the scope of the CBAM to new products if it identifies a serious risk of circumvention. A Commission proposal to include new sectors or products will go through the full legislative process.

2.7. The proposed system only takes into account direct emissions (Scope 1) and not indirect emissions linked to energy (electricity or heating) (Scope 2) or indirect emissions of products in the downstream value chain, but it would include limited upstream value chain emissions (not including transport or the corporate value chain) (Scope 3) through the concept of ‘complex goods’. How this will work is not well detailed in the proposal and will be settled by the Commission through implementing acts.

2.8. The geographical scope covers all third countries outside the customs union except those included in the current EU ETS or countries ‘coupled’ with the EU ETS. Specific measures are included to take into account the carbon price charged in several third countries.

2.9. The CBAM differs from the ETS as the CBAM will be focused on products (with specific Combined Nomenclature (CN) codes), whereas the ETS is focused on installations.

2.10. The CBAM’s final goal is a gradual substitution of the current free allocation in the covered sectors. After the ‘transition period of three years’, free allocation will be phased out from 2026 at a rate of 10 % a year for 10 years as currently foreseen in the Commission’s proposal. Details about the progress of the phase-out of free allocation for the involved sectors are not included in the CBAM proposal but in the ETS Directive review.

2.11. The CBAM will take into account the free allocations granted to EU industry to avoid double protection. Commission implementing acts will establish the methodology to apply to calculate the CBAM level for every product.

2.12. The rules to determine the embedded emissions in products are general, with a specific and simplified approach to electricity imports.

2.13. The Commission thinks that a transitional phase of 3 years will be needed to refine the calculation of embedded emissions and to determine who will be the accredited verifiers of those emissions. An overall revision of the system must be carried out in 2025 before the second phase of the CBAM.

2.14. Revenues from the CBAM will be collected by national authorities, which will, in principle, pay them into the EU Treasury, after deducting the administrative cost associated with managing the procedures.

2.15. The proposal envisages a three-year (2023-2025) administrative trial phase without economic consequences. Importers will need to carry out some reporting procedures but without having to verify embedded emissions, being preauthorised or having to pay for the certificates for the imported products.

3. **General comments**

3.1. The Commission, led by DG TAXUD, has done a good job drafting the proposal, taking into account the need to combine the expansion of the EU’s climate ambition and the need to avoid the risk of carbon leakage.

3.2. The proposal seems to have been presented without identifying some technicalities that will be decided by the Commission during the first phase (testing period). Both the Council and the Parliament are committed to launching the CBAM in 2023, which is a tight schedule.

3.3. Many important topics will need further development through delegating acts for implementation. Therefore, considering this point together with the previous one, it is almost impossible to figure out what the consequences of implementation will be for each manufacturing sector. Doubts about several key details of the proposed Regulation make it difficult to assess it until the legislative process has progressed further. However, uncertain framework conditions must be avoided, especially when assessing CO_2 for imports, so as not to undermine the proactive and anticipatory measures taken by European companies to protect the climate.

3.4. For electricity imports, it is unclear if the Commission has properly assessed the impact on the electricity price in the EU electricity market and how it would generate higher costs for consumers and, therefore, would increase the risk of carbon leakage among electricity-intensive sectors. It should not be forgotten that the consumption of electricity is not considered in the scope for calculation of the carbon footprints of imported products ([5]).

3.5. European industry is export-oriented and if, as a consequence of the CBAM, it has some protection against imports but cannot compete in international markets, the lack of competitiveness will be considerable and Europe will no longer be able to attract industrial investments.

3.6. A very quick replacement of existing CO_2 leakage measures by the CBAM could lead to significant uncertainty, disrupting long-term investment decisions already taken based on the recently revised 2030 targets. It could also reduce the industry's capacity to invest in low-carbon technologies and become a barrier to competition for access to third markets. Therefore, where necessary, the current rate of free allowance should be retained initially to enable CBAM covered industries to become more carbon efficient followed by a gradual reduction in free allowances, as deemed appropriate, to facilitate further decarbonisation.

3.7. Competitiveness and price effects on the value chain should be carefully assessed to limit the impact, especially in exporting sectors such as agri-food, among others, that are very dependent on products from the sector already covered in the CBAM proposal.

3.8. The CBAM could only effectively achieve its full goals if the requirement of avoiding CO_2 for imports into the EU is offset by advantages from climate-friendly production for exports by European producers. It might be the case that there will be a reasonably level playing field between third-country companies and EU companies in the Single Market, but no EU company could compete abroad, as EU producers will pay full carbon costs, while competitors from third countries pay little or none.

3.9. The system may open the door to several circumvention schemes such as source shifting, verification details, multi-facility companies in third countries falsely claiming that products made in high carbon footprint facilities are made in low carbon footprint facilities, source shuffling and definition of goods. This could hamper progress in meeting the CBAM's more ambitious climate goals. The proposal should be carefully refined throughout the legislative process to avoid those pernicious behaviours which seriously harm the legislation's objective: goods should bear their own climate footprint regardless of where they come from to promote efficiency in worldwide climate change mitigation instead of a local reduction by outsourcing the emissions.

4. **Specific comments**

4.1. The EESC has been very active in exploring the possibilities, limitations and important aspects to be developed under a Border Adjustment Scheme or tax related alternative, in order to reduce carbon leakage by equalising climate cost and efforts, either from EU or non-EU products. The EESC was the first EU institution to identify these possibilities as a complementary measure for limiting carbon leakage.

([5]) European Commission CBAM impact assessment, Annex 8.

4.2. The Commission wishes to broaden the CBAM to include 'Scope 2 emissions' (derived from electricity or heating), which are currently excluded. EU legislators must take into account that compensation for indirect costs derived from electricity is far from homogeneous as it relies on Member States' decisions. The worst-case scenario is that the CBAM would limit the compensation received by industry for indirect costs, resulting in less compensation than allowed by EU guidelines.

4.3. The CBAM proposal excludes ferroalloys (CN 7202) but it is not clear if the embedded emissions for ferroalloys will be taken into account in relevant products (e.g. stainless steel (CN 7218)), as many aspects are waiting for secondary regulation that will cover technical and other very important topics.

4.4. At EU level, legal certainty is of paramount importance and the CBAM proposal must be refined throughout the legislative process to provide certainty to all economic operators, whether from Europe or from third countries.

4.5. A fair 'climate and environmental competitiveness' of the European or non-European efficient industry, which also includes fair labour conditions agreed in collective bargaining between the social partners, should be promoted in the international arena on a similar footing. Only climate-friendliness under fair labour and social conditions creates the socially desirable new competitiveness of European industry. Such an understanding on the EU single market, and also on the international market, will encourage fair climate competition.

4.6. The compliance of imports to the EU with the CBAM requirements is based on documents issued outside the EU. This raises the question of extraterritoriality and the EU's competence to establish the validity of such documents. Moreover, the time required to carry out such an assessment would allow imported goods with a higher carbon footprint than declared to access the EU market to the detriment of the proposed Regulations and European industry.

4.7. It is unclear how to calculate embedded emissions in processed products not named in Annex 1 but containing materials listed in Annex 1.

4.8. Reporting, verification, traceability and monitoring are key aspects, and they should not just rely on random monitoring, just as ETS monitoring does not. There should be a clear and quick procedure to ensure that when a possible circumvention or a lack of CBAM compliance occurs, that they are solved in a reduced time to avoid both circumvention but also trade/supply chain disruptions.

4.9. Verification and monitoring should be fully transparent and reliable in the European Union and Member States. The information should be available to the relevant bodies authorised to carry out the surveillance, with the logical preservation of confidentiality.

4.10. The European Commission should offer its support to EU Member States with weak border administrative capabilities, as they could be targeted by unfair practices and become the entry door of CBAM circumvention. It must also include CBAM 'training' in its programmes to support developing and neighbouring countries in order to help them to cope with the challenges of climate protection and to avoid the risk of circumvention.

4.11. The revenues from the CBAM should be devoted to supporting an industrial and fair European transition to a carbon neutral economy of the involved sectors. The EU could launch a specific innovation fund for technological development, to promote industrial transition without risking their climate competitiveness.

5. **WTO-related comments**

5.1. The Commission has been very careful in relation to WTO compatibility. For this reason, exports have been put aside in the proposal. As there are contradictory opinions in relation to WTO compatibility, a detailed analysis of this topic must be carried out, together with honest diplomatic discussions with trade partners to avoid a trade war and to allow EU industry to be competitive in international markets.

5.2. Article XX(b) and (g) of the General Agreement on Tariffs and Trade (GATT; 1994) is likely to be used to justify the CBAM as an environmental protection policy. No one can be sure what decision a WTO panel or an appellate body would make on this matter.

5.3. Under the current circumstances, with the urgency of fighting climate change, it is key that the renewed WTO include the environmental and climate scope in its agenda. The EU could use the CBAM as an opportunity to launch this debate, together with other trade partners within the WTO. The EESC had already proposed this in its opinion REX/531 ([6]).

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([6]) The EESC opinion on the *Carbon markets: Emergence, structuring and challenges for European industry* (REX/531) (OJ C 429, 11.12.2020, p. 122).

ANNEX

The following amendments, which received at least a quarter of the votes cast, were rejected during the discussions (Rule 43 (2) of the Rules of Procedure):

AMENDMENT 1

Point 3.6

Amend as follows:

Section opinion	Amendment
A very quick replacement of existing CO_2 leakage measures by the CBAM could lead to significant uncertainty, disrupting long-term investment decisions already taken based on the recently revised 2030 targets. It could also reduce the industry's capacity to invest in low-carbon technologies and become a barrier to competition for access to third markets. Therefore, where necessary, the current rate of free allowance should be retained initially to enable CBAM covered industries to become more carbon efficient followed by a gradual reduction in free allowances, ***as deemed appropriate***, to facilitate further decarbonisation.	A very quick replacement of existing CO_2 leakage measures by the CBAM could lead to significant uncertainty, disrupting long-term investment decisions already taken based on the recently revised 2030 targets. It could also reduce the industry's capacity to invest in low-carbon technologies and become a barrier to competition for access to third markets. Therefore, where necessary, the current rate of free allowance should be retained initially to enable CBAM covered industries to become more carbon efficient followed by a gradual reduction in free allowances, ***until the new measure has proved its effectiveness***, to facilitate further decarbonisation.

Reason
As point 3.6 essentially refers to free allowance that should be retained initially to enable CBAM covered industries to become more carbon efficient followed by a gradual reduction in free allowances, this provision should also be moved to the conclusions and recommendations, further inserting the note 'until the new measure has proved its effectiveness', which reinforces the position that the CBAM should be seen as a complementary instrument to free allocation until the CBAM is fully operational, effective and does not lead to carbon leakage, thereby ensuring a truly level playing field for the EU industry.

Outcome of the vote:

In favour: 66

Against: 90

Abstention: 24

AMENDMENT 2

Point 1.12

Amend as follows:

Section opinion	Amendment
The EESC has a reasonable expectation that a functioning CBAM system will make employment in the climate-friendly transformed former CO_2-intensive companies and sectors more robust. However, it also warns of the risk of failure of the CBAM, in conjunction with the ETS system. The complete abolition of free allocation with the introduction of the CBAM could lead to major job losses in the EU.	The EESC has a reasonable expectation that a functioning CBAM system will make employment in the climate-friendly transformed former CO_2-intensive companies and sectors more robust. However, it also warns of the risk of failure of the CBAM, in conjunction with the ETS system. The complete abolition of free allocation with the introduction of the CBAM could lead to major job losses in the EU. ***The current rate of free allowance should be retained initially to enable CBAM covered industries to become more carbon efficient followed by a gradual reduction in free allowances, until the new measure has proved its effectiveness, to facilitate further decarbonisation.***

Reason
The intention is to move a very important text to the conclusion from point 3.6 (see above). The emphasis should be on the aspect that CBAM free allowances should be fully abolished only when the new mechanism has proved its effectiveness.

Outcome of the vote:

In favour: 60

Against: 94

Abstention: 26

Opinion of the European Economic and Social Committee on ‘Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement’

(COM(2021) 555 final — 2021/0200 (COD))

(2022/C 152/31)

Rapporteur: **Veselin MITOV**

Co-rapporteur: **Udo HEMMERLING**

Referral	European Parliament, 13.9.2021
	Council, 17. 9.2021
Legal basis	Article 304 and 192(1) of the Treaty on the Functioning of the European Union
Section responsible	Agriculture, Rural Development and the Environment
Adopted in section	25.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	220/4/8

1. **Conclusions and recommendations**

1.1. The EESC welcomes the proposal from the Commission to amend the Effort Sharing Regulation (ESR) — Regulation (EU) 2018/842 of the European Parliament and of the Council (1) on binding annual greenhouse gas emission reductions by Member States — in order to align the ESR’s contribution towards delivering the increased ambition for 2030 aimed at by the European Green Deal and translated by the rest of the Fit for 55 package into concrete action.

1.2. Although the increased ambition of the EU emissions reduction targets is respectable by international comparison, even these enhanced efforts may fall short of a meaningful contribution from a rich economy and major historic emitter to a maximum 1,5 °C warming scenario by the end of the century, given also the dramatic forecast set out in the recently published AR6 report by the IPCC (2021) (2). For this reason, it is vital that the 55 % EU-wide reduction target by 2030 is being implemented, and Member States’ efforts are critical here. The EESC therefore acknowledges that having ambitious and binding ESR targets for Member States is key.

1.3. The high level of climate ambition for the entire Fit for 55 package is thus unquestionable. At the same time, the distributional effects of this necessary climate action can be significant (both between and within Member States) and thus need to be addressed properly.

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(1) Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26).

(2) IPCC (2021): Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [MassonDelmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press.

1.4. The EESC therefore agrees with the view that differences between Member States have to be taken into account to ensure maximum fairness and cost-effectiveness. To achieve genuine cost-effectiveness in a fair way, effort-sharing calculations should ideally address both aspects at the same time and set the targets in a way that the relative emission reduction costs to GDP are the same for each country. In order to compensate for the shortcomings of effort-sharing, the EESC considers the role of flexibility mechanisms crucial, and these deserve special attention.

1.5. The integration should take place in a way that enhances progress towards long-term climate neutrality and therefore both the reduction of emissions and the sequestration of carbon need to be taken into account, as do the challenges of adaptation and food security.

1.6. With a view to establishing a new emissions trading system for road transport and buildings, the EESC supports the current Commission proposal to keep these sectors under the scope of the ESR even after a new emissions trading system for road transport and buildings is set up and takes note that the emission reductions resulting from emissions trading in those sectors will count towards Member States' efforts to meet the ESR obligations. The EESC points to the need for the Commission and Member States to deal with the interface between the two systems in a smooth and transparent manner.

2. **General comments**

2.1. As a part of the Fit for 55 package launched by the European Commission on 14 July 2021, this proposal aims to amend the Effort Sharing Regulation ('ESR') in order to align its contribution towards delivering the 55 % emissions reduction target for 2030 in line with European Climate Law. Overall reductions would need to increase by around 11 percentage points from the 29 % ESR reduction target for 2030 that was set in 2018. In this opinion, the EESC expresses its views on the proposed regulation on the binding annual greenhouse gas emission reductions by Member States from 2021 to 2030.

2.2. The ESR proposal is part of the implementation of the EU's commitment to reducing its greenhouse gas emissions by at least 55 % by 2030, compared to the 1990 level. As proposed by the Commission, the 2030 target requires an emissions reduction of 61 % in the sectors under the existing EU Emissions Trading System (ETS), a reduction of 43 % in the proposed separate ETS for transport and buildings and of 40 % in other sectors (non-ETS), all compared to the 2005 levels.

2.3. The proposed regulation applies to road transport and buildings, which would be covered by a separate emissions trading system, as stated in the Fit for 55 package as well as EU domestic navigation, and to non-ETS sectors and activities such as agriculture and waste. The EESC supports the Commission's proposal to maintain the ESR for the aforementioned sectors. The expected added value of this is, according to the Commission impact assessment, that it ensures that these sectors will deliver the required emission reductions and that (an extended) Emission Trading System should be seen as an additional support to reaching the increased 2030 ambition. The impact assessment also points out that increasing the national targets under the ESR will require revisiting the principles of fairness and cost efficiency. Complementary instruments (market and regulation) may, therefore, be needed for sectors with market rigidities (lack of access to affordable low-carbon solutions) where the population (in particular low-income groups) is directly affected. Maintaining these sectors within the regulatory possibilities of Member States acting under the ESR guarantees achievement of sought results and may provide better protection and fairness. This is why the EESC supports the current Commission proposal to keep these sectors under the scope of the ESR even after a new emissions trading system for road transport and buildings is set up. The EESC points to the need for the Commission and Member States to deal with the interface between the two systems in a smooth and transparent manner.

2.4. The Commission proposes maintaining the differentiated national emission reduction targets with the aim of complying with the principles of fairness and cost-effectiveness called for by the European Council. The revised GHG reduction targets of individual Member States in ESR sectors for 2030 vary from 10 % to 50 % compared to 2005 levels. The EESC strongly supports the concept that those Member States that are best equipped economically to reduce GHG emissions should do relatively more, while cost-effective emission reduction potential should also be considered and, for this purpose, flexibility mechanisms should make a significant contribution.

2.5. With regards to flexibility mechanisms, flexibility between Member States and flexibilities over time either through banking or borrowing should also be applied, taking into account different abilities and capacities by Member States, cost-effective solutions and the effect of economic cycles.

2.6. The Commission proposes to continue with a flexibility system that allows emission allocations to be transferred between Member States and over time. The Commission also proposes new flexibilities allowing the effort-sharing sector to carry out certain trade-offs with the ETS and LULUCF sectors.

2.7. The proposed Fit for 55 package also addresses the monitoring and reporting of greenhouse gases, including accounting rules for land use and forestry.

3. **Specific comments**

3.1. The Commission rightly takes into account the principles of fairness and cost-effectiveness in its proposal. The EESC agrees that the differences between Member States need to be taken into account to ensure both fairness and cost-effectiveness. This is to reflect differences in the specific features and starting points of the Member States, as well as their economic potential when it comes to reducing emissions.

3.2. The EESC stresses that when taking into account the national emissions reduction targets and how to achieve these in a fair and cost-effective way, existing state subsidies to fossil energy generation and consumption should be phased out in a considered way.

3.3. The EESC warns, however, that the proposed approach considers fairness and cost-effectiveness separately from each other. To achieve the most effective outcome at the EU level with genuine cost-effectiveness in a fair way, calculations should ideally cover both aspects in a comprehensive way across all Member States.

3.4. As for land use and forestry — a subject for a separate proposal, but with some relevance for other sectors as well — the Commission proposes that emissions and removals, calculated according to the accounting rules, have to be in balance in every Member State. With the inclusion of carbon sinks in the EU's 2030 greenhouse gas reduction target, net greenhouse gas removals in the LULUCF sector would be raised to 310 million tonnes. While the EESC considers the increase in the ambition to be necessary, it points out that carbon removals should not be seen as a mechanism for offsetting other sectors' emissions reductions.

3.5. The EESC believes that there needs to be an efficient, transparent system to monitor the outcome of the flexibilities. Therefore, the current monitoring framework operating through the registry established by the Commission Delegated Regulation (EU) 2019/1124 ([3]) should be enhanced to make sure that transaction data, including the use of flexibilities, is fully available to the public ([4]).

3.6. As regards national emission reduction targets, the EESC encourages the Commission to examine what characteristics of Member States other than purely GDP per capita should be taken into account when setting national targets (e.g. carbon intensity, vulnerable regions) with view also to support provided through the EU recovery and Resilience Facility.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([3]) Commission Delegated Regulation (EU) 2019/1124 of 13 March 2019 amending Delegated Regulation (EU) 2019/1122 as regards the functioning of the Union Registry under Regulation (EU) 2018/842 of the European Parliament and of the Council (OJ L 177, 2.7.2019, p. 66).

([4]) Currently, transaction data, including the use of flexibilities, is available to the public (Union Registry). Furthermore, the Commission annually reports on compliance with all EU climate legislation, through the Climate Action Progress Report.

Opinion of the European Economic and Social Committee on 'Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) 2018/841 as regards the scope, simplifying the compliance rules, setting out the targets of the Member States for 2030 and committing to the collective achievement of climate neutrality by 2035 in the land use, forestry and agriculture sector, and (EU) 2018/1999 as regards improvement in monitoring, reporting, tracking of progress and review'

(COM(2021) 554 final)

(2022/C 152/32)

Rapporteur: **Anastasis YIAPANIS**

Referral	European Parliament, 13.9.2021
	Council, 17.9.2021
Legal basis	Article 304 and Article 192(1) of the Treaty on the Functioning of the European Union
Section responsible	Agriculture, Rural Development and the Environment
Adopted in section	25.11.2021
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	145/1/3

1. **Conclusions and recommendations**

1.1. The EESC is very much engaged in the fight against climate change and strongly agrees that there is a need to introduce effective and immediate actions. A concerted effort is needed from both public and private entities to ensure active involvement, support and ownership by citizens and local communities, and to generate additional funding to support the transition to a low-carbon economy.

1.2. Europe has been hit by unprecedented forest fires and floods, which coincided with record droughts and heatwaves. Smart and sustainable water management can greatly improve the EU's capacity to mitigate and fight fires and enhance resilience against intense rainfall, floods and droughts.

1.3. Climate change and biodiversity loss are interlinked and must be addressed together. Habitat loss, pollution, overharvesting and the spread of invasive species have to be tackled to ensure that natural ecosystems are preserved and the vital social and economic role of land-based sectors is fulfilled.

1.4. Member States should design legislative frameworks that incentivise farmers and forest managers to pursue new sustainable business models that foster biodiversity, apply circular economy rules and generate sustainable practices in biomass production. The EESC calls for national restoration programmes for high quality wetlands and considers that wetland emissions should be accounted for as soon as possible, and not only from 2026 onwards.

1.5. Since climate change mitigation is a global challenge, the EESC considers that the EU's efforts must be complemented by targeted effective external discussions about immediate global involvement, fair burden sharing and fair competition.

1.6. The EESC calls for wide promotion of and support for sustainable agricultural practices like crop rotation, recovery of organic waste, precision agriculture, permaculture etc. Land must be managed carefully in all Member States, ensuring the right balance between competitiveness and sustainability, and providing the necessary funding opportunities. The EESC welcomes the Commission's intention to propose a regulatory framework for carbon removals in the farming sector.

1.7. Wood-based and other types of bioenergy have a very important role to play and it should be pursued if and when biomass is produced sustainably. However, importing biomass comes with specific associated risks, which are not covered by the EU legislative framework. EU trade policy should help prevent imports of biomass resulting in deforestation in the countries of origin.

1.8. The EESC appreciates the Commission's proposal to pursue a comprehensive assessment of the national inventory data in 2025, since data analysis is mainly based on the National Forest Inventories (NFI), which are uncorrelated and sometimes incomplete or inaccurate.

1.9. Upskilling and reskilling programmes for both entrepreneurs and workers are needed in order to ensure access to the newest available technologies and digital skills that enhance sustainability. The social partners and relevant civil society organisations have an important role to play and must be involved in both the planning and implementation phases of the Fit for 55 package.

1.10. Support for R & D projects for sustainable farming and woody biomass production are needed. The EESC calls for a tailor-made supportive legislative framework for SMEs and asks Member States to consider generating tax incentives to facilitate the transition.

1.11. Finally, the EESC is worried that the social dimension of implementing the EGD is not being fully taken into account. Special attention needs to be paid to the regions, industries, workers and citizens that will face the greatest challenges.

2. **Background and introduction**

2.1. The 2030 Climate Target Plan [1] adopted in September 2020 sets out new and more ambitious targets on reducing greenhouse gas emissions to at least 55 % below 1990 levels by 2030, compared to the previous agreement of a net reduction of at least 40 %. The Fit for 55 package [2], published in July 2021, is bringing forward 13 legislative proposals that aim to revise current climate legislation, including the 2018 LULUCF Regulation [3], and ensure a fair, competitive and effective green transition by 2030 and beyond.

2.2. The land supplies societies with food and feed, but also with raw materials for the bio-based economy (fibres and wood for paper, textiles, building material and biofuel); it provides habitats for biodiversity and has an important capacity to sequester carbon from the atmosphere. At the same time, agriculture and forestry activities generate greenhouse gas emissions. The scope of the LULUCF Regulation has been extended from forests only to all land uses (including the agriculture sector starting in 2031) and sets binding commitments for all Member States to comply with the 'no-debit' rule. This should be realised by initiating legislative actions within the sector that would ensure that the accounted emissions from land use are entirely offset by an equivalent accounted removal of CO_2 from the atmosphere. It also proposes a new EU governance process that aims to make the monitoring of Member States' emission and removal calculations more accurate.

2.3. Basically, Member States must ensure that emissions from the LULUCF sectors do not exceed removals for the period 2021-2025, reach total net removals of at least 310 million tonnes of CO_2 by 2030, achieve climate neutrality by 2035 for all land sectors and record negative figures after that.

2.4. However, Member States will be obliged to submit integrated mitigation plans for all land sectors and are encouraged to use advanced digital technologies for monitoring purposes, including remote sensing observations, which are available through the Copernicus programme (high resolution and wall-to-wall satellite imagery) and the data collected under the Common Agricultural Policy (CAP). Furthermore, the Regulation proposal introduces an opportunity for a transaction process between Member States, incentivising them to aim to increase CO_2 removals even beyond their required targets.

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(1) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Stepping up Europe's 2030 climate ambition — Investing in a climate-neutral future for the benefit of our people.

(2) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Fit For 55': delivering the EU's 2030 Climate Target on the way to climate neutrality — COM/2021/550 final.

(3) Regulation (EU) 2018/841 of the European Parliament and of the Council of 30 May 2018 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No 525/2013 and Decision No 529/2013/EU (OJ L 156, 19.6.2018, p. 1).

2.5. The land use, land use change and forestry (LULUCF) sector can contribute to climate change mitigation by maintaining and enhancing sinks and carbon stocks. The Commission proposes policies to help forest managers ensure more climate benefits when producing wood products and incentivise farmers to pursue climate-smart and sustainable agriculture practices.

3. **General comments**

3.1. The European Civil Society is very much engaged in the fight against climate change and strongly agrees that there is a need to introduce effective and immediate actions. The EESC believes that a concerted effort is needed from both public and private entities to raise awareness on the stringent need act now, ensure active involvement and ownership by citizens and local communities, and to generate additional funding to support the transition to a low-carbon economy. The EU can no longer waste time in lengthy discussions.

3.2. The LULUCF sector has decreased its net CO_2 removals by a fifth ([4]), mainly because of increased wood harvesting and a lack of incentives. Furthermore, Europe was hit by unprecedented forest fires and floods, which coincided with record droughts and heatwaves. Forests have also been particularly vulnerable to insect outbreaks, with wetlands suffering from continuous degradation. While significant increases in the land sink can be achieved at a relatively low cost, actions must be stepped up in all land uses, including improved forest and cropland management, and afforestation.

3.3. The EESC points out that there are various ways to increase carbon sequestration, including land management, forest regeneration and the restoration of natural ecosystems. Climate change and biodiversity loss are interlinked and must be addressed together. Habitat loss, pollution, overharvesting and the spread of invasive species need to be tackled to ensure that natural ecosystems are preserved and the vital social and economic role of land-based sectors is fulfilled.

3.4. Member States should create national strategies for preserving and rewetting of high quality peatlands, as they represent an important opportunity to protect and increase the carbon stocks in organic soils and ensure biodiversity restoration. Therefore, the EESC suggests that one of the most important objectives should be the restoration of high quality peatlands (using paludiculture ([5])) and wetlands, and considers that wetland emissions should be accounted for as soon as possible and not only from 2026 onwards, as the European Commission proposes.

3.5. Research indicates that large wildfires have contributed to net carbon emissions for decades and hamper the regrowth of vegetation. Water management, especially retention of water in the soil and storage of water in reservoirs, can greatly improve the capacity to mitigate and fight fires. At the same time, it enhances resilience against intense rainfall, floods and droughts. The EESC therefore recommends that the Commission stimulate and support Member States in improving water management policies in order to increase agricultural productivity and carbon sequestration capacity.

3.6. Farmers and forest managers need to be incentivised to pursue new sustainable business models that foster biodiversity and apply circular economy rules. The EESC has already called for a complex and fair legislative framework that would 'enable landowners and land managers to implement effective LULUCF measures in a way that makes economic sense and not only at their own cost' ([6]). It is now up to each Member State to design these important incentive frameworks according to their own specific circumstances. The EESC has already encouraged Member States 'to provide ambitious national, bottom-up policies for the LULUCF sector, with the close involvement of civil society in the process at national, regional and local levels' ([7]).

3.7. Discussions have to continue on how forests should be managed and which parts of trees can be used for energy. While the European Commission proposal on the revision of the Renewable Energy Directive ([8]) prohibits the extraction of biomass from primary forests and introduces restrictions on burning certain types of wood, it fails to recognise the current good practices where different kinds of trees and different parts of trees are used for the purpose they are best suited for, thus generating optimal overall added value without wasting natural resources. The EESC calls for national legislative frameworks in all Member States that support and incentivise the use of sustainable practices in biomass production.

([4]) SWD(2021) 610 final.
([5]) Cropping under wet conditions.
([6]) EESC opinion on *Land use, land use change and forestry (LULUCF)* (OJ C 351, 15.11.2012, p. 85).
([7]) EESC opinion on the *Effort Sharing Decision in the 2030 Climate and Energy Policy Framework and Emissions and removals from land use, land-use change and forestry (LULUCF)* (OJ C 75, 10.3.2017, p. 103).
([8]) European Commission — Renewable Energy Directive revision.

3.8. Furthermore, the promotion of skills, knowledge and support at the level of farmers and forest managers can strengthen the implementation of new sustainable practices and breakthrough technologies (e.g. precision agriculture, controlled traffic farming, proper waste disposal, reducing or avoiding the use of chemical pesticides, maintaining genetic diversity on the land etc.). The EESC welcomes the Commission's intention to propose a regulatory framework for carbon removals in the farming sector.

3.9. Global coordinated action is needed to ensure that climate change is addressed quickly and effectively. As the 2021 IPCC report indicates ([9]), there is scientific proof available that the recent frequent disasters in Europe are clearly related to a warmer climate and increased greenhouse gas emissions. Furthermore, it specifies that human influence 'has warmed the climate at a rate that is unprecedented in at least the last 2 000 years'. Therefore, the EESC considers that the EU's efforts must be complemented by targeted, effective actions at international level to ensure global involvement, fair burden sharing and fair competition.

4. **Specific comments**

4.1. The Fit for 55 legislative package represents an excellent and ambitious step and proves once again that the EU is the frontrunner in the fight against climate change. It is also an excellent discussion topic ahead of the 26th UN Climate Change Conference in Glasgow, when the EU should try to convince the rest of the world that they urgently need to carry out similar actions. The EESC points out that a coordinated global response is the only effective way to address climate change and that working together with our partners in the G7, G20 and other international bodies is the way forward.

4.2. The loss of agricultural land due to soil degradation, urbanisation and abandonment has been a complex problem in all Member States for many years. Land-use planning is essential for the EU's sustainable development, and the EESC calls for a particular focus on the efficient use of natural resources, especially since land becomes scarce as populations increase. The EESC has already proposed a coherent EU framework that would protect agricultural land ([10]).

4.3. In order to increase productivity and carbon storage in the agricultural sector, the EESC calls for wide promotion of and support for sustainable agricultural practices like crop rotation, recovery of organic waste, precision agriculture etc. Farmers should also be provided with necessary funding opportunities and updated information on the best farming practices and soil quality improvement possibilities. Finally, land must be managed carefully in all Member States, ensuring the right balance between competitiveness and sustainability.

4.4. In March 2021, the European Commission published an Organic Action Plan ([11]) to help Member States reach a target of 25 % of agricultural land being farmed organically by 2030. The EESC points out the importance of increasing organic farming, which would represent a huge leap for the agriculture sector in terms of reducing GHG emissions and preserving biodiversity. The EESC also highlights other options for reducing the risk of land artificialisation, such as agroecology, agroforestry, permaculture, no-till farming etc.

4.5. The figures show that biomass burning has doubled since 2000 and half of all harvested wood is burned for energy ([12]). The EESC believes that this adverse pressure on forests has led to the recent decline in carbon sequestration and considers that, while wood-based and other types of bioenergy have a very important role to play, they should be pursued only when biomass is produced sustainably. Furthermore, the EESC has already mentioned that in order to 'avoid undermining environmental integrity, fossil emissions from other sectors should not be offset by forest sinks in a way that would reduce wood availability for the purposes of the bioeconomy' ([13]).

4.6. The EESC points out that importing biomass comes with specific associated risks, which are not covered by the EU Regulation. Therefore, broad international agreements are needed to ensure a level playing field in the single market, while EU trade policy should help prevent imports of biomass resulting in deforestation in the countries of origin.

([9]) IPCC — AR6 Climate Change 2021: The Physical Science Basis.

([10]) EESC opinion on *Land use for sustainable food production and ecosystem services* (OJ C 81, 2.3.2018, p. 72).

([11]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on An action plan for the development of organic production COM/2021/141 final.

([12]) Forests sacrificed for EU climate policy.

([13]) EESC opinion on *Effort Sharing Decision in 2030 Climate and Energy Policy Framework and Emissions and removals from land use, land-use change and forestry (LULUCF).*

4.7. Member States are allowed to exclude from the accounting emissions caused by natural extreme events like storms, fires or insect outbreaks. Improved monitoring of natural disturbances in forests is urgently needed in order to ensure correct and effective application of the natural disturbance provision, which is technically demanding but extremely important. Reporting obligations for each Member State need to follow a standardised protocol that would ensure efficient collection and interpretation of data and efficient policy implementation and planning.

4.8. Data analysis is mainly based on the National Forest Inventories in each Member State, which are uncorrelated and sometimes incomplete or inaccurate. Furthermore, NFI inventories are not done frequently in all Member States. The EESC appreciates the Commission's proposal to pursue a comprehensive assessment of the national inventory data in 2025, with the purpose of setting accurate targets for the period 2026-2030.

4.9. Support for R & D for more sustainable production of woody biomass is needed. The EESC has already pointed out that 'intensive research and innovation, as well as rewards for the proven creation of carbon sinks, are needed to support these sectors' ([14]). The EESC also considers that every Member State should devise a designated tax incentive system that would facilitate the transition and recommends making full use of the available CAP funding.

4.10. Upskilling and reskilling programmes for entrepreneurs and workers are also needed in order to ensure access to the newest available technologies and digital skills that enhance sustainability. The European Green Deal agenda can only succeed if it is accompanied by education and training programmes that can boost the skills of European workers, while ensuring competitiveness and social fairness. Therefore, the EESC calls for the social partners and relevant civil society organisations to be fully involved in both the planning and implementation phases of the package.

4.11. The EESC considers that SMEs need a tailor-made supportive legislative framework that would help them innovate, scale up and grow sustainably. While there are several funding opportunities for financing adaptation, the EESC calls again for 'more clarity on the different options, as well as user-friendly procedures to ensure timely access to financing for actors at a practical level' ([15]).

4.12. Finally, the EESC is worried that the social dimension of implementing the European Green Deal (through the Fit for 55 legislative package) is not being taken into account and that members of the public will be affected the most as they will have to change their cars, pay more to heat their homes, pay more for the cheapest holiday flights and so on. The EESC therefore expresses real concern about the higher bills that households will have to pay after the Fit for 55 package has been implemented. The EESC also firmly believes that, during this transition, special attention needs to be paid to the regions, industries and workers that will face the greatest challenges and that the transition must be 'implemented through a competitive, socially fair and multilateral approach and that appropriate tools must be put in place to achieve full involvement and acceptance of civil society, including all citizens, businesses and organisations' ([16]).

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([14]) EESC opinion on *Forging a climate-resilient Europe — the new EU Strategy on Adaptation to Climate Change* (OJ C 374, 16.9.2021, p. 84).
([15]) EESC opinion on *Forging a climate-resilient Europe — the new EU Strategy on Adaptation to Climate Change*.
([16]) EESC opinion on a *Clean Planet for all A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy* (OJ C 282, 20.8.2019, p. 51).

Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council amending Annexes IV and V to Regulation (EU) 2019/1021 of the European Parliament and of the Council on persistent organic pollutants'

(COM(2021) 656 final — 2021/0340 (COD))

(2022/C 152/33)

Referral	European Parliament, 10.11.2021
	Council, 12.11.2021
Legal basis	Article 192(1) and Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Agriculture, Rural Development and the Environment
Adopted at plenary	8.12.2021
Plenary session No	565
Outcome of vote	
(for/against/abstentions)	230/0/3

Since the Committee endorses the content of the proposal and feels that it requires no comment on its part, it decided, at its 565th plenary session of 8 and 9 December 2021 (meeting of 8 December), by 230 votes in favour with 3 abstentions, to issue an opinion endorsing the proposed text.

Brussels, 8 December 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

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