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I

(Resolutions, recommendations and opinions)

OPINIONS

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

545TH EESC PLENARY SESSION, 17.7.2019-18.7.2019

Opinion of the European Economic and Social Committee on 'Blockchain and distributed ledger technology as an ideal infrastructure for the social economy'

(own-initiative opinion)

(2019/C 353/01)

Rapporteur: **Giuseppe GUERINI**

Plenary assembly decision	13.12.2018
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Adopted in section	4.7.2019
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Outcome of vote (for/against/abstentions)	179/1/2

1. **Conclusions and recommendations**

1.1. The EESC supports the activities proposed by the European Commission to develop a European Blockchain Partnership, starting with the EU Blockchain Observatory and Forum.

1.2. The EESC would encourage the institutions to facilitate the involvement of civil society organisations in the Observatory and European Blockchain Partnership, as, clearly, the successful development of blockchain and the new digital infrastructures does not only come down to IT, but involves a fully-fledged process of disruptive social innovation.

1.3. The EESC believes that social economy organisations can help to promote greater and informed awareness of the potential of blockchain, specifically with regard to identifying cultural and methodological values built around forms of open and participatory governance, with the aim of maintaining a high level of transparency and involving all Europeans in the development that these new technologies may bring about.

1.4. The practical applications of blockchain technologies can significantly improve the performance of social economy organisations, benefiting them, their members and, above all, their end-users.

1.5. Business ventures based on 'distributed ledger' technologies (DLT) need sound governance structures that provide clarity as regards roles and responsibilities and underpin cooperation between the various stakeholders.

1.6. The EESC calls on public authorities to ensure that blockchain technology develops in compliance with the rules on the processing of personal data and on cybersecurity, and to guard against the risks of individuals' or businesses' data being hoarded or misused.

1.7. With regard to the profound changes that these new technologies are set to bring about, the EESC recommends that individuals and workers be duly protected, including through proper involvement of the social partners, particularly as regards their working conditions and in relation to putting in place proper plans for training and updating skills.

1.8. The EESC believes that real involvement of social economy and civil society organisations is imperative to ensure that the huge opportunities offered by the new technologies are geared towards delivering benefits, access, transparency and participation for all, and not just for a new 'digital economy elite'.

2. Background and subject of the initiative

2.1. This own-initiative opinion can be traced back to the conclusions of the Luxembourg presidency, which contained a call for the innovative potential of new technologies in the social economy to be explored.

2.2. Emerging among these new technologies is the disruptive innovative potential of the various forms of distributed ledger technology (DLT), known as blockchain, which are set to enable the development of very attractive applications across a range of economic and social sectors.

2.3. Some features of these technologies make blockchain a digital infrastructure, which could be successfully used by social economy organisations to improve how they achieve their goals, increasing their capacity to have a positive social impact and foster social innovation.

2.4. The EESC would encourage the institutions to facilitate the involvement of civil society organisations in the European Blockchain Observatory, as the successful development of blockchain and the new digital infrastructures cannot depend only on IT solutions, or even on engineering alone, but will come to fruition only if we can make these devices drivers of disruptive social innovation.

2.5. It is worth pointing out that DLT ensures trust between partners that are inclined to cooperate, and primarily certifies transactions, not the content or quality of what is contained in the block chains. Therefore, although some optimistic assessments of this technology see it as a new means of generating trust, it should be made clear that the technology cannot be a substitute for honesty and trust between the parties.

3. A brief description of blockchain and distributed ledger technologies

3.1. Blockchain technology is an IT protocol that dates back to the 1990s. However, its large-scale use and success are linked to the spread of cryptocurrencies, the best known of which is Bitcoin. However, it would be a mistake to consider blockchain as simply being cryptocurrencies. Indeed, as a result of harnessing blockchain to IT systems' increasing computing power and capacity for data analysis, and given the strengthening of connectivity in Europe and the ongoing development of artificial intelligence systems, the potential to use DLT for a range of purposes is growing exponentially.

3.2. Blockchain is both a code, i.e. a communication protocol, and a public register, in which all transactions between network participants are recorded one after the other, with a high degree of transparency and in a way that cannot be altered.

3.3. This order of records comprises a set of 'blocks' (parts of code) that are linked together cryptographically, making each part of the block that forms the chain traceable and unchangeable. These 'chain-linked blocks' are simultaneously recorded on each of the devices through which the blockchain participants connect. Each participant is a link in the chain, helping to validate and store the data that is being exchanged.

3.4. In this way, the transactions take place horizontally and are validated by a number of participants, making it impossible for a single operator to alter or destroy the records. This should make the data processing secure and help build mutual trust between the blockchain participants involved in the distributed and decentralised validation process. Blockchain is therefore an attractive tool for redefining the concept of security when it comes to digital transactions.

3.5. This is why blockchain technology has mainly been used as infrastructure for virtual currencies; but for the same reasons it can also have a social, cultural, political and economic value. However, any other use in physical and non-virtual economic contexts requires awareness that DLT does not guarantee the quality of the content it refers to. In other words, it is possible to certify that a given product has passed securely through a traceable supply chain in a DLT, but it is not possible to say that the product is inherently of good quality.

3.6. As each participant in a blockchain has direct control over one part of the whole chain, blockchain becomes a decentralised system, that cannot easily be 'dominated' by a single operator. This increases security vis-à-vis attacks or sabotage, as if one of the nodes in the chain is attacked or damaged, the other nodes of the 'distributed ledger' continue to function.

3.7. The transactions carried out in the distributed ledger via blockchain can be tracked by and are visible to all participants, thus ensuring transparency and not requiring the involvement of a 'central authority' or 'third party' to act as a mandatory middleman or intermediary. However, the development of quantum computers, as well as the theoretical possibility of 'controlling' a significant number of nodes in the network, does not completely negate the risks of concentration or control of DLT, nor of data hoarding and concentration.

3.8. These features enable blockchain technology to also develop fully-fledged self-executing contracts, known as smart contracts, which enable transactions to be customised and detailed in a fast and horizontal manner. In this way, certified basic information is transformed into an enforceable right, which could have an impact on many social, economic and political practices.

3.9. Examples include developments in eGovernment in the areas of elections and voting systems, welfare and health benefits and the management of public procurement.

3.10. The key words of blockchain technology: decentralisation, transparency, peer-to-peer participation, reliability and trust, are echoed to a large extent in the main forms of organisation through which social economy enterprises and organisations operate. This will be all the more true if DLT networks are developed with a high degree of interoperability enabling users to make use of these technologies on the basis of cooperation, and access them from different devices and tools.

4. **The European Union and blockchain**

4.1. The EESC endorses and supports the activities that have been undertaken by the European Commission and many of the Member States to develop a European blockchain partnership. It is a matter of strategic importance that Europe does not lose ground in the ongoing international competition that surrounds the development of all digital technologies, and that it encourages and promotes cooperation between the various public and private stakeholders aimed at creating a European blockchain infrastructure.

4.2. The European Parliament has also expressed its views on these issues in its Resolutions 2017/2772 (RSP) and 2018/2085 (INI), and called for the Commission to assess the social impact of DLT.

4.3. Equally important was the European Commission's launch, on 1 February 2018, of the EU Blockchain Observatory and Forum, which has already published a number of thematic reports ([1]).

4.4. The EESC firmly believes that, in order to ensure that the benefits of blockchain technologies are properly developed, an appropriate framework of rules will need to be promoted that encourages and fosters cooperation between the public and private sector and organised civil society. This is required in order to achieve the positive social, cultural and regulatory convergence that is needed to open up all of the opportunities to improve services and processes in both the public and private sectors.

([1]) *Blockchain Innovation in Europe*, July 2018, *Blockchain and the GDPR* (General Data Protection Regulation), October 2018, *Blockchain for Government and Public Services*, December 2018, *Scalability, interoperability and sustainability of blockchains*, March 2019, *Blockchain and Digital Identity*, May 2019.

5. Could blockchain and decentralised distributed ledgers be appropriate infrastructure for the social economy?

5.1. While blockchain technology is a useful tool for redefining trust in a global digital economy, by using these technologies, social economy organisations can help democratise the economy by fostering the emergence of a digital social economy.

5.2. The financial crises have weakened people's confidence in financial institutions. Trust has now become a social resource that is in short supply, and which is further dwindling as a result of the growing concerns about the security of data collected and stored by certain large economic operators.

5.3. Social economy enterprises, which tend to be very widespread, and rooted in local areas and communities, can play an important role in supporting the widest possible dissemination of opportunities among Europeans. To this end, they can make a positive contribution to promoting convergence in terms of ethics and values between the social economy and technological innovation, moving towards a development model that reflects shared interests.

5.4. There are many conceivable practical ways in which blockchain technologies can be used in social economy organisations.

5.5. To start with, a technology that increases transparency and trust can easily be used to make donations and fundraising secure and traceable, for example by enabling a donor that gives funds to an NGO to follow the flow and destination of the money donated. From a different angle, the same NGO could equip itself with a system that makes it possible to report in detail on each expenditure stream, ensuring that money invested is actually used for the intended purposes.

5.6. By adopting blockchain technology, many social economy organisations could significantly improve how they manage their governance, making it more secure and traceable (consultation of members and voting procedures), facilitating participation and involvement even where members are spread out geographically, or are so numerous that it is difficult to hold traditional general meetings.

5.7. Many cultural activities, from training to the arts, are run by social economy organisations. Associations and cooperatives in the fields of education and training, as well as those involved in entertainment and artistic and intellectual productions, will be able to use blockchain technology to both authenticate activities carried out at a distance, and to tailor them to users' needs. However, in particular, it can be used to make intellectual property rights and copyright clearer and more certain, establishing 'smart contracts' for the transfer of content.

5.8. In the area of training and education, blockchain could be used for the certification of skills, ensuring the security of qualifications and diplomas in digital format, and issuing digital certificates that automatically update the CV of workers and students.

5.9. We can anticipate very significant uses for this technology in the area of health, personal care and social assistance, both for the secure storage of data and information, and for access for and identification of the people concerned. In this area, a huge number of social economy organisations are involved in work at close proximity to those in need, including in decentralised areas, where the possibility of deploying secure telemedicine and e-care systems could have a considerable impact on people's quality of life.

5.10. These technologies often require skills and resources that are not available to everyone. This is particularly the case with the most vulnerable people such as older people, the poor, people with disabilities, children and marginalised families. For these sections of the population, which we all have a duty to think about, social economy organisations can be a fundamental access point.

5.11. Many cooperatives in the agricultural sector are looking at how the new technologies might be used to make their products traceable and identifiable with complete certainty, preventing fraud and counterfeiting which harm producers and consumers. Furthermore, blockchain technology could make the relationship between an agricultural cooperative and its grower members more certain and transparent, and reduce the cost of services such as insurance against risks linked to natural disasters.

5.12. As we know, blockchain's initial applications were in developing cryptocurrencies and peer-to-peer payment systems. This could be useful in the social economy sector for managing both crowdfunding and complementary payment schemes useful for micro-credit transactions for people without access to a bank account; it could also be useful for managing ethical micro-investment networks geared towards community economy circuits.

5.13. Environmental associations and social enterprises are also key players in the field of waste reduction, and the collection and differentiated treatment of waste. In these areas too, the potential of decentralised distributed ledgers can be used to improve the services provided to the public.

5.14. Renewable energy cooperatives, of which there are already more than 1 500 in Europe, involving more than one million people active in the energy transition, could optimise their distribution network and transitions by using blockchain technology.

5.15. The energy issue is a very important aspect of blockchain, as currently, the simultaneous recording of data and block chains carried out across a number of decentralised servers and devices generates a very high energy use. This means that we still need to optimise the use of energy to make blockchain technology more sustainable.

5.16. Given that blockchain technology has the potential to bring about major positive developments, attention should be drawn here to the fact that it is impossible to alter the data recorded through the blockchain. Public regulation of this technology must therefore guarantee that it develops in compliance with the rules governing the processing of personal data (the GDPR), with particular reference to the so-called right to be forgotten.

5.17. The current rules on these issues must be continuously adapted, either directly or in interpretation, to the very rapid technological change taking place. This is the only way to ensure that the positive developments expected from blockchain technology do not go hand in hand with adverse developments and problematic implications.

5.18. Blockchain technology will have notable effects on the labour market; some jobs will disappear, other jobs will change profoundly, and other occupations will emerge and develop. The EESC considers it important that workers be adequately protected, in particular by setting up appropriate training plans and active employment policy instruments, with the involvement of the social partners.

5.19. The huge potential of the new digital technologies and the high cost of the investment required also expose blockchain technology to the risk of concentration as regards the devices capable of making it work. As a result, alongside the potential to democratise the network, there is also the risk of the data and technological networks being subject to speculation and hoarding in the hands of the few players or countries able to make large investments. It is therefore important that there are public interventions to support the development of these technologies in a participatory and accessible way.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

Opinion of the European Economic and Social Committee on 'Fostering an entrepreneurship and innovation-friendly single market — promoting new business models to address societal challenges and transitions'

(own-initiative opinion)

(2019/C 353/02)

Rapporteur: **Giuseppe GUERINI**

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Outcome of vote (for/against/abstentions)	185/0/6

1. Conclusions and recommendations

1.1. It is now recognised that we need to pursue a social market economy which, while making smart use of new technologies, manages to address the major challenges relating to sustainability, climate change and reducing inequalities.

1.2. The EESC takes the view that the business world can play an active and important role here, along with the public institutions. In particular, this contribution may come from businesses of the real economy that create value and jobs, without the speculative use of financial means.

1.3. Given the wide variety of economic models and types of company in Europe, it is important that legislative proposals concerning businesses, the economy and the internal market are not uniform, thereby rejecting the one-size-fits-all approach and making the most of the 'biodiversity of companies'.

1.4. The European institutions must support the development of artificial intelligence and the proper use of big data, both by creating appropriate rules to guarantee the development of such technology while respecting individual rights and by investing European and national public resources in a coordinated manner so as to ensure that the EU is competitive on a global scale. More specifically, big data and its potential should also be accessible to SMEs.

1.5. The changes to productive processes and to the economy in general brought about by the new technologies, artificial intelligence and big data will also radically change the labour market. However, it is important that these changes take place in the context of constructive social dialogue and with due respect for workers' rights and quality of life.

1.6. Measures to facilitate SMEs' access to credit, such as the Juncker plan and the COSME programme, and, in the future, the InvestEU programme, should continue to support SMEs and social enterprises that often struggle to grow because of liquidity problems and under-capitalisation. The development of a European venture capital market should also be actively encouraged.

1.7. The need to ensure social cohesion and fairness for an ageing and dwindling European population points to the future role that can be played by social and mutual enterprises. More work therefore needs to be done to make the most of such enterprises, which enable people to organise themselves and to work together to respond to ever-increasing social needs.

1.8. The EESC notes the need to recognise and support the role that SMEs, family businesses, social economy enterprises, craft businesses, small traders and farmers play in promoting and spreading entrepreneurial spirit focused on the role of people and local communities, thereby helping to build the European model of an inclusive single market. Moreover, these companies make it possible for a greater number of people to carry out economic and entrepreneurial activities, thereby encouraging economic democracy.

2. **Background and subject of the initiative**

2.1. The aim of this own-initiative opinion is to make a contribution to the European institutions, with a view to ensuring that efforts to strengthen the single market encourage the creation of a framework that is suited to the development of a range of types of businesses that are ready to meet the challenges facing society.

2.2. It is now well-known how much we need to pursue a social market economy which, while making smart use of new technologies, manages to address the major challenges relating to sustainability, containing the damaging effects of climate change and reducing inequalities, as well as demographic tensions, strong migratory pressure at the EU's external borders and the energy transition.

2.3. The EESC takes the view that an important contribution may come from the business world, as well as, of course, from public institutions. The major changes referred to in the previous paragraph can also be addressed by bringing into play the innovative potential of all entrepreneurial activities. However, certain economic development models and certain types of company have proved to be better suited to taking on the social innovations that increasingly appear to be essential for a more sustainable and inclusive economy.

2.4. The EESC notes that significant points of convergence can be found between a single market that favours innovation and new entrepreneurship and the UN's 2030 Agenda on achieving the Sustainable Development Goals (SDGs), as the objectives of growth and innovation, which are essential to ensuring continued well-being in European countries, must be both robust and sustainable.

2.5. In recent years, the EESC has adopted many specific opinions on the following key topics:

— The search for new economic models ([1]);

— Different forms of entrepreneurship ([2]);

— Digital transformations ([3]).

2.6. The EESC believes that there are several different economic 'ecosystems' that should be given attention by the European legislator in order to facilitate the functioning of the internal market. The EU's economic system is diverse and includes multinational companies, national companies and a very large number of local businesses. Often, these companies are structured in district production chains: metropolitan areas, with high-density urban systems, and rural and peripheral areas, where well-being and social cohesion are not always easily guaranteed if care is not taken to make technological innovation accessible in decentralised areas.

2.7. In each of these settings, the different types of business must be brought together and integrated with one another. However, each of these areas requires dedicated attention in terms of legislative measures and public investment. It is therefore important that the legislative proposals and economic regulation on business, the economy and the single market are not uniform, thereby rejecting the one size fits all approach.

3. **Towards a new technological, sustainable and inclusive European economy**

3.1. New production models for goods and services need to be developed due to the digital economy and new technologies, which have the potential to change the way in which European companies do business.

3.2. In this regard it is essential that the European institutions properly support the development of artificial intelligence, both by creating appropriate rules to guarantee the development of such technology while respecting individual rights and by investing European and national resources in a coordinated way so as to ensure that ground is not lost to players such as the US and China.

([1]) OJ C 81, 2.3.2018, p. 57; OJ C 75, 10.3.2017, p. 33; OJ C 75, 10.3.2017, p. 1 and OJ C 303, 19.8.2016, p. 28.
([2]) OJ C 288, 31.8.2017, p. 20; OJ C 283, 10.8.2018, p. 1; OJ C 13, 15.1.2016, p. 8; OJ C 13, 15.1.2016, p 152; OJ C 458, 19.12.2014, p. 14 and OJ C 345 13.10.2017, p. 15.
([3]) OJ C 440, 6.12.2018, p. 73; OJ C 81, 2.3.2018, p. 102; OJ C 62, 15.2.2019, p. 33; OJ C 227, 28.6.2018, p. 70; OJ C 75, 10.3.2017, p. 6 and OJ C 62, 15.2.2019, p. 131.

3.3. The use, processing and storage of big data will also be key in ensuring the competitiveness of the European market, as the capacity for data processing and the opportunity to use such data for economic development strategies and personal services is growing steadily. However, it should be ensured that the processing and development of this data is done in accordance with individual rights, the fundamental freedoms and the new EU General Data Protection Regulation (GDPR).

3.4. The European business and economic fabric has the specific features needed to cope with the digital transformation, and to build a sound ecosystem composed of a diverse range of international and local businesses capable of global aspirations. For this to happen there is an urgent need for a united, connected, cohesive and competitive Europe. In this regard, Digital Innovation Hubs, which are being set up in many local economic systems, have been a positive experience.

3.5. The major changes to productive processes and to the economy in general brought about by the new technologies, artificial intelligence and big data will also radically change the labour market. Some jobs will disappear, some will be created and others will undergo radical change. It is important that these changes take place in the context of constructive social dialogue and with due respect for workers' rights, which will need support including protection measures and lifelong learning programmes.

3.6. Another key factor for growth is tax policies. Throughout this legislative term, the European Commission has worked hard on taxation issues. The EESC considers the effectiveness of tax rules and a reasonable level of harmonisation to be essential in strengthening the internal market. Moreover, taxation policies promoted at European level should support instruments to foster business growth, such as investment in R & D and access to capital in the form of equity.

3.7. Even today, European SMEs and social economy enterprises are affected by structural problems and by a lack of favourable conditions to foster their development, despite the many efforts made to support them. Moreover, SMEs often operate in the production of medium-low technology and in less knowledge-intensive services and struggle to enter the cross-border market. These companies need to receive further support, given that, as the Commission reminds us, they account for 99 % of European businesses, as well as 67 % of jobs ([4]). For this reason, while taking into account the need to respect the principles of a free market and competition, these businesses must be properly supported by industrial and tax policies that aim to create shared value, rather than being focused on the concentration of wealth.

3.8. With this in mind, measures to support SMEs' access to credit, such as the Juncker plan with its public guarantee system, the COSME programme and the InvestEU programme, should continue to support SMEs and social enterprises. More support should be provided for private individuals participating in start-ups and small and medium-sized enterprises, by developing the European venture capital and high-risk capital market, which still today differs completely in size from the USA. Policies to promote private capital investment in European businesses should also be accompanied by specific measures to encourage the acquisition of talent and skills from outside the EU.

3.9. According to World Bank data, on average, the European Union ([5]) is 53rd in the world rankings on the ease of starting a business and ranked 29th on the overall ease of doing business. The United States, however, is ranked in 8th place in terms of ease of doing business. In this regard, the EESC stresses the importance of supporting and encouraging business activities through administrative simplification measures for the production of goods and services and in terms of cutting red tape for European entrepreneurs.

3.10. The market for public contracts today amounts to around 16 % of European GDP, worth around EUR 1,9 trillion. The new 2014 directives on public procurement ([6]) and concessions ([7]) aimed to consider social and environmental aspects to a greater extent in public procurement procedures managed by national public administrations. By the Commission's own admission, there is still, however, a long way to go to reach this objective. The EESC recommends that the Commission increase the consideration given to social and environmental aspects, and make this more effective, in an area that is historically crucial for the single market.

3.11. The growing challenges at international level, along with the need to ensure social cohesion and fairness, make clear the role that social enterprises can play in the current context. More work therefore needs to be done to recognise the existence and role of companies which fully show people's willingness to organise themselves independently to respond to social needs.

([4]) https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en
([5]) http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_print-version.pdf
([6]) OJ L 94, 28.3.2014, p. 65.
([7]) OJ L 94, 28.3.2014, p. 1.

3.12. In small businesses and social enterprises, the impulse and motivation to act always come from individual people and not from capital, which moves towards 'uses' that guarantee returns. These enterprises are people-based and embedded in local communities, with which they form long-lasting ties, contributing to local well-being and social cohesion. In this regard, the Belgian and Swedish domestic work voucher schemes are a notable example ([8]). These systems provide specific tax discounts for users and help to uncover undeclared work, with benefits for the service providers, which are better protected, and for state budgets.

3.13. Attachment to local communities and to the territory becomes a competitive factor as it increases motivation and creates added value in terms of social and relational aspects. In this way, social economy enterprises make it possible for a larger number of people to become involved in an entrepreneurial activity, thus contributing to an inclusive development model.

3.14. Another essential benefit offered by social enterprises is undoubtedly their contribution to economic democracy, as they provide millions of people with the opportunity to carry out an economic activity and to create work for themselves independently based on their own skills, abilities and aspirations.

3.15. This includes, for example, cooperatives, mutual enterprises, foundations organised by local communities, and social enterprises. Recognition of these businesses is also growing as a result of the Social Business Initiative launched by the European Commission in 2011, which could perhaps now be followed by a bolder and more coherent initiative.

3.16. Local and regional banks require special mention here, as they give millions of people an irreplaceable opportunity to access credit. The European regulatory approach in relation to these banks is still disadvantageous and does not comply with the principle of proportionality as it subjects both global and exclusively local banks to the same technical rules, following the one size fits all approach.

4. European businesses in a macro social and global context

4.1. We should be aware that the global context will change considerably in the coming years, particularly as regards demographic statistics, productive capacity and the balance of economic power between nations and continents.

4.2. As part of this transformation process, Europe, with its 500 million inhabitants, will lose its pivotal position in relation to the world population, which will rise from 7,6 billion to 9,8 billion people in 2050, with growth concentrated in nine countries (India, Nigeria, Congo, Pakistan, Ethiopia, Tanzania, the United States of America, Uganda and Indonesia) ([9]).

4.3. At the same time the proportion of older people will grow further and the number of people over the age of 80 will increase three-fold from the current 137 million to over 425 million people in 2050. This increase will be concentrated in Europe, where the average age is now already around 40-45 years old, while in emerging countries it is 25-30 years old.

4.4. The EESC believes that the major changes under way require a holistic approach, which coordinates European economic and regulatory policies with social cohesion policies and those aimed at protecting the most vulnerable groups, without leaving behind older, disabled, disadvantaged or the weakest people.

4.5. In addition to industrial development and economic policies, the challenge facing us when creating a market that fosters innovation and entrepreneurship is to value the only certainty that can be relied upon in an increasingly uncertain world: people.

4.6. Making the most of human capital can benefit the whole economic system by confirming that the behaviour of people and businesses, in the economic field, is not solely aimed at maximising profit. In this way, it is possible to consolidate the idea that the motivation for economic activities and the desire to start a business are much more than a mere need to accumulate money. This does not mean diminishing the importance of economic success, but rather measuring its value differently.

([8]) http://impact-phs.eu/national-practices/sweden-rot-rut-avdrag/
([9]) United Nations, World Population Prospects 2017 revision; https://population.un.org/wpp/Publications/Files/WPP2017_KeyFindings.pdf

4.7. In fact, in recent years, corporate success and in particular the success of large digital companies, has been assessed mainly in terms of value extraction from a financial perspective, rather than creating value and jobs through work.

4.8. Finally, the EESC believes that investment should be made in continuous learning for European citizens so that they are prepared to face the continual changes occurring at this current moment in history. It is therefore essential to invest in training programmes that support entrepreneurial spirit and to offer self-organisation skills and tools from a young age, as well as skills that encourage a sense of initiative, creativity and the courage to take risks. At the same time, training and support policies will have to ensure that an ageing (with regard to what is now termed the 'silver economy') and dwindling — in a global context — European population can enjoy a good quality of life and that people can make an active contribution.

4.9. Each person must be considered of important value, as shown by the successful experiences of work integration social enterprises, which have established reliable and competitive companies employing people in difficult situations or those who are excluded from the traditional labour market.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

Opinion of the European Economic and Social Committee on 'Consumers in the circular economy'

(own-initiative opinion)

(2019/C 353/03)

Rapporteur: **Carlos TRIAS PINTÓ**

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1. Conclusions and recommendations

1.1. The EESC is calling for a strategic shift — at European, national and local level — to unequivocally promote new models of circularity, not only by stepping up the alignment of all actors, but also by placing consumers at the centre of public policy.

1.2. Making for a circular economy and cutting down on excess consumption will therefore achieve the intensity and efficiency needed by strengthening the role of consumers in moving beyond the current production and consumption model, since everyday acts of consumption are the most effective levers for change.

1.3. Education, life-long training and self-learning must be put in place, and consumers provided with the most objective information possible, steering them towards circular patterns of behaviour. In this regard, the EESC highlights the role of local public administrations and consumer organisations.

1.4. Delivery of these actions will be measured using the impact indicators that are being drawn up based on the United Nations' Sustainable Development Goal 12 (SDG 12) ([1]) and its associated targets, generating new standardisation processes.

1.5. Reflecting the cross-cutting nature of aware consumption, the other 16 SDGs and their respective associated targets will complement the impact assessment, and SDG 17, Partnerships, will find spaces for co-creation and shared responsibility, facilitating the multiplier and scalability effects required.

([1]) https://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-12-responsible-consumption-and-production.html

1.6. Calculating the social and environmental footprint of products in the various value chains is something that has huge potential for providing consumers with relevant information regarding their purchasing decisions, as part of a digital society. The EESC insists on using indicators that are reliable, comparable and verifiable, and stresses in particular the importance of monitoring indicators relating to chemical substances, including how they are handled.

1.7. Activities must be guided by a win-win approach and not be uniform: they should be tailored to the specific conditions of different areas and economic sectors, applying bottom-up methods involving all the relevant actors in each case. Such initiatives must be strongly rooted in the development of local economies: coordination should be driven by the authorities and by the empowerment of consumer organisations.

1.8. Europe's leadership regarding various circular economy models must be matched by the creation of a business environment that facilitates the internationalisation of circular economy goods and services, with feedback from pioneering experiments in countries such as South Korea ([2]). These models must be backed by specific guidelines on a fair transition towards environmentally sustainable economies and societies ([3]), which can also ensure a level playing field in relation to opportunistic products from third countries.

1.9. Advertising and commercial practices play a key role in consumer decisions. Companies' corporate social responsibility policies must necessarily be involved in countering greenwashing and social-washing. It is crucial in this regard to strengthen current official monitoring and accreditation structures for transition processes towards a circular economy.

1.10. Taxation and responsible public procurement are effective tools to gear a rewards-based approach to responsible production and consumption as part of the gradual standardisation of products and services. For the first aspect, the Member States should consider effective ways to apply a reward-based approach moving towards a gradual convergence of circular taxation that contributes to the European Single Market, and for the second, local administrations should introduce support plans for 'sustainable suppliers' to make it easier for them to ensure their production meets current contractual requirements and is scalable — which at present often leads to deficits.

1.11. The EESC also calls for voluntary labelling, as a step towards mandatory labelling, provided it is based on independent, verified voluntary environmental excellence schemes. Promoting the EU ecolabel ([4]) and extending it to more products would make it a flagship 'brand' for sustainable choices in Europe.

1.12. The EESC points to the urgent need to improve eco-design, systematically researching requirements concerning lifetime, repair, chemical inputs, etc., while also meeting social criteria and at the same time promoting local consumption networks and consumer-producer practices.

2. **Introduction and background**

2.1. Sustainable growth and competitiveness should also take account of qualitative factors: this means no exploitation of the environment or of labour, fair living conditions in keeping with the means of the planet and, ultimately, a model that balances economic prosperity, environmental issues and social inclusiveness ([5]).

2.2. The circular economy needs to represent a model for human behaviour that is compatible with the rules governing the natural world and which enables the preservation and regeneration of natural capital.

2.3. A large number of studies, proposals and opinions have already been produced on the transition from a linear to a circular economy, focusing principally on production and barely addressing the role of the consumer, who is a key stakeholder when it comes to dealing with the challenges of the circular economy.

([2]) The circular economy was the main focus of discussions on the ILO conventions during the Civil Society Forum in Seoul in April 2018 on the EU-Korea Free Trade Agreement.
([3]) ILO Guidelines for a just transition towards environmentally sustainable economies and societies for all.
([4]) The EU Ecolabelling Board, in accordance with the product life-cycle methodology, is currently taking on board new circular indicators and criteria for product use and disposal.
([5]) See EESC opinion Sibiu and Beyond (OJ C 228, 5.7.2019, p. 37).

2.4. To begin with, a considerable discrepancy is evident between what consumers say and how they behave: while they are very aware of social and environmental challenges ([6]), in practice their behaviour is coloured by the 'low cost' phenomenon, where the price of a product or service (which does not take into account the effect of negative external factors) is frequently more important than its intrinsic quality.

2.5. The figures therefore decrease when we move away from perceptions and expectations and towards actions and commitments. The tension between what is accessible and what is sustainable is thus revealed, with information and training being established as key factors when it comes to optimising the participation of the consumer in the process.

2.6. Some specific references to consumer behaviour have been included as part of the Circular Economy Package, and the EESC has endorsed these ([7]):

2.7. The European Committee of the Regions, in its opinion *An EU action plan for the Circular Economy* ([8]) has focused on consumer behaviour and social trends, stressing the key role of local and regional authorities in strengthening measures relating to education, training and professional qualifications that improve our understanding of sustainable consumption, the conservation of resources and the prevention of waste, as well as the responsibility of producers in the design and marketing phases.

2.8. Finally, the EESC stresses that certain innovative forms of consumption can also support the development of the circular economy: sharing products or infrastructure (sharing economy), consuming services instead of products, using IT or digital platforms, etc.

3. **The circular economy in EU policies**

3.1. The real challenge of the EU's circular economy policies, aside from the regulatory and productive aspects, is to harness the human capital of consumers' behaviour through their daily habits and decisions. The multiplier effect of individual actions would point to the full participation of consumers as an effective catalyst for change.

3.2. In the Communication *Closing the loop: An EU action plan for the Circular Economy* ([9]), the Commission concludes that 'The choices made by millions of consumers can support or hamper the circular economy'.

3.3. It also feels that 'Faced with a profusion of labels or environmental claims, EU consumers often find it difficult to differentiate between products and to trust the information available. Green claims may not always meet legal requirements for reliability, accuracy and clarity'.

3.4. 'Price is a key factor affecting purchasing decisions, both in the value chain and for final consumers. Member States are therefore encouraged to provide incentives and use economic instruments, such as taxation, to ensure that product prices better reflect environmental costs. Aspects relating to guarantees, such as the legal guarantee period and the reversal of the burden of proof (…) can protect consumers against defective products and contribute to products' durability and repairability'.

3.5. Yet while it captures many of the key parameters of sustainability, it also ignores the many interactions that occur in the various value chains, relegating the consumer to the role of a secondary actor.

4. **The 'state of the art' in EU policies**

4.1. Europe already has the regulatory framework necessary to promote responsible public procurement ([10]), and its potential ([11]) makes it one of the driving forces behind the circular economy. However, there are numerous difficulties with regard to its effective implementation, which requires greater clarification of which products and services are considered circular.

([6]) According to a Special Eurobarometer survey carried out in September-October 2017, environmental protection is either very important or fairly important to 94 % of Europeans, one of their main concerns being rising levels of waste. And 87 % either totally agree or tend to agree that they can play an important role.
([7]) See OJ C 230, 14.7.2015, p. 99; OJ C 264, 20.7.2016, p. 98; OJ C 389, 21.10.2016, p. 80; OJ C 345, 13.10.2017, p. 102; OJ C 283, 10.8.2018, p. 61; and OJ C 367, 10.10.2018, p. 97.
([8]) OJ C 88, 21.3.2017, p. 83.
([9]) COM(2015) 614 final.
([10]) See Directives 2014/23/EU, 2014/24/EU and 2014/25/EU.
([11]) European public procurement amounts to nearly 15 % of GDP.

4.2. Standardisation processes should be dealt with at a global level on the basis of new metrics (as a multilateral and globalised economy requires a common language). This should be underpinned by a dynamic terminology, as best practices from the various value chains need to be fed back into the transition process.

4.3. A new family of socio-environmental impact indicators will be introduced by the European Commission's Action Plan on Financing Sustainable Growth and the regulation on a new taxonomy for sustainable activities ([12]), in full keeping with the United Nations guidelines.

4.4. With the backing of European Commission resources, now reinforced and brought together under InvestEU, it is expected that there will be a significant redirection of resources towards activities that contribute to mitigating climate change and prevent the depletion of natural resources, such as renovating housing stock and using geothermal energy ([13]), both of which are linked to consumers' decisions.

4.5. The New Deal for Consumers, with its strengths and weaknesses, will help to improve consumer confidence ([14]). In the EESC's view ([15]), improving the implementation framework of consumer legislation is key for the balanced development of circularity.

4.6. It is worth highlighting the joint initiative of the European Commission and the EESC to launch the *European Circular Economy Stakeholder Platform* ([16]), 'a network of networks' which provides a place to address specific challenges and share best practices and solutions. The Retail Forum (REAP) ([17]) and the EU Platform on Food Losses and Food Waste ([18]), amongst others, also play an important role.

5. Future commitments from the European Commission

5.1. In its work on eco-design, the Commission will look in particular at certain proportionate requirements regarding durability, information relating to repairs and availability of spare parts. It will also assess the introduction of information on durability in energy labelling.

5.2. In its revised proposals on waste, the Commission assesses new rules that will encourage re-use activities.

5.3. The Commission will work towards better enforcement of warranties on tangible products, explore possibilities for improvement, and tackle false green claims.

5.4. The Commission will prepare an independent testing programme under Horizon Europe to press ahead with issues related to premature obsolescence ([19]).

5.5. The Commission will improve the implementation of green public procurement, focusing on including the circular economy in either the new or the revised criteria.

6. Are we really moving towards a circular economy?

6.1. 'Sustainability is a [process] […] whereby the behaviours, actions and decisions of governments, companies, workers, citizens and consumers are driven by the realisation of their economic, environmental and social impacts in a responsible manner' ([20]).

([12]) COM(2018) 353 final, adopted in March 2019 by the co-legislators.
([13]) In March 2019 the co-legislators approved the taxonomy of sustainable activities.
([14]) The agreement reached by the European Parliament's IMCO committee on defective products (February 2018), which was disappointing, has been followed by a more positive agreement: greater protection for online purchases, as well as the willingness to impose sanctions to address the issue of dual quality of food (April 2018).
([15]) OJ C 440, 6.12.2018, p. 66.
([16]) https://circulareconomy.europa.eu/platform/
([17]) http://ec.europa.eu/environment/industry/retail/about.htm
([18]) https://webgate.ec.europa.eu/flwp/
([19]) The H2020 PROMPT project is trialling a testing system for premature obsolescence and will make proposals to improve product lifetimes, including repairs. The consortium comprises consumer organisations such as ANEC/BEUC/ICRT and Test Achats, UFC Que Choisir, OCU, Stiftung Warentest, Consumentenbond, together with research institutes (TU Delft; Fraunhofer IZM) and repair organisations (RUSZ, Ifixit).
([20]) EESC opinion *Listening to the citizens of Europe for a sustainable future (Sibiu and beyond)* (OJ C 228, 5.7.2019, p. 37).

6.2. In the EESC's view, the focus of the EU institutions is on the environmental and productive aspects of the circular economy, with barely a mention of the social and consumer-related aspects. As a result there is a risk of moving in a circular manner towards another linear economy.

6.3. Under a comprehensive approach, the proactive role of consumers must overcome mere asymmetrical participation (which limits them to the role of urban agents recycling domestic waste), and must empower them to participate in the full circularity of the process.

6.4. The good news is that we have had a relevant toolbox for the circular economy at our disposal, based on the 17 Sustainable Development Goals (SDGs) and their associated targets. This, in combination with the binding protocols of COP 21 ([21]) aimed at mitigating climate change, provides us with an overarching framework of immense potential.

6.5. The EESC emphasises that the transition will be more efficient and better adapted to SDG No 12 (Responsible Consumption and Production), if the space between supply and demand is better connected, anchoring the circular economy to the region in question.

7. EESC proposals for providing consumers with a greater role in circular economy models

7.1. Responsible research and innovation (RRI), within the framework of Horizon Europe: the balanced participation of all stakeholders, in particular consumers and/or their representatives, shall be facilitated.

7.2. Eco-design and eco-innovation: from the perspective of environmental co-responsibility, the active participation of consumers will be enhanced through practices of shared value creation, which can be accredited by means of officially regulated quality labels.

7.3. Consumers will be encouraged to get involved in planning corporate social responsibility policies by taking part in a 'sandbox' for products and pilot services, in order to ensure *ex-ante* joint validation.

7.4. Best circular practices will be compiled, and consumers given a voice. Those practices with the greatest multiplier effects will be widely disseminated.

7.5. Encouraging voluntary labelling that displays information on emission reduction, biodiversity conservation, resource efficiency or avoidance of components with a high environmental impact, with the aim of making its use compulsory. Labelling that estimates the lifespan of the product will be introduced, in relation to the possibility of obtaining spare parts and options for repair. Taking into account pressure from consumers, the extension of product warranty periods, through taxation and public procurement, will be encouraged, making use of official recognition, taxation and public procurement.

7.6. As part of the New Deal for Consumers, redress mechanisms will be put in place for consumers who have purchased goods and products that were subject to premature obsolescence practices.

7.7. The use of very short-term materials (e.g. single-use plastic) ([22]) and packaging of products will be monitored ([23]). Controls on chemicals will also be reinforced by applying a comprehensive approach, in order to prevent counter-productive recycling practices.

7.8. Consumer information regarding environmental footprints that is accessible, legible and accurate. Bad practices that consist of making claims without sufficient empirical evidence will be monitored and, where appropriate, made public.

7.9. Information campaigns for consumers — with a special focus on young people — relating to sustainable economic models of production and consumption, including a range of nudging strategies and taking into account cultural and idiosyncratic factors ([24]).

([21]) https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
([22]) OJ C 62, 15.2.2019, p. 207.
([23]) This is often excessive and inappropriate as it is influenced by marketing strategies.
([24]) For example, in southern Europe 'doggy bags' are frowned upon.

7.10. Providing education programmes (continuously, from nursery school onwards) that examine the methodology of a product's life-cycle (manufacturing of parts, modularity, durability, repairability, re-use and energy efficiency) from a cross-cutting perspective, and including a significant practical component.

7.11. Expanding the sources of employment associated with re-use, repair and recycling activities with high added value (upcycling), as part of the Digital Single Market strategy ([25]).

7.12. Ensuring that the relevant authorities, at their respective levels of responsibility, put adequate infrastructure and means in place for separate collection everywhere that waste is generated.

7.13. Recognising municipalities, educational establishments, universities and other institutions that incorporate consumer participation protocols in their circular economy activities by means of bottom-up models.

7.14. Developing and extending experience in the area of new economic models, preferably in connection with the sharing economy and the functional economy within a specific region, by means of protected designations of origin, and referred to as 'circular municipalities'.

7.15. Strengthening of the role of consumer associations in the circular economy by means of technical assistance and ad hoc resources.

7.16. Publishing and disseminating businesses' best practices with regard to the circular economy, closely monitored by consumer organisations.

7.17. Promoting local consumption networks, prosumption and DIY activities.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([25]) See the final report ICT for Work: Digital Skills in the Workplace.

Opinion of the European Economic and Social Committee on 'Taxation in the digitalised economy'

(Own-initiative opinion)

(2019/C 353/04)

Rapporteur: **Krister ANDERSSON**

Legal basis	Rule 32(2) of the Rules of Procedure Own-initiative opinion
Plenary Assembly decision	15.2.2018
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	2.7.2019
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Plenary session No	545
Outcome of vote (for/against/abstentions)	167/7/7

1. Conclusions and recommendations

1.1. The EESC considers the digitalisation of the economy to be a great opportunity, and the EU Digital Agenda to be a key policy for the European Union. As digitalisation continues to be an important driver for global economic growth, the EESC believes that policies related to taxation of the digitalised economy should seek to promote, not hinder, economic growth and cross-border trade and investment.

1.2. The EESC underlines the need for tax systems to take due account of new business models. The principles of a fair tax system — consistency, predictability, neutrality — are just as relevant as ever for public authorities, businesses and consumers.

1.3. The Committee therefore shares the Commission's ambition to continue to prevent aggressive tax planning behaviour by businesses and non-transparency by Member States to ensure equal treatment of firms and to promote European competitiveness.

1.4. The EESC strongly believes that, in the context of the digitalisation of the economy, any changes to the rules for allocating taxation rights of profits among countries must be coordinated globally, in order to better harness the benefits of globalisation, with proper global governance and global rules. The EESC therefore welcomes the close cooperation between the Commission, Member States and the OECD/G20 to support the development of an international solution, which will limit the risk of international double taxation. However, if an international solution cannot be reached, the EU must consider proceeding on its own.

1.5. The EESC would like to suggest that Member States that set up specific national systems should carefully look for the most efficient solutions in order to avoid supplementary complications and costs for both the tax administrations and companies alike.

1.6. The EESC encourages the Commission and Member States to carefully consider all possibilities to eliminate any under-taxation of digital services, irrespective of where the company is located, for those sales that end up in a Member State. Services provided through platforms used by European consumers should be fully incorporated in the VAT system, as an essential component in addressing the tax issue. It should be noted that digital communications customers e.g. Facebook etc. access these services at no apparent charge which raises the question as to how VAT could reasonably be applied.

1.7. The allocation key suggested for the Common Consolidated Corporate Tax Base (CCCTB), with its three factors, could be used and applied, as a starting point, for the allocation of the residual profit, if this is the method agreed upon at the OECD. The EESC supports such an approach.

1.8. The EESC believes, however, that resources spent on R & D are important for developing intangibles and that the country in which such activities take place should be remunerated for them. The EESC therefore suggests that a formula consisting of four factors be used for the allocation of the residual profit, rather than the three factors included in the CCCTB formula. The EESC fully recognises the complexity of the calculation of international taxation rights. At the same time an acceptable and fair allocation of taxation rights among countries is necessary.

1.9. To the extent that reallocation of international taxation rights cannot be obtained within the existing transfer pricing framework, the EESC supports allocating residual profits from market intangibles by using a four factor formula.

1.10. Given the growing size of markets outside Europe, in particular in countries like China, India and Brazil, allocating taxation rights on the entire corporate tax base, or even on the entire residual profit, would result in substantial revenue losses in many Member States and could result in difficulties in meeting social objectives in European countries.

1.11. The EESC considers it necessary to strike a reasonable balance between the re-allocation of corporate profit taxes among net-exporting countries and net-importing countries, not to jeopardise the possibility of countries to meet their social and environmental objectives.

1.12. Agreed changes to the international rules for allocating taxation rights among countries should be beneficial to all the Member States and the Single Market.

2. Background

2.1. The present corporate tax systems in the world and the Base Erosion Profit Shifting (BEPS) endeavour are based on assessing the corporate profit where economic activities generate profits and where value is created. The digitalisation of the economies has however raised the issue of where the profits are created and how they are distributed. Digital services, broadly defined, can be supplied at a distance, without any physical presence where consumption takes place.

2.2. As a result of the BEPS project, the international tax system is already undergoing a major transformation resulting in many changes in the taxation of companies ([1]). The BEPS project was initiated to tackle base eroding and profit shifting activities, not to alter existing international standards on the allocation of taxation rights on cross-border income among countries ([2]).

2.3. Action 1 of BEPS dealt with the challenges of the Digital Economy ([3]). Since no consensus was reached on how to tax these new business models, it was followed by an interim report of the OECD/G20 Inclusive Framework on BEPS, in 2018 ([4]). This report sets out the Inclusive Framework's agreed direction of work on digitalisation and the international tax rules through to 2020. It describes how digitalisation is also affecting other areas of the tax system, providing tax authorities with new tools that are translating into improvements in taxpayer services, improving the efficiency of tax collection and detecting tax evasion.

2.4. On February 13, 2019, the OECD issued a Public Consultation Document 'Addressing the Tax Challenges of the Digitalisation of the Economy' ([5]). It outlines revised profit allocation rules and nexus rules as well as a global anti-base erosion proposal.

([1]) OECD. BEPS 2015 Final Reports.
([2]) In the EU, corporate profit shifting and base erosion by companies have been reported by the Commission to amount to EUR 50-70 bn, equivalent to less than 0,4 per cent of EU GDP. SWD(2018) 81 final.
([3]) OECD. BEPS Addressing the Tax Challenges of the Digital Economy, Action 1: 2014 Deliverable.
([4]) OECD. Tax Challenges Arising from Digitalisation: Interim Report 2018 – Inclusive Framework on BEPS, OECD/G20 BEPS Project (OECD Publishing 16 March 2018); OECD.
([5]) Public Consultation Document Addressing the Tax Challenges of the Digitalisation of the Economy, OECD.

2.5. A final report from the OECD/Inclusive Framework is expected in 2020. The finance ministers of the USA and France have however said that they want to accelerate the talks at the OECD to find a solution already during 2019 (6). The US have presented a proposal focusing on allowing market jurisdictions to tax returns on marketing intangibles used within that jurisdiction, even when the investment in developing those marketing intangibles is made in another country. There is also a German-French proposal for a minimum corporate tax rate. This EESC opinion could be seen as providing input into the ongoing debate.

2.6. The EU Commission had already in 2014 issued a report on taxation of the digital economy (7). The High Level Expert Group on Taxation of the Digital Economy concluded that digital technology offered great opportunities for Europe. Europe can boost its prospects for growth and jobs if it realises the Digital Single Market and if it taps the digital potential of the Single European Market. The Expert Group discussed extensively the principles that should guide international taxation.

2.7. These principles are important also for this Opinion. The Expert Group concluded that there should not be a special tax regime for digital companies. The general rules should rather be applied or adapted so that 'digital' companies are treated in the same way as others.

2.8. With its communication entitled *Time to establish a modern, fair and efficient taxation standard for the digital economy*, published on 21 March 2018, the Commission presented its legislative package for a harmonised reform of the EU's corporate tax rules for digital activities. The package contained two Council Directives accompanied by a soft-law recommendation relating to the corporate taxation of a significant digital presence.

2.9. The EESC issued an opinion in July 2018 on the Commission proposals — Taxation of profits of multinationals in the digital economy (8). The negative effects of turnover taxes as well as the need for international consensus were stressed in the Committee opinion.

3. **General comments**

3.1. The EESC considers the digitalisation of the economy to be a great opportunity, and the EU Digital Agenda to be a key policy for the European Union. As digitalisation continues to be an important driver for global economic growth, the EESC believes that policies related to taxation of the digitalised economy should seek to promote, not hinder, economic growth and cross-border trade and investment.

3.2. The internet enables companies to scale across global markets without a significant physical presence — a feature that is notably helping small businesses to export to an unprecedented degree. Digitalisation is also often accompanied by the growing importance of intangible assets, such as intellectual property and data.

3.3. The EESC underlines the need for tax systems to take due account of new business models. The principles of a fair tax system — consistency, predictability, neutrality — are just as relevant as ever for public authorities, businesses and consumers.

3.4. The EESC considers a level playing field in the area of corporate profit taxation to be very important. Recent years have demonstrated that individual companies have been able to make use of specific tax rules in some Member States, reducing their effective tax rate to almost zero. The lack of transparency has contributed to such an outcome. Some of the cases have involved multinationals active in the area of digital services.

3.5. The Committee therefore shares the Commission's ambition to continue to prevent aggressive tax planning behaviour by companies, digitalised or brick-and-mortar firms alike, and non-transparency by some Member States to ensure equal treatment of companies and to promote European competitiveness.

(6) 'US and France accelerate plans to make global tech groups pay tax. Finance ministers agree on need for international minimum corporation tax level', Financial Times,February 28, 2019.
(7) Commission Expert Group on Taxation of the Digital Economy, 28 May 2014. The group was chaired by Vítor Gaspar, a former finance minister of Portugal, and brought together six experts from across Europe with different backgrounds and expertise relevant to the subject.
(8) See EESC opinion Taxation of profits of multinationals in the digital economy (OJ C 367, 10.10.2018, p. 73).

3.6. The EESC strongly believes that any changes to the rules for allocating taxation rights of profits among countries must be global ones, in order to better harness the benefits of globalisation, with proper global governance and global rules. The EESC therefore welcomes the close cooperation between the Commission, Member States and the OECD/G20 to support the development of an international solution. However, if an international solution cannot be reached, the EU must consider proceeding on its own.

3.7. The EESC would like to suggest that Member States that set up specific national systems should carefully look for the most efficient solutions in order to avoid supplementary complications and costs for both the tax administrations and companies alike.

3.8. The EESC notes that digital technologies also have the potential to revolutionise compliance and enquiry work. The OECD, in its 2018 report (9), shows how digitalisation has already had a threefold positive impact on tax administration: enhancing the effectiveness of tax compliance, improving taxpayer services and reducing tax compliance burdens.

3.9. Greater amounts of third-party data available to tax authorities allows more reporting to be automated, saving both sides time and money, and can also be used to tackle underreporting, evasion or fraud. Data recording software adopted by several tax administrations that notes sales data at the time of a transaction — and can be submitted directly to tax authorities — has already increased some countries' value-added tax (VAT) revenues significantly.

3.10. When assessing the effective level of taxation of the digital sector, the EESC underlines the need to take into account the changes in the tax codes going forward due to the ongoing implementation of BEPS rules, since this may in fact lead to more revenue being taxed in the EU.

4. A possible way forward?

4.1. Not all countries in the world have a Value Added Tax. However, in the EU, all countries do. In principle all consumption of services and goods should be subject to VAT, unless explicitly excluded from the tax base. VAT revenues represent an own resource in the EU budget and the EESC considers it important to include digital services in the tax base.

4.2. The EESC encourages the Commission and Member States to carefully consider all possibilities to eliminate any under-taxation of digital services, irrespective of where the company is located, for those sales that end up in a Member State. Services provided through platforms used by European customers should be fully incorporated in the VAT system. It should be noted that digital communications customers e.g. Facebook etc. access these services at no apparent charge which raises the question as to how VAT could reasonably be applied.

4.3. The EESC notes that the present corporate tax systems in the world are based on assessing the corporate profit attributable to each relevant jurisdiction. Taxation should be based on where value is created. Given the difficulties in telling where in the value chain profit emerges, there is a need to find universal principles how to assess where value is created. Such rules have been developed within the comprehensive work of the OECD, formulating tax principles and definitions of how to price goods and services (transfer pricing rules) for companies within a business group.

4.4. The EESC believes that the international tax rules need to be revised from time to time as business models evolve. The current rules have very recently been revised in connection with the Base Erosion and Profit Shifting (BEPS) agreement (10). The new rules and definitions are now being implemented. They are expected to substantially reduce the opportunity for aggressive tax planning and erosion of tax bases.

4.5. A residual profit (or loss) may in particular occur if marketing or product intangibles give rise to non-routine profits. The use of customer lists or gathered data may for instance give rise to the existence of a residual profit. The concept is by no means new, and it could be used not only for dividing up the profit between related parties but also to allocate taxation rights among countries. It would, however, require some innovative thinking and exploration of the possibility of allocating taxation rights in line with value creation even if there is no physical permanent establishment in the country concerned. This is part of the OECD deliberations.

4.6. The EESC notes that the discussion regarding the taxation of so-called digital companies does not primarily relate to base erosion and profit shifting behaviour of companies but to the allocation of taxation rights among countries.

(9) Tax Challenges Arising from Digitalisation — Interim Report 2018.
(10) OECD 2015.

4.7. A residual profit (or loss) could be described as the profit (or loss) being recorded once each party has been remunerated for its routine contributions in such a manner that it is in accordance with the arm's length principle ([11]). It would first involve a proper market valuation of the risks encountered, the value created by production factors and functions performed.

4.8. Sales would normally not be a decisive factor for allocation of profits to the companies involved in a transaction. However, if existing international rules are used — allocating profit to each company based on the OECD transfer pricing guidelines — the residual profit could then be allocated to countries where functions have been performed. One such function could be 'sales'.

4.9. The allocation key suggested for the Common Consolidated Corporate Tax Base (CCCTB), with its three factors ([12]), could be used and applied for the allocation of the residual profit ([13]).

4.10. It can, however, be argued that resources spent on R & D are important for developing intangibles and that the country in which such activities take place should be remunerated for them ([14]). That would call for a formula consisting of four factors rather than the three included in the CCCTB formula.

4.11. To the extent that reallocation of international taxation rights cannot be obtained within the existing transfer pricing framework, the EESC supports allocating residual profits from market intangibles by using a four factor formula.

4.12. If the residual profit is 30 (out of a total profit for the Group of 100) and if production is divided equally in value creation terms in countries A and B, these countries would then get to tax 35 each ([15]). Since the product is also sold to an equal amount in country C, the residual profit would be divided between A, B and C. Countries A and B would receive an additional tax base of 13 3/4, while C would be entitled to tax 2 1/2 ([16]).

4.13. The EESC fully recognises the complexity of the calculation of international taxation rights among countries. It would entail calculating and agreeing between countries on the size of the residual profit. It would also entail knowing the size of each of the four factors in the allocation key. The use of a modified CCCTB formula could be seen as a step in the direction of getting acceptance for the CCCTB.

4.14. The CCCTB formula would allocate corporate taxation rights to countries where no innovation, production or risks and functions take place. The mere fact that sales take place in a country, without any other activity in that country, would then constitute a taxable base. This represents a major change from existing rules. However, with the CCCTB formula applied only to the residual, and not the whole, profit, the legitimate right of exporting countries to retain part of the taxation right would be recognised. The value created from entrepreneurship and innovation may have rendered tax concessions when R & D costs were encountered and as the company turns profitable, the same country would receive tax revenues.

4.15. We recommend that, if no OECD agreement is achieved, the new European Commission should present a new proposal to tax these companies in the EU, based on data already in their possession e.g. total advertising time during customers' connection time, etc.

([11]) For the definition, please see Transfer pricing in the EU context.

([12]) Council Directive on a Common Corporate Tax Base (COM(2016) 685 final — C8-0472/2016 — 2016/0337(CNS)). 'The choice of the three factors stems from the need to reflect both the state of production (supply side, measured by assets and/or labour payroll) and the state of demand (sales to destination) to describe economic activity properly. Sales are weighted by one-third, payroll by one-sixth, the number of employees by one-sixth, and assets by one-third. The sum of the weights equals one so that 100 % of the CCCTB is apportioned across the Member States. Member States can then apply the national corporation tax rates to their respective shares of taxable bases.' SWD(2016) 341 final.

([13]) It may be noted that businesses with social aims, like certain cooperatives connected with the local community, distribute value created in a more direct way and that the allocation key therefore may not be directly applicable to them.

([14]) If countries providing good infrastructure and ample R & D incentives do not get their fair share of the corporate tax revenues, their incentives to provide a conducive investment environment would be reduced or even eliminated altogether.

([15]) The 'normal' profit would be 70.

([16]) After arms-length pricing remuneration, the remaining profit is 30. After adding an R & D factor (R) to the CCCTB factor proposal, the factors in the allocation key would be capital, K, labour, L, sales, S, and R. They have equal weights (1/4 each). With 3 countries, there are 12 components to consider. Country C however only has one component, sales. The remaining 11 components are divided equally between A and B, i.e. 5 1/2 each (5,5/12 * 30) = 13 3/4. The tax base for country C is (1/12*30) = 2 1/2. For countries A and B, the additional tax base of 13 3/4 consists of 3 3/4 for K, 3 3/4 for L and 3 3/4 for R (total of 7 1/2 to K, 7 1/2 to L and 7 1/2 to R), and 2 1/2 each for S. The total allocated to S is also 7 1/2.

4.16. Given the growing size of markets outside Europe, in particular in countries like China, India and Brazil, allocating taxation rights on the entire corporate tax base, or even on the entire residual profit ([17]), would result in substantial revenue losses in many Member States and it could result in difficulties in meeting social objectives in European countries.

4.17. According to a study from Copenhagen Economics countries being net-exporters could lose considerable corporate tax revenues if part of the profit is taxed where the goods and services are sold ([18]). A conservative estimation suggests that 18-21 per cent of the current corporate tax base in the Nordic countries came from foreign residual profits in 2017. For Germany, the share is estimated to be 17 per cent. If the marketing intangible approach is introduced, the bulk of this corporate tax revenue would be allocated to other countries.

4.18. The EESC considers it necessary to strike a reasonable balance between the re-allocation of corporate taxes among net-exporting countries and net-importing countries.

4.19. If European companies were primarily taxed on where they sell their products, they might also structure their business activities in such a way that costs occurred in the same country as the sales. This process could result in shift of investments and jobs to large consumer countries like China and India, propelling further revenue losses in Member States. Such a development must be avoided by ensuring European competitiveness.

4.20. The EESC underlines the need for a global agreement and implementation for any new regime or rules for how to allocate taxation rights among countries. The absence of these conditions would result in double taxation and therefore reduced investments and jobs.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([17]) If the entire tax base were based solely on sales, country C in the example above would be allocated a tax base of 25. If only the residual profit would be allocated based on the sales component, the equivalent tax base for country C would be 7,5.

([18]) Future Taxation of Company profits — What to do with Intangibles? by Sigurd Næss-Schmidt, Palle Sørensen, Benjamin Barner Christiansen, Vincenzo Zurzolo, Charlotta Zienau, Jonas Juul Henriksen and Joshua Brown, Copenhagen Economics, 19 February 2019.

Opinion of the European Economic and Social Committee on 'Towards a more resilient and sustainable European economy'

(own-initiative opinion)

(2019/C 353/05)

Rapporteur: **Javier DOZ ORRIT**

Plenary Assembly decision	24.1.2019
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Preamble

This opinion is part of a package of two EESC own-initiative opinions drawn up in parallel: Towards a more resilient and sustainable European economy *and* A new vision for completing the Economic and Monetary Union. *The package is intended as a direct contribution to the economic agenda of the new European Parliament and European Commission taking office in 2019. There is a clear need for a new European economic strategy: a positive narrative for the future development of the EU economy in the wider world that would help increase the resilience of the EU to economic shocks and the sustainability — economic, social and environmental — of its economic model, thus bringing back confidence, stability and shared prosperity to all Europeans. Building on the progress achieved in recent years, this strategy could lay the ground for further economic, fiscal, financial, social and political integration that is necessary to achieve the objectives of Europe's Economic and Monetary Union.*

1. **Conclusions and recommendations**

1.1. European integration is at a crossroads. One lesson from the recent long-lasting economic crisis and the deep social scars it has left in several Member States is that the absence of economic and social convergence among Member States and regions is a threat to the political sustainability of the European project and all the benefits it has brought to European citizens.

1.2. Given anthropogenic climate change and the transgressing of multiple planetary boundaries, our production and consumption model needs to be overhauled. In line with the COP 21 Paris Agreement and the UN Sustainable Development Goals, the EU has set the objective of having a climate-neutral economy by 2050. In order to manage this, a comprehensive and consistent policy framework will be needed.

1.3. Developing economic and labour market resilience with economic, social, environmental and institutional sustainability should be the principle guiding policies which will foster upwards convergence and fairness in the transition towards a climate-neutral economy — i.e. an economy in which there is a balance between emissions and absorption of greenhouse gases — while managing the challenges posed by digitalisation and demographic change.

1.4. To enable economic policies that increase economic, labour market and social resilience, the drive towards strengthening the institutional architecture of EMU should be kept up and reinforced. The establishment of a fiscal capacity at eurozone level, the reform of current fiscal rules in order to preserve public investment during downturns, the establishment of a common safe asset and the completion of the Banking and Capital Markets Unions should be carried forward, if only in incremental steps. Furthermore, measures to avoid unfair tax competition among Member States should be promoted.

1.5. In order to reduce social vulnerabilities and thus increase resilience, effective European and national measures must be adopted to reverse the current trend towards growing inequality both in terms of opportunities and outcomes.

1.6. The concept of a just transition must be developed and applied when striving to reach the objective of a carbon-neutral EU economy by 2050. This includes ensuring that the effects of climate policies are shared out equally and managing labour market transitions in a forward-looking way with the full participation of the social partners. A sustainable economy should integrate all three dimensions of sustainability: economic, social and environmental.

1.7. The Member States should take initiatives to implement the European Pillar of Social Rights by undertaking legislative initiatives at national level and ensuring appropriate financing. The EU should contribute to this financial effort under the next Multiannual Financial Framework (MFF) 2021-2027.

1.8. Strengthening the competitiveness of the European economy, that is its capacity to increase its productivity and living standards in a sustainable manner while at the same time becoming climate neutral, not least by means of research, development and more and better skills for the labour force, should go hand in hand with these initiatives.

1.9. The agreement on the size and shape of the forthcoming MFF should reflect the imperatives of developing resilience and a sustainable economy.

1.10. Given the interconnection between the different facets of a resilient and sustainable economy, the participation of representative organisations of the social partners and civil society in policy-making and in the implementation cycles should be placed on a formal footing and reinforced wherever necessary at national and European levels.

1.11. Through the European Semester, the MFF 2021-2027 and other legislative and government instruments, the European institutions and the Member States should establish a coherent action programme to promote and strengthen the key factors promoting economic resilience throughout the EU and the convergence of the Member States in relation to these factors.

2. **A more resilient and sustainable European economy**

2.1. Developing greater resilience to (economic) shocks is an objective that has been gaining ground in (economic) policy debates in the EU and particularly in the euro area. This has been due not least to the lasting economic, social and political scars that the recent economic and financial crises have left in several EU Member States but also to the anticipation of highly disruptive effects on European economies and societies, which are expected to be generated by the Fourth Industrial Revolution, and to the imperative need to tackle climate change and to stay within the limits of planetary boundaries.

2.1.1. In the context of Economic and Monetary Union (EMU), the definition of economic resilience proposed by the European Commission is the ability of a country to withstand a shock and recover quickly to its potential [growth] after it falls into recession ([1]).

2.1.2. The Five Presidents' Report and the Commission's White Paper on Deepening EMU state that the euro-area Member States should converge towards more resilient economic and social structures, which should 'prevent economic shocks having significant and persistent effects on income and employment levels', so that they can reduce economic fluctuations, most notably deep and extended recessions.

2.1.3. It should be noted, however, that while the resilient recovery of an economy means avoiding or effectively dealing with the lasting disruptive effects of a shock, with a view to both the cyclical and structural nature of changes, economies need not always return to the pre-shock state (or growth path). For example, the advent of the Fourth Industrial Revolution and the transition to a climate-neutral economy should arguably lead to different economic models. It is important that political institutions and social actors be prepared to act upon the changes, anticipating their consequences and directing the transformation processes.

([1]) European Commission, Note for the Eurogroup: Economic resilience in EMU, 13.9.2017.

2.1.4. Economically-resilient economies can have different characteristics. They may have low vulnerability to certain types of shocks (e.g. macroeconomic or financial shocks). Whenever shocks actually hit them, resilient economies can cushion their impact by minimising their effects on output and employment levels and/or they can recover swiftly from them by adapting. Different types of policy interventions, and different combinations thereof, can be used to enhance resilience: namely, preparation, prevention, protection, promotion (of change) and transformation policies. The existence of high public debt levels as a share of GDP can pose difficulties with regards to resilience. On the one hand, it can be a source of vulnerability to shocks; on the other hand, it may limit the response of Member States to adverse shocks.

2.1.5. Economic resilience can be achieved in ways that have very different effects on the welfare of different groups in society. Workers' welfare largely depends on how stable, secure and equally distributed their income and employment opportunities are. Therefore, policies that promote both economic and labour market resilience should be favoured, with labour market resilience being defined as the capacity of a labour market to withstand an economic shock with limited losses to workers' welfare. The increasing share of precarious non-standard employment in total employment creation, however, is a stark reminder that economic and labour market resilience do not necessarily coincide. The quality of employment is a factor of resilience, both for vulnerability and resistance and for recovery.

2.2. Establishing a more sustainable European economy is a policy objective in the EU. According to the Juncker Commission's long-term strategic vision for a 'prosperous, modern, competitive and climate neutral EU economy' by 2050, informed, inter alia, by the UN Sustainable Development Goals (SDGs), a *sustainable economy* should be one that integrates all three of the economic, social and environmental sustainability dimensions.

2.2.1. The general definition of economic sustainability is the ability of an economy to support a defined level of economic production indefinitely. It concerns the avoidance of large macroeconomic imbalances. Often conflating the two concepts of sustainable economy and economic sustainability, the EU process of economic policy coordination, most notably the European Semester is in its core built to pursue the latter dimension, failing to fully reflect the broader concept of sustainable economy. For example, the reflection paper of the Commission 'Towards a sustainable Europe 2030' states that 'healthy budgets and modern economies are key; progress made towards sound fiscal policies and structural reforms have reduced debt levels and stimulated job creation' ([2]).

2.2.2. The crisis and its political management have produced a serious regression in social cohesion with negative political consequences. Social sustainability has been under threat due to the increasing inequalities of opportunities and outcomes that can be observed in many European countries and other advanced countries but also globally, with parts of society 'left behind'. Higher inequality also means higher vulnerability to shocks, which runs against higher resilience. Wealth inequality also runs against economic sustainability, as it reduces wealth reinvestment productivity and the efficiency of society. The failure to tackle the drivers of these inequalities has been associated in many cases with the political backlash observed in many countries against traditional political parties and their pro-EU agenda.

2.2.3. Social sustainability is bound to face further pressures due to the Fourth Industrial Revolution and the changes it introduces for work and welfare in Europe and elsewhere.

2.2.4. With the reckless depletion of natural and environmental resources, the current production and consumption model is transgressing several dimensions of planetary boundaries (climate change, biodiversity, oceans, pollution, etc.), and poses an existential threat to future generations.

2.2.5. Socially and environmentally sustainable development would thus imply staying within the 'safe and just space for humanity' ([3]) by providing a proper social foundation to all members of society and at the same time staying within the planetary boundaries. For this to happen, a fundamental revision of the current production and consumption model ('growth model') is necessary, based on 'sustainable growth' ([4]). This vision paves the way for a structural shift of the European economy, driving sustainable growth and employment.

([2]) Reflection paper 'Towards a sustainable Europe by 2030', European Commission (2019).
([3]) Raworth (2017).
([4]) OJ C 228, 5.7.2019, p. 37.

2.2.6. In the light of the above, and also in line with EESC opinion NAT/542 ([5]), sustainable growth means that growth should be based not only on quantity but also — in fact even more — on quality, which means growth that (i) is based on clean energy and responsible material use without exploiting the environment and labour, (ii) is based on a closed flow of income cycling between households, businesses, banks, government and trade overcoming current bottlenecks due to financial fragmentation, operating in a social and ecological way, (iii) provides fair living conditions by meeting the needs of all within the planetary boundaries, (iv) also takes the unpaid work of carers — principally women — into account, and (v) ensures that economic growth is measured not only by annual flow, but also by stocks of wealth and their distribution.

All these features are essentially missing from the current model.

2.3. A sustainable economy has characteristics that promote resilience insofar as economic sustainability reduces the risks associated with macroeconomic and financial imbalances.

2.4. Transitioning to a sustainable economy, integrating economic, social and environmental sustainability, however, will undoubtedly require far-reaching changes which can be characterised as an intense and long-lasting but also predicted shock. Being resilient vis-à-vis this transition will require measures that facilitate and promote the adaptability of economies, societies and individuals to the new model. In that sense, demonstrating resilience will facilitate the just transition to a sustainable economy.

2.5. An integrated and holistic concept and policy framework for sustainability also need to take account of two further megatrends that will shape the future of the European economy and labour market: an aging society and demographic change, and changing globalisation patterns which, in addition to the shrinking of multilateralism, also include stronger migration flows.

2.6. The performance of European countries during the past crisis has been very diverse from the point of view of the concept of resilience. The economic and social impact of the crisis has varied across Member States. Almost all Member States suffered significant declines in GDP; in several, recession resulted in major job losses for varying periods. In order to draw adequate lessons from the Great Recession, which will help reinforce the resilience and sustainability of the European economy and societies, it is necessary to analyse the structural factors of vulnerability and recovery capacity, along with the policies that were applied (extreme austerity from 2010, and selective flexibility from 2014). This must be done using not only the main economic variables but social and environmental indicators as well.

3. The two great transitions

3.1. *Towards a green, climate-neutral economy*

3.1.1. The transition towards a green and decarbonised economy in Europe is aligned with two international frameworks: The Sustainable Development Goals of the United Nations (SDGs) and the COP21 Paris Agreement. The SDGs represent a comprehensive global agenda. EU Member States have begun to translate the international SDGs into national sustainability strategies and targets. In particular, SDG7 (ensure access to affordable, reliable, sustainable and modern energy for all), SDG 12 (on sustainable consumption and production) and SDG 13 (on climate action) define strategic objectives based on the shared responsibility principle.

3.1.2. The nationally determined contributions (NDCs) made by the signatories to the Paris Agreement set the strategic objectives at country level. The first global stocktake carried out at the COP24 in Katowice indicates that climate policy ambitions clearly need to be increased further.

3.1.3. In November 2018, the European Commission launched its long-term vision ‘A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy’. On this basis, the EU will adopt and submit its climate policy commitments by early 2020 to the United Nations Framework Convention on Climate Change (UNFCCC) as requested under the Paris Agreement, and should take account of the following.

3.1.4. Greening of economies requires a coherent country-specific mix of macroeconomic, industrial, sectoral and labour policies. The aim is to generate decent jobs along the entire supply chain, creating employment opportunities on a wide scale.

3.1.5. Sustainable development needs to be addressed across all policy fields in a coherent manner. Such a policy framework requires institutional arrangements to be put in place to ensure the participation of all the relevant stakeholders at all levels, building partly on a balanced range of ownership forms (public, private, community and cooperative). European coordination of national policies that ensure high levels of convergence among Member States is also necessary. The effects on employment that stem from a change in the economic model must be addressed on the basis of a just transition made tangible through social and civil society dialogue linking up the national and European levels.

([5]) OJ C 143, 22.5.2012, p. 39.

3.2. *Towards a digital economy*

3.2.1. Digitalisation and automation are likely to have both positive and negative effects for the economy and society. On the one hand, they present great potential to increase productivity, especially in service sectors, where it is usually low, and to decentralise innovation activities to more peripheral locations.

3.2.2. On the other hand, they have the potential to displace workers especially in routine non-cognitive tasks. While technological revolutions in the past have never resulted in permanently massive unemployment, as the old displaced jobs have been replaced by new ones, the transition is unlikely to be seamless or painless without adjustment efforts.

3.2.3. Public policies in the domain of education can reform education systems so that they equip graduates with skills that increase their immunity towards technological displacement and allow them to be more adaptable in the course of their careers to gainfully participate in the labour market.

3.2.4. Public policies can also steer technological advances in directions that minimise their adverse impact on employment.

4. **Some foundations of a resilient and sustainable economic model and a political strategy to achieve it**

4.1. To build economic resilience that is compatible with labour market and social resilience, we will need to develop a multitude of tools for preparation, prevention, protection, promotion (of change) and transformation to be deployed accordingly depending on the intensity and duration of the challenges facing economies.

4.2. In the case of EMU, the build-up of risks, which proved in the last crisis capable of creating large disturbances, should be avoided. To that end, the 'macroeconomic imbalance procedure' has been a step in the right direction. However, it is still fraught with asymmetries in the way it tackles different imbalances (e.g. current account deficits vs. surpluses) and it does not produce binding recommendations for adjustment, especially for Member States with excessively large current account surpluses. It therefore needs to be adapted.

4.2.1. In a similar vein, large divergences in inflation and nominal wage rates should be avoided. A useful rule of thumb for coordination across the euro area should be that nominal wages should grow in line with the sum of the ECB's target inflation rate and productivity growth rate at the sectoral level. Industrial policies should promote additional productivity growth in the poorer Member States in order to promote convergence. Such developments could also smooth out nominal divergence among Member States in the euro area, thus increasing the efficacy of monetary policy.

4.3. Economic resilience that is compatible with labour resilience would also require that — rather than putting all the burden of adjustment to shocks on labour markets — macroeconomic policies, especially fiscal policies, have the space to be sufficiently active in order to counter the impact of shocks, especially recessions that affect some Member States rather than others. Establishing fiscal capacity at euro-area level would be the most effective way to do this, although allowing more scope to national fiscal policies to do that could also work. Fiscal policies with greater capacity to stabilise national economies at their full employment level of activity would also make it easier to build sustainable fiscal buffers.

4.4. The proper functioning of automatic stabilisers and social protection systems are factors that strengthen economic resilience. For their action to be compatible with sustainable public finances, the tax systems of the Member States need to provide sufficient resources. Sound taxation is also a key resilience factor.

4.5. A business environment favourable to investment and innovation, the proper functioning of financial markets and an increase in the ability to share financial risks are factors that strengthen the resilience of the economy. In line with its earlier opinion on 'Promoting innovative and high growth firms' ([6]), the EESC believes that policies must be promoted to boost these factors. That is why it has supported the initiatives of the Commission on the Banking Union and the Capital Markets Union (CMU). But the EESC goes further and believes that the concept of sustainability should also be taken into account in the financial system, as expressed in its opinion on the Commission Action Plan on Financing Sustainable Growth ([7]).

([6]) OJ C 75, 10.3.2017, p. 6.
([7]) OJ C 62, 15.2.2019, p. 73.

4.6. Policies facilitating a transition to the digital economy and to a climate-neutral and environmentally sustainable model should also ensure that these transitions are just. A just transition should not be an 'add-on' to climate or digitalisation policies; it needs to be an integral part of the sustainable development policy framework. Just-transition policies should be focused on correcting the adverse distributional effects (that are degressive) of climate policy measures (to the extent these appear as a greater relative burden on lower income groups), should focus on active management of labour market transitions and should also deal with regional development issues (e.g. economically vulnerable regions that depend heavily on energy intensive industries).

4.6.1. Just transition has two main dimensions: in terms of 'outcomes' (the new employment and social landscape in a decarbonised economy) and of 'process' (how we get there). The 'outcome' should be decent work for all in an inclusive society with the eradication of poverty. The process, how we get there, should be based on a managed transition with meaningful social dialogue at all levels to make sure that burden sharing is just and nobody is left behind.

4.7. At the heart of strategies for strengthening resilience that would lead to a just transformation of our economic model to the imminent challenges, there must be strategies for investment, including public investment: in skills and education systems, or social investment more broadly speaking; and in technologies that promote environmental sustainability.

4.7.1. Withstanding the effects of digitalisation will require the development of skills and capacities that allow individuals to perform non-routine cognitive tasks, as well as the ability to renew skills throughout life. Given that existing (and rising) inequalities have been shown to determine to a large extent the academic performance of students, it is important that social investment strategies are put into place to ensure that no one is left behind.

4.7.2. Investments, both public and private, in the future climate-neutral economy must be stepped up to achieve the EU's upgraded emissions reduction targets for 2030 and a radical change will be necessary to reach net zero emissions by 2050, consistent with the Paris targets, as acknowledged by the Commission communication (COM(2018) 773 final). Investments in renewable energy by the EU-27 in 2017 were a mere 50 % of the level it reached back in 2011 and also 30 % less than in 2016 ([8]). The enduring weakness of investment activity in renewables in Europe is also in contrast with the high level of still existing fossil fuel subsidies across its Member States. The problem is not only underinvestment: the allocation of existing resources is also dysfunctional. Clear policy objectives and a more coherent policy framework is necessary to turn around these negative trends. In any case, the end of the era of fossil fuels in Europe must be accompanied by the necessary investments that ensure the protection of its workers, the creation of new jobs and support for local development. Transition processes must be negotiated with the social partners and civil society organisations and related to transparency and effective communication policies.

4.8. Current interpretations of competitiveness are focused on a cost-based interpretation, primarily on labour costs but also seeing energy costs as a factor. Maintaining competitiveness typically focuses on the development of unit labour costs. Qualitative elements of competitiveness should gain importance, in terms of labour productivity, resource productivity and energy efficiency, and should also be taken into account by national productivity boards.

4.9. One important objective should thus be to mainstream the European macroeconomic governance mechanism in taking a comprehensive and integrative approach to the 'sustainable economy' concept that includes social and environmental indicators in the Semester process and thus strengthens both resilience and sustainability.

5. Instruments of governance and economic policy — at EU and Member State level — to move towards a more resilient and sustainable economy

5.1. The importance of investment, especially public investment, for fostering adaptation to the imminent transition processes, and of fiscal policies for fostering the absorptions of shocks, means that there is an imperative to create space for fiscal policies to that end at EU and national levels. The EU should set itself the goal of reaching the level of investment it achieved prior to the crisis within a short period of time. This would imply closing the investment gap, and thus increasing investment by two to three GDP percentage points, or around EUR 300 billion annually for the EU-28 ([9]).

([8]) Frankfurt School-UNEP-BNEF (2018).
([9]) How to close the European investment gap?, Michael Dauderstädt, Friedrich Ebert Stiftung.

5.2. To strengthen the revenue side and ensure sufficient fiscal resources in the EU and the Member States, efforts need to intensify against tax fraud, tax avoidance, money laundering, tax havens and unfair tax competition between the Member States. Without prejudice to supporting innovation, the Member States should agree to coordinate action at EU level with a view to urging digital giants to pay their fair share of taxation to each of the Member States in which they make profits.

5.3. The EU economic governance system, including the architecture of EMU need to be improved in order to avoid putting brakes on economic growth and burdening national fiscal policies with tasks that they cannot and should not have to handle.

5.4. The establishment of a sufficiently large fiscal capacity at euro-area level so as to provide stabilisation in the event of shocks would be the most desirable option, which, however, for the moment appears to have stalled.

5.5. Preserving scope at the national level for protecting public investment, especially during recessions, should also be high on the list of priorities. Without prejudice to maintaining the sustainability of public finances, the current EU fiscal rules could be altered or interpreted in a way that excludes public investment, in particular social investment and investment in environmental projects, from the calculation of deficits ([10]).

5.6. The Banking Union needs to be completed with the establishment of a European Deposit Insurance Scheme and a common fiscal backstop for the Single Resolution Mechanism. The EESC reiterates its concern about the obstacles that several governments are putting in the way of completing these two projects which are essential for safeguarding financial stability and ultimately private investment in the eurozone, and which are so linked to increasing resilience.

5.7. A common safe asset should be established, financial fragmentation reduced by promoting the Capital Markets Union, the potential of monetary policy supported and the sovereign-banks loop mitigated by replacing national government bonds on the banks' balance sheets. The latter would also pave the way for the necessary but so far politically difficult reforms which will significantly deepen EMU. Countries that do not belong to the euro zone could participate in a common safe asset programme. The monetary authorities and those responsible for European economic policy should take into account their situation to ensure the resilience of the entire European financial system.

5.8. The European Semester should incorporate more prominently and coherently the development of resilience with a view to upwards convergence and sustainability at all stages, from the Annual Growth Survey (which could become an Annual Growth and Sustainability Survey) to the national reform programmes and country specific recommendations.

5.9. There are many factors which affect economic resilience that are fundamental to the functioning of EMU. Through the European Semester, the MFF 2021-2027 and other legislative and government instruments, the European institutions and the Member States should establish a coherent action programme to promote and strengthen the key factors that promote economic resilience throughout the EU and the convergence of Member States in relation to these factors.

5.10. In conclusion, the EESC believes that the following should be included as key resilience factors in an action programme:

a) strengthen financial stability: increase the financial capacity of the European Stability Mechanism (ESM), promote a European tax policy that includes fiscal harmonisation, facilitate the fiscal sufficiency of the Member States and establish effective mechanisms to fight tax fraud;

b) complete Monetary Union by expanding the objectives of the ECB, creating a Single European Treasury with debt issuing capacity, improving the governance of the eurozone and making it more democratic;

c) increase the productivity of European economies by focusing on key factors such as investment (public and private), research, development, education and professional training, improvement of business management and worker participation;

([10]) OJ C 262, 25.7.2018, p. 28 and EESC opinion on *Euro area economic policy* (OJ C 159, 10.5.2019, p. 49).

d) labour markets and quality of employment: strengthen collective bargaining and social dialogue, ensure that automatic stabilisers work effectively and design more and better active employment policies. The creation of a European unemployment insurance (to complement national schemes) could be an instrument of pan-European economic resilience that would also strengthen the political cohesion of the Union. We ask the European institutions to study the feasibility of its financing within the 2021-2027 Multiannual Financial Framework;

e) promote social cohesion and progress towards a more inclusive society by applying the European Pillar of Social Rights, with appropriate financing; and

f) promote the creation of favourable environments for business investment and improve the financing of companies, complete as a matter of urgency the Capital Markets Union (CMU) and the Banking Union, including a European deposit insurance scheme (EDIS).

5.11. The ECB, along with most other major central banks in the world, will likely have to continue its 'unconventional' monetary policies for as long as inflation expectations remain below target. It should also consider directly financing investment in green and digital transition projects.

5.12. The forthcoming Multiannual Financial Framework (MFF) should reflect the ambition of developing a resilient and sustainable economy. The Commission proposal for the MFF 2021-2027 will not enable sufficient resources to strengthen the following resilience factors: investment and the new investment stabilisation function; cohesion policies that favour economic and social convergence between the Member States; internal social cohesion policies inscribed in the European Pillar of Social Rights; and the just transitions advocated in this opinion. The EESC reiterates the request, contained in its opinion on the Multiannual Financial Framework after 2020 ([11]) that the financial means available in the next MFF reach 1,3 % of the GNI of the EU-27. The proposed cut in the financing of cohesion policies — by 10 % compared to the current MFF, in the European Commission's MFF proposal — seems particularly unacceptable given the need to reinforce key policies boosting resilience and sustainability.

5.12.1. Dedicated financial resources should be in place to facilitate the transition towards a sustainable economy (e.g. a 'just transition fund') in line with the proposal of the European Parliament in 2018 to create such as fund with an allocation of EUR 4,8 billion.

5.12.2. EU structural and cohesion policy should be mainstreamed along the 'sustainable economy' paradigm. Although climate mitigation (and adaptation) is an existing priority in European Structural and Investment Funds (ESI) funding, this objective is mainly underpinned by support for renewables and energy efficiency. It is not yet generally mainstreamed in the sense of supporting the transition towards a climate-neutral economy and there are no dedicated priorities devoted to *just transitions*.

5.12.3. The EESC expresses its concern that the financing, through the EIB and the European Fund for Strategic Investment (EFSI), of fossil fuel energy projects is higher than that of clean energy. Although the funding for gas infrastructure is for a 'bridge energy', it is necessary to apply stricter emissions targets.

5.12.4. The subsidy policies of the EU and the Member States must be in line with the goal of achieving climate neutrality by 2050. All subsidies for economic activities that impinge upon the achievement of this goal or that harm the environment in other ways should be eliminated as quickly as possible.

5.13. Given the kind of measures and scale of efforts required to handle the building of a more resilient and sustainable economy, the active involvement of the social partners and other representative civil society organisations in shaping the just-transition paths and paths to resilience will be indispensable. Strengthening worker participation and democracy in the workplace could contribute to higher adaptability and resilience at industry level. It is a factor of resilience that, in turn, strengthens other factors with which it has a positive correlation in the functioning of companies and the economy: productivity, innovation capacity, quality of employment, etc. Worker cooperatives can also provide a powerful model of democracy in the company, based on common interest and solidarity and rooted in the local area.

([11]) OJ C 440, 6.12.2018, p. 106.

5.13.1. On the other hand, the participation of workers is essential for the success of green and digital transitions. Existing instruments for worker participation and democracy in companies must be used. The social partners and the European institutions must ensure that such instruments exist in all EU countries and that they establish relations with social dialogue procedures that promote fair transitions. The 2015 ILO guidelines on a just transition ([12]) provide a set of practical tools for governments and the social partners in managing this transformation process.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([12]) Guidelines for a just transition towards environmentally sustainable economies and societies for all, International Labour Organization (ILO).

Opinion of the European Economic and Social Committee on 'A new vision for completing the Economic and Monetary Union'

(own-initiative opinion)

(2019/C 353/06)

Rapporteur: **Judith VORBACH**

Plenary Assembly decision	24.1.2019
Legal basis	Rule 32(2) of the Rules of Procedure Own-initiative opinion
Section responsible	Section for Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	2.7.2019
Adopted at plenary	17.7.2019
Plenary session No	545
Outcome of vote (for/against/abstentions)	159/2/9

Preamble

This opinion is part of a package of two EESC own-initiative opinions drawn up in parallel: Towards a more resilient and sustainable European economy *and* A new vision for completing the Economic and Monetary Union. *The package is intended as a direct contribution to the economic agenda of the new European Parliament and European Commission taking office in 2019. There is a clear need for a new European economic strategy: a positive narrative for the future development of the EU economy in the wider world that would help increase the resilience of the EU to economic shocks and the sustainability – economic, social and environmental – of its economic model, thus bringing back confidence, stability and shared prosperity to all Europeans. Building on the progress achieved in recent years, this strategy could lay the ground for further economic, fiscal, financial, social and political integration that is necessary to achieve the objectives of Europe's Economic and Monetary Union.*

The EESC also issued an opinion on the completion of EMU back in 2014, which divided EMU into a monetary and financial pillar, an economic pillar, a social pillar and a political pillar. Further opinions were also adopted on each of the pillars individually. This opinion retains the four-pillar structure, in order to present an overview of progress towards and shortcomings in EMU and, finally, to propose a list of recommendations for a strong, inclusive and resilient monetary union that will be forwarded to the new Commission and the European Parliament. The EESC generally calls on the European institutions and national governments to take much more ambitious action in the context of EMU reform in order to achieve a more integrated, more democratic and socially better developed Union.

1. Conclusions and recommendations

1.1. Although considerable progress has already been made towards completing EMU, there is still a need to significantly reinforce all four of its pillars, taking care to maintain the balance between them, as neglecting one or more of these pillars could result in dangerous disparities. It is also important always to take account of the challenges presented by climate change. The pillars are also interdependent: for example, taking a social approach to the economic pillar also helps to boost the social pillar, and vice versa. Some specific measures could be attributed to more than one pillar.

1.2. Although completing EMU is the order of the day, further progress is being hampered by a difference of opinion between Member States over what direction it should take. A troubled economic outlook is compounded by geopolitical uncertainties and the prospect of Brexit. Disparities between Member States, the unequal distribution of income and wealth, the climate crisis and the predicted demographic development also present huge challenges.

1.3. Resilience to crises is a necessary, but not sufficient, condition for completing EMU: it also requires a positive vision, as set out in Article 3 of the EU Treaty. In the current circumstances, the EESC recommends prioritising the following aspects: sustainable and inclusive growth, reducing inequalities, upward convergence, ensuring productivity growth and competitiveness in line with the Europe 2020 objectives, a business- and investment-friendly environment, quality jobs and adequate pay, combating poverty and social exclusion, stable and sustainable public finances, a stable financial sector, and achieving the 2030 sustainable development goals (SDGs) and the goals of the Paris climate agreement.

1.4. The EESC's recommendations regarding the specific pillars of EMU are as follows:

1.4.1. a stable monetary and financial pillar as a basis for macroeconomic development

— ECB: consolidating its stabilising role and safeguarding its independence;

— decisive steps to complete the Banking and Capital Markets Unions, prioritising: stabilisation in order to build trust, efficient regulation, balancing risk sharing and risk reduction to avoid a new burden on public budgets in a crisis, taking account of the social impact of regulation, involving climate objectives and consumer protection;

— Banking Union: safeguarding the Single Resolution Mechanism and implementing EDIS, reviving the debate on structural reform and shadow banking;

— Capital Markets Union: setting priorities, specifically improving supervision, establishing an EU credit rating agency, creating a safe asset, and taking steps towards aligning insolvency rules;

— strengthening the international role of the euro on the basis of a stable, economically strong and socially balanced EMU;

1.4.2. a strong economic pillar as a basis for prosperity and social progress

— expanding the economic pillar in the interests of balance between States and to promote growth, productivity and competitiveness;

— balancing supply- and demand-side measures, which currently entails boosting the demand side by making greater use of the social scoreboard in the European Semester, strengthening the social partners' collective bargaining systems and autonomy, rapidly implementing the European Labour Authority, and implementing the 'Golden rule of investment' in ways that do not jeopardise medium-term financial and fiscal stability;

— creating a euro area fiscal capacity, funded from a common debt instrument and linking disbursements to strengthening the economic and social structure. The current proposals should be regarded as just the first step;

— measures to stem unfair tax competition and to prevent tax evasion and avoidance;

1.4.3. applying the social pillar as a basis for social and societal progress

— minimum social standards in Member States providing a high level of protection;

— to strive for finding a fair balance between sound economic basis and strong social dimension;

— broadening the debate concerning an EU finance minister to include an equivalent position for EU social and labour affairs;

1.4.4. a political pillar as a basis for democracy, solidarity and unity

— enhancing the involvement of the European Parliament and of the social partners and other civil society organisations in key social and economic policy decisions;

— solidarity and unity as a basis for prosperity and peace within the EU and for the EU's political and economic significance in a global context.

— rapid accession to the euro area by those EU countries that have not yet joined it.

2. Completing EMU — achievements, challenges and objectives

2.1. Considerable progress has already been made towards completing EMU, such that it now has a significant common body of law. In 2015, the Five Presidents' Report presented ambitious plans for deepening EMU. In June 2019, the Commission provided its input in a paper entitled 'Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report' (1), in which it took stock of the progress made since then and called for further action from the Member States. The EESC endorses this call. There is still a significant need for action both in the financial and economic pillars and in the social and democratic pillars. The EESC particularly draws attention to the need for balance between all areas, which interact in a wide variety of ways.

2.2. Although all Member States share an interest in preserving the euro, the further deepening of EMU is being obstructed by a difference between Member States over what direction it should take. It hinges on the conflict between risk sharing, which involves cross-border transfers or joint liability, and, on the other hand, the risk reduction approach, whereby the pressure to adapt is a national responsibility and economic resilience should be achieved through structural change. However, focusing on this divergence does not go far enough, because there are also different party-political and civil society perspectives. Completing EMU will, however, require a recognition, beyond individual interests and perspectives, that solidarity and a willingness to compromise are an indispensable foundation for a positive shared future in Europe.

2.3. The current economic climate presents a challenge. Following the long period of crisis, the economy within the EMU picked up again from 2014 onwards, but slowed down again in the second half of 2018. Several factors contributed to this, including the global slowdown in trade and economic development, unresolved trade disputes and also internal uncertainties such as Brexit. The loss of economic momentum was even more pronounced within the euro area, due to dependence on external demand and country- and sector-specific factors. The subdued economic development in the EU is expected to continue (2). The climate crisis, technological change, protectionism and cyber attacks, as well as digital and cryptocurrencies, are some of the challenges for the future. A recent ESPAS report concludes that the increase in global temperature — which will, among other things, result in a drop in productivity — is the most pressing policy issue in the present day, with significant economic and financial implications (3).

2.4. While the EU as a whole is relatively prosperous by global standards, due to its comparatively high gross domestic product (GDP) — both aggregate and per capita — and rising employment rates in recent years, social disparities between regions and Member States and within societies nonetheless hinder cohesion (4). 22 % of EU citizens are at risk of poverty and social exclusion. In a number of southern European countries, real wages are on average lower in 2019 than they were in 2009, contributing to further real divergence in levels of socioeconomic prosperity (5). The gender pay gap is also wide in many places, and a high proportion of people on the labour market are experiencing in-work poverty or unemployment. With regard to the distribution of household net wealth, the ECB concludes that it is 'heavily skewed' in the euro area, in that the wealthiest 10 % own 51,2 % of total net wealth (6). This creates a dangerous breeding ground for social tension and divisive forces.

2.5. Improved resilience to crises is necessary, but not sufficient. Completing EMU will require a positive vision, as set out in Article 3 of the EU Treaty, which refers among other things to promoting a competitive social market economy, aiming at full employment and social progress, and to protection of the environment. In the current circumstances, the EESC recommends prioritising the following aspects: sustainable and inclusive growth, reducing social and economic inequalities, upward convergence, ensuring productivity growth and safeguarding competitiveness in line with the Europe 2020 objectives, which also include 'beyond GDP' objectives (7), a business- and investment-friendly environment, quality jobs and adequate pay, combating poverty and social exclusion, stable and sustainable public finances, a stable financial sector, and achieving the 2030 sustainable development goals (SDGs) and the goals of the Paris climate agreement. The EESC also refers to its own-initiative opinion on 'Towards a more resilient and sustainable European economy'.

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(1) https://ec.europa.eu/info/publications/deepening-emu-taking-stock-four-years-after-five-presidents-report_en
(2) https://ec.europa.eu/info/publications/european-economic-forecast-spring-2019_en
(3) ESPAS, Global Trends to 2030, Challenges and Choices for Europe, April 2019, https://espas.secure.europarl.europa.eu/orbis/node/1362
(4) https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_addressing-inequalities_en.pdf
(5) ETUC, Benchmarking Working Europe 2019.
(6) European Central Bank, The Household Finance and Consumption Survey: results from the Second wave, No 18 / December 2016.
(7) EESC opinion OJ C 177, 18.5.2016, p. 35.

3. Monetary and financial pillar — the basis for economic development

3.1. The EESC highlights the importance of the ECB's stabilising role in times of crisis. For example, just the announcement by the President of the European Central Bank that the bank would purchase government bonds if necessary (the Outright Monetary Transactions (OMT) programme) was enough to calm the markets. The quantitative easing programme introduced from 2015 onwards in order to achieve the inflation target led to a further fall in interest rates, facilitating access to liquid funds. The fact that banks are currently depositing funds with the ECB even if they incur negative interest rates points to the need to strengthen the economic pillar of EMU. The EESC also recommends that the ECB's role as lender of last resort should be consolidated. The ECB's independence must be maintained.

3.2. The financial sector of EMU fulfils its function of financing SMEs satisfactorily, according to a study by the ECB ([8]). As it stands, the main concerns identified by SMEs are the availability of skilled labour and experienced managers, along with difficulties in finding customers, while lack of access to finance is seen as a minor issue. Businesses in some Member States are more heavily affected, but there too the pressure is easing. The study is based on a sample size of 11 020 enterprises in the euro area, 91 % of which have fewer than 250 employees. The EESC stresses the importance of a stable funding base for large companies as well.

3.3. The EESC strongly urges the EU institutions to be resolute in pursuing the completion of the Banking and Capital Markets Unions, thus laying the foundations for definitively overcoming the financial crisis and for a resilient EMU in which trust is fully restored. A balance needs to be struck between risk sharing and risk reduction so as to minimise the impact on public budgets in the event of a crisis, whether at national or at Community level. Financial market regulation must prioritise efficiency over complexity. The social impact of regulation must be taken into account, and consumer protection must be given high priority.

3.3.1. The ratio of financing via bank loans to equity financing is significantly higher in the EU than in the USA. The EESC is in favour of diversifying sources of financing and thus of increasing risk sharing, which in the EU means putting more emphasis on equity financing.

3.4. The EESC acknowledges the progress made with regard to the Banking Union, and highlights the positive role played by the Commission. However, despite statements made to the contrary, the Member States have still not reached a joint decision on the use of the European Stability Mechanism (ESM) as a backstop for the Single Resolution Fund (SRF), and further steps towards implementing the European deposit insurance scheme (EDIS), which is urgently needed, have been repeatedly rejected by the Member States.

3.4.1. In the EESC's view, a concrete timetable for the EDIS is overdue ([9]). In the context of using the ESM as a backstop for the SRF, the EESC also recommends boosting the SRF, reducing non-performing loans in a socially sustainable way, and implementing robust minimum requirements for own funds and eligible liabilities (MREL) ([10]). Moreover, in the context of the Banking Union, anti-money-laundering measures should also be consistently pursued ([11]). The debate on banking structural reform should be revived with the aim of reducing risks to an acceptable level, and the EESC also advocates paying greater attention to the need to regulate shadow banking.

3.4.2. The EESC reiterates its previous call for the improvement and consolidation of the pillars of the Banking Union to go hand in hand with the implementation of the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. In terms of capital requirements, there is a need to allow for more favourable treatment of environmentally friendly investments and various non-complex, inclusive long-term loans — especially those relating to energy efficiency, renewable energy, etc.

3.5. Completion of the Capital Markets Union will help absorb shocks and boost investment by businesses, thus improving competitiveness ([12]). Unlike the Banking Union, which is based on clearly defined pillars, the Capital Markets Union covers a great many different initiatives, such as MIFID, the Payment Services Directive and the pan-European Personal Pension Product (PEPP). It is difficult to make a definitive overall assessment, but the EESC recommends the following design principles: first of all, there needs to be a focus on central projects. The priority should be on improving supervision. The Commission should also revive the discussion on setting up an EU credit rating agency. With regard to a 'safe asset', the EESC awaits with interest a proposal from the Commission. Secondly, efforts should be made to align insolvency rules and corporate taxes. With this in mind, the EESC welcomes the steps towards a common corporate tax base, while also taking appropriate measures to combat unfair tax competition.

([8]) European Central Bank, Survey on the Access to Finance of Enterprises in the euro area, April to September 2018, November 2018.
([9]) EESC opinion OJ C 237, 6.7.2018, p. 46.
([10]) Term sheet on the European Stability Mechanism Reform, 4 December 2018.
([11]) Eurogroup report to Leaders on EMU deepening 4 December 2018.
([12]) Capital Markets Union. Commission contribution to the European Council CMU (21/22 March 2019).

3.6. The EESC welcomes the initiative to strengthen the international role of the euro, which is currently the second most important currency after the US dollar. To that end, the European Commission recommends completing EMU and the Banking and Capital Markets Unions, as well as further initiatives in the financial sector and greater use of the euro in the energy, raw materials and transport sectors, and feels that the EU needs to speak with one voice on strategic and economic issues. However, the EESC feels that these measures do not go far enough. Social cohesion, upward economic convergence and economic strength, and the promotion of competitiveness and innovation also provide an essential basis for the sound development of the euro and thus for a stronger international role for the currency. The EESC would refer to its opinion 'Towards a stronger international role of the euro'.

4. **The economic pillar — the basis for prosperity and social progress**

4.1. The ECB's monetary policy applies equally to all euro countries, while external trade imbalances could be accentuated, and the countries are at different points in the economic cycle and are not all equally resilient to shocks. At the same time, euro countries do not have access to national monetary and exchange rate policy instruments. The economic pillar therefore needs to be expanded so as to promote investment in sustainable growth, consumer demand, productivity and competitiveness. This requires a balance between supply- and demand-side measures. The Commission expects to see positive growth in 2019 and beyond, due to private consumer demand and investment ([13]). The EESC recommends stepping up this impetus.

4.2. The European Semester plays an important role in macroeconomic convergence. The EESC welcomes the Commission's intention to make more use of the 'social scoreboard' provided for in the European Pillar of Social Rights. Social security increases confidence in a financially secure future and has a positive effect on aggregate demand. The EESC advocates also using the European Semester for proposals for the application of additional resilience criteria in the interests of eliminating social inequalities and tackling climate change.

4.3. Sufficient purchasing power is based on well-paid jobs. However, this is hampered by the fact that real wages are, on average, tending to grow more slowly than productivity ([14]). The EESC therefore recommends strengthening the social partners' collective bargaining systems and autonomy. In order to ensure fair competition, the existing minimum standards need to be enforced for all employees. In addition, the possibility should be examined of identifying available tools and a framework at EU level in support of and guidance for Member States in their endeavours to develop minimum income systems. The rapid implementation of the proposed European Labour Authority (ELA) is an important step in the fight against unfair competition.

4.4. Investment in social housing, education, research, digitalisation, climate protection, sustainable mobility and renewable energy is not only an economic stimulus and an important economic policy instrument, but also ensures production capacity for future prosperity and competitiveness ([15]). Although the European Fund for Strategic Investment (EFSI) is a step in the right direction, there is still a significant need for action. For example, net public investment as a percentage of GDP in the euro area has stagnated at zero. One important step will be to improve fiscal governance.

4.5. There is scope to do so without amending primary legislation. Although the TFEU defines price stability as a primary objective of EU economic policy, this objective must be achieved on the basis of balanced economic growth, a competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. The economic policy approach thus delineated allows for both supply- and demand-side elements to be taken into account, such that the stability pact is also a growth pact. However, in order to safeguard the no bail-out clause between the Member States, the framework has repeatedly been tightened up via the Fiscal Compact, the 'Two Pack' and the 'Six Pack'. With this in mind, the EESC recommends implementing the golden rule for public investment in ways that do not jeopardise medium-term financial and fiscal stability ([16]). This would help to ensure that future-oriented public investment is maintained at a necessary level, in line with the deficit rules.

([13]) https://ec.europa.eu/info/publications/european-economic-forecast-spring-2019_en
([14]) European Commission, Annual Growth Survey 2019.
([15]) IMF direct, 2014; OECD Economic Outlook, June 2016.
([16]) Truger, Achim (2018): Fiskalpolitik in der EWU. Reform des Stabilitäts-und Wachstumspakts nicht vergessen! [Fiscal Policy in the EMU. Don't forget reform of the Stability and Growth Pact!] WISO direkt, Friedrich-Ebert-Stiftung, Bonn.

4.6. Completing EMU requires a common fiscal capacity for the euro area. The EESC advocates a common budget for the euro area that can be funded from a common debt instrument. Moreover, the debate should be revived on the possibility of a European minister of economy and finance ([17]), who should also be accountable to the European Parliament. The EESC stresses that disbursements must be linked to strengthening the economic and social structure. The term 'structural reform' needs to be defined along these lines. The relationship needs to be clarified between measures under the Multiannual Financial Framework 2021-2027 ([18]) (MFF) and the Structural and Investment Funds.

4.6.1. The Commission has proposed a European Investment Stabilisation Function under the MFF 2021-2027, which would be applied in the case of country-specific shocks, but the proposed budget of EUR 30 billion is nowhere near enough to have a stabilising effect. The EESC also finds it regrettable that the Euro Summit in December 2018 did not address the stabilisation component in this form. It did, however, announce that the features of a budgetary instrument for convergence and competitiveness would be agreed ([19]). The Commission called for this in the run-up to the Euro Summit in June 2019, and highlighted its willingness to present a new regulatory proposal ([20]). The EESC sees this as a possible entry move towards a euro budget and will examine the economic and social implications of the proposed instrument.

4.6.2. As another form of EMU fiscal capacity, unemployment (re)insurance has been used as a reference, funding for which could be permanently secured on the basis of as yet undetermined criteria. In the event of an economic shock, this would make it possible to mitigate the adverse effects of the crisis. There is also a need to strengthen national automatic stabilisers such as national unemployment insurance schemes. The EESC believes that the idea of establishing adequate principles for national unemployment insurance should be further pursued. This could lead to a real improvement in living and working conditions and would also strengthen national automatic stabilisers.

4.6.3. There are also plans to amend the ESM Treaty, and the Commission has also called on the heads of state and government to do so. In addition to the common backstop to the SRF, there is also a need, among other things, to make adjustments to precautionary financial assistance in the process, and to ensure an appropriate level of conditionality. New modalities for cooperation between the ESM and the Commission are also planned ([21]). The EESC cautions against increasing the *ex ante* conditionality of precautionary financial assistance, which would undermine the stabilising effect of the instrument.

4.7. Tax policy must also not be ignored when completing EMU. Across the EU, losses due to tax evasion could amount to EUR 825 billion a year ([22]). For example, Base Erosion and Profit Shifting (BEPS) in the EU by multinationals is estimated to amount to EUR 50-70 bn or 0,3 per cent of EU GDP before the comprehensive anti-tax avoidance measures were enacted ([23]). However, tax evasion still remains an important problem and has to be tackled. At the same time, the tax burden and social contributions on labour in Europe are the highest in the world. Combating aggressive tax planning and tax evasion, and eliminating special arrangements by governments and tax authorities ([24]) that could be described as tax havens, could prevent tax losses and establish a broader basis for public investment to develop social infrastructure and mitigate climate change and for achieving sustainable stability in the real economy and the financial sector.

4.7.1. The EESC notes with great interest the Commission's communication to use the passerelle clause enshrined in Article 48(7) TEU in tax policy and other areas. This would allow for a reform towards qualified majority voting. In addition, initiatives to reduce tax fraud and prevent unfair competition in the area of corporate tax need to be pursued consistently. The EESC refers here to its opinion on threats and obstacles to the single market ([25]). The EESC welcomes the proposal that, under the MFF, certain taxes should be paid directly into the EU budget so as to increase own resources.

5. The social pillar — the basis for social and societal progress

5.1. A sustainable structure for the monetary and financial pillar and the economic pillar will also strengthen the social foundations of EMU. A number of building blocks for strengthening the social pillar have already been mentioned above: for example, integrating a 'social scoreboard' into the European Semester would mean that criteria such as upward convergence on minimum incomes or wages and reduction of (youth) unemployment should be further strengthened.

([17]) COM(2017) 823 final.
([18]) COM(2018) 321 final.
([19]) Statement of the Euro Summit, 14 December 2018.
([20]) https://ec.europa.eu/info/publications/deepening-emu-taking-stock-four-years-after-five-presidents-report_en
([21]) Term sheet on the European Stability Mechanism reform, 4 December 2018.
([22]) A report for the Socialists and Democrats Group in the European Parliament by Richard Murphy http://www.taxresearch.org.uk/Documents/EUTaxGapJan19.pdf
([23]) EESC opinion ECO/491 - Taxation – qualified majority voting, not yet published.
([24]) Commission decision SA.38375 (Lxb/Fiat Finance), SA.38374 (NL/Starbucks), SA 38373 (IRL/Apple), SA 38944 (Lxb/Amazon).
([25]) OJ C 125, 21.4.2017, p. 8 (point 3.6 on Tax policy).

5.2. The EESC believes that improving and implementing minimum social standards in Member States on the basis of a common European framework with a high level of protection can make an important contribution to upward social convergence. The EESC would point out that such upward social convergence towards improved living and working conditions should be based on sustainable growth, quality jobs and competitive business environment and could be improved by finding a fair balance between sound economic basis and strong social dimension.

5.3. A balance needs to be struck between social and financial issues. For example, the debate concerning a European minister for economic and financial affairs should be complemented by a debate on a fully resourced commissioner responsible for labour and social affairs, who would among other things be responsible for monitoring the European Pillar of Social Rights.

6. **The political pillar — the basis for democracy, solidarity and unity**

6.1. Growing economic inequality, loss of prosperity and a pessimistic outlook on prospects for the future could in future play a major role in how civil society perceives the overall value of the EU. Reinforcing the other three pillars as proposed above is therefore, in the EESC's view, an important and necessary condition for stabilising the political pillar. This is essential in order to increase public trust in the EU.

6.2. Unfortunately, the European Parliament and the social partners are not sufficiently involved in the European Semester, in excessive deficit procedures or in ESM measures. This, too, is a catalyst for centrifugal forces, in that the assessment of, for example, whether a country is in breach of the deficit criteria and of what structural reforms need to be implemented has social and distributional consequences. The EESC strongly calls for the European Parliament, as well as national parliaments, the social partners and other civil society organisations, to be fully involved in key economic and social policy decisions. It is the only way of ensuring that, in addition to national interests, different party-political and civil society perspectives are appropriately reflected.

6.3. At present, only 19 of the 28 EU countries are members of the euro area. In order to complete the monetary union, however, those countries that are not yet part of the euro area will need to join it, and they should do so as soon as possible, in which connection the Member States themselves should also take decisive action. A majority of people in EU countries outside the euro area also believe that the single currency has a positive impact on the economy ([26]).

6.4. The EESC draws attention to the important role that a common approach and unified action by the EU Member States play, not least in a geopolitical context. Solidarity, compromise and pulling together are the basis for prosperity and peace within the EU, and for its international importance and competitiveness. This is particularly the case with regard to the shaping of social and economic policy. The EESC therefore calls on the Council and the Commission to present an ambitious roadmap for deepening the Economic and Monetary Union. This will generate security and trust and provide the basis for a positive economic and social future for the EU.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([26]) https://agenceurope.eu/en/bulletin/article/12271/23

Opinion of the European Economic and Social Committee on 'The European Semester and Cohesion policy — Towards a new European strategy post-2020'

(Own-initiative opinion)

(2019/C 353/07)

Rapporteur: **Etele BARÁTH**

Co-rapporteur: **Petr ZAHRADNÍK**

Legal basis	Rule 32(2) of the Rules of Procedure
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Plenary session No	545
Outcome of vote (for/against/abstentions)	154/1/5

1. Conclusions and recommendations

1.1. The upcoming new political and financial period in the EU provides an opportunity for bolstering resolve, improving results and making the most of new opportunities. There is a need for a revitalised, more ambitious and more dynamic 2030 Strategy for a sustainable, competitive, protective and fair Europe.

1.1.1. One of the greatest lessons, as well as achievements, in recent EU economic policy management in the wake of the crisis was the introduction and practical implementation of the European Semester. This new form of economic policy coordination includes deep monitoring and analysis, practical coordinated management and a series of restrictions and sanctions ([1]), closely related to the Member States' economic performance. Its results should be visible in the form of stricter discipline, greater responsibility and a clearer focus on key strategic issues. As such, it could serve as a reliable platform for the new cohesion policy interventions.

1.2. The Semester process is complementary to the system of cohesion policy instruments that have been operating for decades. The links between the European Semester and EU cohesion policy (and perhaps the majority of the MFF programmes) have huge potential to be utilised to improve coordination and governance of the EU's economic policy. It is a sign of better governance and of a performance-based approach. The issue has a rational and technocratic background as well as a political one (taking account of the European elections, competences at national versus EU level, managing a bottom-up and a top-down approach and striking a balance between them). Through its coordinating nature, it brings together the implementation of strategic economic, social and environmental goals, political priorities and interaction between short- and long-term tasks.

([1]) Common Provisions Regulation 2021-2027, COM(2018) 375 final.

1.3. Due to its constantly expanding practice and self-regulatory philosophy, the Semester is actually the only working structure endowed with a multipurpose mechanism which is able to measure, via the Country Specific Recommendations (CSRs), the interaction between very different procedures, and to measure the application of about thirty-two European policies. The EESC believes in the Semester process, and proposes that there should be an opportunity for a more balanced application of the incentive and differentiated, well-founded and carefully considered sanctions ([2]) coordinating the implementation of the economic, social and environmental objectives, where possible measuring short-term progress in achieving the long term goals.

1.4. The EESC recognises with regret that in spite of a well-defined multi-stage procedure (Annual Growth Surveys (AGSs), CSRs, National Reform Programmes, partnership agreement), the level of performance of the agreements is very different, depending on the status of macroeconomic development in each country. Implementation of the multiannual policies is generally low (between 40 and 50 %). It is noticeable that social policy targets are among the least fulfilled commitments, including: wages and wage setting, health and long-term care, education, training, life-long learning and quality jobs (especially as regards young people).

1.5. The EESC notes that a strengthened Semester process, without losing sight of its original objectives, should be the most important element of economic policy coordination, making it possible to complete the stability and convergence programmes, and possibly becoming the central coordination element of a well-targeted investment procedure, stepping up reform implementation, measuring the balance between economic performance and cohesion policy as well as fulfilling social objectives. Key issues include the implementation of the European Pillar of Social Rights, sustainable employment, the introduction of minimum social standards in Member States, on the basis of a common European framework, set by the European Semester, and also more ambitious climate targets and better protection of biodiversity.

1.6. In the EESC's view, if Europe is to achieve sustainable growth, growth that is socially and environmentally viable, it will need to explore in greater depth and make efficient use of local resources. The new Europe 2030 Strategy has to build a feasible bridge between local, regional and national targets and the objectives of a better-connected Europe.

1.7. In the opinion of the EESC, enhanced coordination between the European Funds (Cohesion Funds, InvestEU, etc.) could help to more readily attract private participation and investments. To increase productivity and private investment, the investment environment needs to be improved, taking into consideration as a matter of course the fiscal arrangements prevailing in the respective Member States. In the best case scenario, an improved investment environment could raise the level of the relationship between European governance and the different types of ownership.

1.8. The EESC proposes that the renewed system of European governance based on the EU 2030 Strategy should focus more on results and set fewer priorities, facilitating access to administrative procedures and relying more on its understanding of and cooperation with civil society. All this must go hand in hand with the development of monitoring and evaluation systems. One important way of strengthening European governance is to enhance multi-level public administration and to open up more freely to participation.

1.9. The EESC has to find a newly defined place in European policy and strategy preparation and implementation, taking up a new and stronger position in European governance in order to guarantee a special mediating role between civil society's perception of reality and its future intentions. The EESC seeks to establish better understanding by strengthening a regular and structured dialogue with social partners and civil society.

1.10. The EESC has to learn more about and increase the use of new information systems, including digitalised and social networks linked to civil society. The EESC can meet this objective if it is involved in the Semester process and becomes adept in processing the information it receives.

1.11. The EESC points out that one of the most significant current obstacles to unleashing European development is the low level of factual, continuous communication between the economic and social partners and European governance. Here, too, we need to understand the system of EESC relationships.

1.12. The EESC believes that by conducting a continuous assessment of the complex targets, using the comprehensive partnership agreements, building deep civil support and measuring the global environment of the European Union, the Semester will prove capable of focusing on reducing the risk of crises in the future and of creating a sustainable, meaningful and responsive economic and social environment.

([2]) Agreements between the European Commission and individual EU countries. They set out the national authorities' plans on how to use funding from the European structural and investment funds.

2. General and specific comments

2.1. *Europe has reached a turning point*

2.1.1. Europe has reached a new turning point. 10 years after the profound economic crisis and in spite of the strong recovery in Europe, we are living in a state of political and societal turmoil and with an emerging new global uncertainty. One of the greatest lessons, as well as achievements, in recent EU economic policy management in the wake of the crisis was the introduction and practical implementation of the European Semester. This new form of economic policy coordination includes deep monitoring and analysis, practical coordinated management and a series of restrictions and sanctions, closely related to the Member States' economic performance. Its results should be visible in the form of stricter discipline, greater responsibility and a clearer focus on key strategic issues. As such, it could serve as a reliable platform for the new cohesion policy interventions.

2.1.2. In this period, with a new political five-year cycle of European governance and a new financial seven-year period for coordinated European development about to start, and the end of the 'Europe 2020 strategy' for smart, sustainable and inclusive growth fast approaching, the EU will have to rethink governance systems: these have to be based on a new, comprehensive implementation strategy for the coming 10 years, as a compass for a sustainable future.

2.1.3. There is broad support for the idea that one of the most important conditions for successfully implementing a new 'multi-level and multi-actor governance' is the unimpeded involvement of the economic and social partners in the decision and implementation process ([3]).

2.1.4. Learning from the added value delivered by a strong partnership principle in cohesion policy, the EESC reiterates the importance of multi-level governance, enhancing the structural participation of civil society organisations and other stakeholders in the process of programming, implementing, evaluating and monitoring the use of the funds; the same should be applied to macroeconomic programming across Member States.

2.1.5. To this end, the EESC emphasises the need to put in place a common European framework — similar to the Partnership Agreement under the EU Structural Funds — guaranteeing that there can be strong and meaningful participation of social partners and civil society at large at all stages of the design and implementation of the EU Semester. This will entail greater accountability by the national authorities as well as a more effective and meaningful deployment of the policies and recommendations.

2.1.6. The European Renaissance has to be built upon the same power of continuity underpinning European values, such as freedom, security, justice, the rule of law and human rights, with enhanced ongoing renewal fulfilling the criteria of sustainable development.

2.2. *The Semester and its complexity*

2.2.1. The Commission has made a great and seemingly successful effort over the last 10 years to establish a multi-level working system for economic governance: the European Semester. It includes different policies and strategies covering whole-of-sector and horizontal issues across all economic, social and environmental areas. With this new process the European Commission surpassed the old system of 'open method of coordination'.

2.2.2. The Semester has been strengthened and added to in the last few years, with important social and environmental elements of the EU 2020 Strategy linked directly to the cohesion policy recommendations ([4]). A strong link can be seen between economic governance, implementation of cohesion policy and a new concept for European development: the Investment Plan for Europe ([5]).

2.2.3. In several opinions, the EESC has defended structural reforms that improve productivity, growth, job quality, job security and social protection, while favouring investment and strengthening collective bargaining, based on autonomy of the social partners and social dialogue ([6]). The EESC also 'believes that the linkage between the Reform Support Programme and the European Semester could be even greater and more direct than is provided for in the proposal for a Regulation' ([7]).

([3]) EESC opinion on *Common Provisions Regulation 2021-2027*, OJ C 62, 15.2.2019, p. 83; and EESC opinion on 'The future of cohesion policy', OJ C 228, 5.7.2019, p. 50.
([4]) 2019 European Semester: Communication on Country Reports, COM(2019) 150 final.
([5]) Investment Plan for Europe and the InvestEU Programme (2021-2027).
([6]) EESC opinion on Multiannual Financial Framework post-2020, OJ C 440, 6.12.2018, p. 106.
([7]) EESC opinion on Reform Support Programme, OJ C 62, 15.2.2019, p. 121.

2.3. ***A sustainable European future***

2.3.1. At the beginning of this year, the Commission published its Reflection Paper on a Sustainable European future, paving the way for a comprehensive implementation strategy for the period up to 2030. The Paper sets out the way forward for further developing the EU's sustainable development vision and the focus of sectoral policies after 2020, whilst preparing for long-term implementation of the Sustainable Development Goals (SDGs). More ambitious climate targets are called for by the Committee, integrated into the European Semester, as the semester is relatively weak on the dangers presented by climate change and on the EU's progress towards reaching the Paris targets ([8]). In addition, in a world affected by climate change, the EESC has repeatedly made recommendations to improve the protection of biodiversity and the vital resources necessary for our existence ([9]).

2.3.2. The Reflection Paper puts forward three scenarios to stimulate discussion on how to follow up on the SDGs in the EU:

— an overarching EU sustainable development strategy guiding the actions of the EU and its Member States;

— continuing mainstreaming of the strategies in all relevant EU policies by the Commission, but not enforcing Member States' action; and

— enhanced focus on external action while consolidating current sustainability ambitions at EU level.

2.3.3. An intelligent blending of the first two scenarios into the European Semester should play a decisive role in the implementation of EU budgets and their funding frameworks (such as the EU Structural and Investment Funds), making maximum use of the flexibility of the new MFF and ensuring a strong relationship between cohesion policy and other policies.

2.3.4. Consideration could be given to allowing the Semester process, complete with a new participatory model, to play a more effective and efficient role in the development of the Union.

2.3.5. The EU's Investment Plan, if adequately funded, and its cohesion policy can both contribute here, in coordination with country-specific recommendations (CSRs). This implies allowing appropriate flexibility within the stability and growth pact. As argued in a previous opinion, it also implies continued adequate funding for cohesion policy from the EU budget ([10]).

2.4. ***Cohesion Policy and the Semester process***

2.4.1. The set of proposals for the 2021-2027 MFF regulations (the umbrella one as well as the sectoral regulation proposals) has brought some new elements that could help improve the coordination and performance of EU economic policy and the efficiency of cohesion policy interventions ([11]). One of the most important elements is the definition of a clear relationship between cohesion policy and the European Semester process and the several steps involved ([12]).

2.4.2. The proposals for regulations, on the other hand, remain quite open to utilising sufficient space for invention and creativity in order to tackle this issue in a practical way. This opinion could offer some ideas as to how to do this. First of all, cohesion policy and the European Semester could be considered as interrelated; they are closely interlinked and have huge potential for improving the current situation.

2.4.3. Cohesion policy investment and intervention could have been predominantly focused on areas highlighted by the European Semester process, especially where investment gaps were identified through statistical platforms such as the Social Scoreboard. It is necessary to adjust the time-frames for the implementation of policy objectives (generally a seven-year period for the cohesion policy versus a shorter usually one- or one-and-a-half-year period, for the Country Specific Recommendations (CSRs)).

2.4.4. For a particular Member State, they could be identified by means of the scoreboard for the main macroeconomic, fiscal and structural indicators, published annually every November when the new European Semester cycle starts, and especially with the use of the procedure of National Reform Programmes, subsequently converted into CSR reports.

([8]) EESC opinion on Listening to the citizens of Europe for a sustainable future (Sibiu and beyond), OJ C 228, 5.7.2019, p. 37.
([9]) EESC opinion on The Future of the EU: Benefits to citizens and respect for European values, OJ C 228, 5.7.2019, p. 57.
([10]) EESC opinion on *The future of cohesion policy*, OJ C 228, 5.7.2019, p. 50.
([11]) MFF 2021-2027, COM(2018) 321 final and MFF 2021-2027 Annex.
([12]) EESC opinion on Multiannual Financial Framework post-2020, OJ C 440, 6.12.2018, p. 106.

2.4.5. The new 2021-2027 MFF proposal is also to be based on strengthened flexibility and thematic concentration. Cohesion policy instruments could therefore be flexibly adjusted to real needs specific to a particular Member State.

2.4.6. The opposing directions within the mutual relationship can, however, indicate that European Semester performance can serve as an instrument to stimulate good performance or to provide a clearly differentiated, proportionate approach to sanctions ([13]) in the event of poor performance ([14]). Good European Semester performers who maintain macroeconomic discipline and react responsibly to the CSRs could be encouraged by a sort of bonus through the additional allocation of cohesion policy funds (ERDF, ESF+ or CF); the financial base of poor performers and those who ignore CSR reports could be reduced commensurately ([15]).

2.4.7. The new 2021-2027 MFF proposal is also very much about synergies among several MFF chapters and programmes. The European Semester identifies the most important reform needs, as viewed from every Member State's perspective. One proposal even introduces a new Reform Support Programme; it would be more than necessary to adopt a common management system for cohesion policy instruments and Reform Support Programmes ([16]) in practice, at best at the level of a particular cohesion policy's operational programme. In that case, optimal conditions for synergies could be put in place ([17]).

2.4.7.1. The same holds true for the InvestEU Programme (also partially based on Member States' voluntary allocation of cohesion funding to this centralised financial instrument).

2.4.8. For the 2021-2027 MFF, there could be a strategic handicap, because there will no longer be a successor to the Europe 2020 Strategy. It is a serious question as to whether the Reflection Paper on a Sustainable European Future has any real ambition to play this role. Recently, it played a substantial role in defining the next country-specific cohesion policy investment priorities (Country Reports, published in February 2019 ([18])), and investment needs (Spring Forecast of May 2019 ([19])).

2.4.8.1. Currently, in the Semester process and in other policy instruments, the main objectives of the EU Strategy include the key measurement points for progress, and act as a starting point for a new strategy for 2030.

2.4.9. In the event of late preparation of the new 2030 strategy, for a transitional period it could be recommended that a practice be introduced for preparing a medium- (to long-) term strategy as part of the steps on which the European Semester is based (for example, the outline of such a 2021+ strategy to be published in 2020 and some status reports about real performance and results to be published subsequently every two or three years).

2.4.10. As a result, the EESC is considering a new strategic approach resulting in a cohesion policy that is sharply focused on real (performance-based and result-oriented) priorities that are thematically concentrated, well-balanced and integrated, credible (based on analysis), professionally implemented and that address ownership by all relevant stakeholders.

2.5. ***The role of the Semester in implementing social cohesion***

2.5.1. Strengthening social cohesion and restoring the trust of the European public are two elements that go hand in hand.

2.5.2. The European Pillar of Social Rights (EPSR) makes an important contribution to both elements by, inter alia, supporting and giving guidance to Member States pursuing reforms to create sustainable, high quality jobs with significant added value.

2.5.3. In this connection, the Social Scoreboard and its indicators should be used as the main tool not just to measure the performance of a region or Member State in the areas covered by the EPSR, but also to identify any possible investment gaps and to target ESF+ funding in the most efficient manner.

([13]) See EESC opinion on *Listening to the citizens of Europe for a sustainable future (Sibiu and beyond)*, OJ C 228, 5.7.2019, p. 37, point 11.4.
([14]) *Common Provisions Regulation 2021-2027*, COM(2018) 375 final.
([15]) *The legal nature of Country-Specific Recommendations*, European Parliament, June 2017.
([16]) Proposal for a regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme, COM (2018) 391 final.
([17]) EESC opinion on Reform Support Programme, OJ C 62, 15.2.2019, p. 121.
([18]) *European Semester 2019: Communication on Country Reports*, COM (2019) 150 final.
([19]) *European Economic Forecast. Spring 2019*.

2.5.4. The statistical reference should be used to identify investment gaps in each Member State and to target investment and policy recommendations where they will be most useful in terms of social inclusion.

2.5.5. Close attention should be paid to recent work, gender inequality [20], to combating unemployment and, in particular, to young people and those furthest removed from the labour market, such as persons with disabilities and special needs. Particular attention should also be paid to people with little or no knowledge of computing and digital technology.

2.5.6. The Pillar of Social Rights should be used as a means to measure recommendations to Member States. The Pillar's 20 principles should be used as markers for assessing countries' success in incorporating their commitment to the Social Pillar into their economic policies.

2.5.7. The question might arise as to how the EPSR should be called upon during implementation of the European Semester to strengthen and reinforce, rather than overload, the process.

2.5.8. The positive answer comes up again and again: there is a need for a well-defined strategy with horizontal, transversal links between the above-mentioned policies. This new European comprehensive strategy for the sustainable future of Europe would be able to guarantee implementation by means of the Semester's strong coordination mechanism.

2.6. ***We have to ensure order in diversity***

2.6.1. In the appendix to the CPR [21], there is a comprehensive collection of different European policies that, in line with the seventeen SDGs shows the near-impossible way of ensuring coordination between them. To add to that, there are the twenty objectives of the EPSR. To clarify and simplify the situation, the regional development and cohesion policy for beyond 2020 has firmly focused on five investment priorities:

— a smarter Europe through innovation, digitisation, economic transformation and support for small and medium-sized businesses;

— a greener, carbon-free Europe, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change;

— a more connected Europe, with strategic transport and digital networks;

— a more social Europe, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills (in the EESC's view, vocational training and life-long learning is of particular importance) social inclusion and equal access to healthcare;

— a Europe closer to its citizens, supporting locally-led development strategies and sustainable urban (the EESC would emphasise the peripheral and rural dimension) development across the EU.

2.6.2. To show the complexity of the work on a new, 2030 comprehensive strategy for Europe, the Reflection Paper has set out the main topics of the EU's sustainable development vision as follows:

— sustainable development to better people's livelihood (the EESC is underlining the importance of working conditions in this respect): Europe's competitive advantages;

— EU and global challenges to tackle;

— moving towards a sustainable Europe by 2030;

— the EU as a global trail blazer in sustainable development;

— scenarios for the future [22].

[20] EESC opinions on *Gender equality in European labour markets*, OJ C 110, 22.3.2019, p. 26, and on Gender equality issues, point 1.4, OJ C 240, 16.7.2019, p. 3.

[21] *Common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument*, COM(2018) 375 final.

[22] Reflection Paper Towards a Sustainable Europe by 2030, COM (2019) 22 final.

2.7. ***The need for new coordination of governance***

2.7.1. Taking advantage of the upcoming major opportunity represented by a new Commission the comprehensive post-2020 strategy, with new, fresh impetus and focused on sustainable development, will indeed constitute an instrument for action, building on the Semester process and a new governance structure in the Commission.

2.7.2. In the light of the current democratic and implementation deficit that has increasingly been observed, in relation to Europe 2030, a considerable need has been expressed by a rising number of stakeholders for more participatory democracy, improved industrial relations (better worker participation), democracy in all sectors of the economy and effective implementation of the strategy's targets. A renewed long-term strategy could play a key role in implementing European economic governance geared to increased competitiveness and development, as long as it was properly coordinated under the Semester.

2.7.3. This can only be achieved by taking decisive, carefully designed measures to guarantee the active involvement of organised civil society in the process. A one-stop shop (OSS) type of information centre ([23]), a platform for exchange of information, or some kind of virtual and physical competence centre, without adding to administrative or financial burden, could therefore be established within the EESC's structure, whose role would be to concentrate on addressing the implementation concerns relating to the EU2030 strategy (such as weak national ownership, unclear institutional frameworks and subordination of the social pillar). In order to ensure effective coordination and rationalisation, related tasks, procedures and management of inter-agency cooperation should be coordinated at pan-European and national levels.

2.7.4. The OSS model could be properly applied in any area where the single point of access is guaranteed as the basis for an integrated platform for information sharing and consultation, facilitating further policy-making and decision-making. Due to the advisory nature of the tasks conferred upon the EESC, its well-established network of national ESCs and inter-institutional relations, the OSS model could be a unique tool for carrying out consultation and facilitating EU2030 implementation. It could involve the widest range of civil society stakeholders in information gathering and sharing about the achievement of EU2030 priorities at regional/national, as well as pan-European level.

2.7.5. The EESC's OSS-based information centre could address implementation as well as democratic deficit concerns relating to the way the EU functions. Establishment of the European Semester Group within the structure of the ECO Section was a first step towards achieving a new type of information centre in order to guarantee greater visibility for the EESC in the institutional landscape.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([23]) EESC opinion on *Progress made on implementing the Europe 2020 strategy and how to achieve its targets by 2020*, OJ C 251, 31.7.2015, p. 19.

Opinion of the European Economic and Social Committee on 'The new role of public employment services (PES) in the context of the implementation of the European Pillar of Social Rights'

(own-initiative opinion)

(2019/C 353/08)

Rapporteur: **Vladimíra DRBALOVÁ**

Plenary Assembly decision	20.2.2019
Legal basis	Rule 32(2) of the Rules of Procedure Own-initiative opinion
Section responsible	Section for Employment, Social Affairs and Citizenship
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Plenary session No	545
Outcome of vote (for/against/abstentions)	156/7/10

1. **Conclusions and recommendations**

1.1. The EESC appreciates the contribution of the European Public Employment Services Network (European PES Network) to modernising and strengthening public employment services (PES) and calls for synergy between its updated strategy going beyond 2020 and the principles of the European Pillar of Social Rights (EPSR).

1.2. The EESC has identified some areas where a greater effort is needed based on partnership with all stakeholders, the social partners, civil society organisations, companies and private employment services to make a concerted effort to achieve better integration of jobseekers into the labour market.

1.3. An innovative role for PES in implementing national employment and labour market policies and in guaranteeing more effective services for companies has to be properly supported at national level with sufficient capacity, skilled staff, IT and technical equipment relevant to the digitalisation of the society, and financial support.

1.4. The EESC calls for more systematic and structural cooperation between PES and other service providers in the social and employment fields to address the multiple range of barriers jobseekers face when trying to enter the labour market (health issues, housing, transport). The modernisation of PES is a complex process, and lack of coordination, programming, planning and division of responsibilities at the national and/or regional level leads to fragmentation. The active and regular participation of social partners in the PES activity is key in order to map local job opportunities and help meet mismatches in the labour market.

1.5. EESC calls for closer synergies between PES services and social infrastructure and benefits systems in order to provide more support for unemployed people in their job search and to avoid those seeking employment being penalised when they re-enter the labour market.

1.6. The EESC calls for greater financial support for the Member States and hopes that the European Social Fund Plus (ESF+), recently introduced as part of the new Multiannual Financial Framework for 2021-2027, will become a genuine EU instrument for investing in people and implementing the European Pillar of Social Rights (EPSR).

1.7. The EESC considers that greater efforts should be made to monitor, evaluate and benchmark PES services to assess the effectiveness of these services in assisting jobseekers entering the labour market. Common standards and guidelines at European level could help the effectiveness of PES. Existing data sources such as LFS should be utilised more, and agencies such as Eurofound can assist with such monitoring.

1.8. The EESC calls for a review of the existing arrangements for measuring the outcomes of PES working programmes, to ensure that services benefit all categories of people, especially those who have multiple problems.

2. **Introduction**

2.1. The European Pillar of Social Rights (EPSR) was established following an interinstitutional proclamation by the European Parliament, the Council and the Commission on 17 November 2017 in Gothenburg during the EU Social Summit. The EPSR should lead to greater focus on employment and social aspects, and help to make the European social model fit for the challenges of the 21st century and to stimulate the process of convergence between the Member States.

2.2. The 20 key principles of the European Pillar of Social Rights are structured under three main headings — **equal opportunities and access to the labour market, fair working conditions and social protection and inclusion**. The key issue in Europe is their actual take-up and implementation, given the rapid changes in the social, legal and economic environment.

2.3. According to the Annual Growth Survey 2019, Europe's economy is now entering in its sixth year of uninterrupted growth. This consistent growth has been accompanied by a recovery in investment, greater consumer demand, improved public finances and ongoing job creation, although at a different pace across countries. These developments contributed to substantial improvements in the labour markets and social conditions. The employment rate of people aged 20–64 rose to 73,2 % in the second quarter 2018. The unemployment rate dropped to 6,8 %, and the long-term and youth unemployment rates are also declining. However, according to the Committee, there are major disparities between the Member States, which are not all experiencing the same level of growth in the economy and employment; particular attention must be paid to improving the quality of the jobs created, not least in order to counter social inequalities.

2.4. On the back of improved labour market conditions, the number of people at risk of poverty or social exclusion — 113 million people in 2017 — has dropped for the first time below the pre-crisis levels in some countries. However, in-work poverty continues to be high and is rising in several Member States. The risk of poverty remains a challenge, particularly for children, people with disabilities, people with migrant backgrounds and unemployed people.

2.5. The Joint Employment Report (JER) notes that active labour market policies and PES are crucial to ensure properly-functioning and inclusive labour markets. Active labour market policies improve labour market matching and increase the chances of jobseekers finding a new job.

3. **Public employment services and future of work**

3.1. Labour markets and societies are evolving rapidly, with new opportunities and new challenges arising from globalisation, the digital revolution, changing work patterns and societal and demographic developments. Challenges such as persistent inequalities, long-term and youth unemployment or intergenerational solidarity are often similar in Member States, although to varying degrees. The ongoing technological revolution is characterised particularly by a faster rate of change.

3.2. The workforce has never been so diverse and educated. The 21st century working population is very different and individuals' attitude to work is changing. If and when workers are looking for more freedom at work and freedom of choice, seeking jobs in a way that is resulting in the individualisation of working conditions, a social dialogue and a collective agreement should clarify the conditions of work. People should be able to release their potential, by utilising their qualifications, skills and competences in full, and to obtain a quality and productive job with adequate social protection.

3.3. An important role is played by the **European Public Employment Services Network**, established on 17 June 2014 and to operate until 31 December 2020. An evaluation was launched in 2018 to assess the relevance, efficiency, effectiveness, coherence and EU added value of the PES Network decision. In its opinion on PES [1] the EESC endorsed the Commission's proposal to establish a European PES Network.

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(1) OJ C 67, 6.3.2014, p. 116.

3.4. The European PES Network 'Strategy 2020 and beyond' reflects the recent developments on the labour markets, including emerging platform economies, new forms of work, labour shortages, workforce mobility, a more heterogeneous PES customer base, and the need to make use of new digital technologies and harvest richer data sources.

3.5. Many positive steps have been already taken at national levels and in coordination with the European PES Network. National PES in some countries have done a great job in **implementing the EU Youth Guarantee** helping young people, particularly NEETs, transition faster into the labour market or back to education. National PES have also implemented measures from the EU initiative focused on **better integration of the long-term unemployed** (LTU) through better registration and integrated job contracts. In addition, labour market integration of refugees and asylum seekers has been on their agenda since 2015.

3.6. Nevertheless the EESC's experiences show that the effectiveness of the PES and their ability to perform in changing circumstances, to address new challenges in the world of work and to successfully integrate people into these transitional labour markets differ in the Member States. Their personal, technical and financial capacity is in many cases, and in some Member States, underestimated.

3.7. A special professional category of labour consultants should be more effectively promoted and proper integration of databases for effective matching of companies and workers developed. In some countries PES are complemented or replaced by private employment agencies and labour consultants. Cooperation with companies is essential, together with the active participation of social partners also at local level in order to map job opportunities at national and territorial level. The success rate of the PES services should also be measured from the employers' perspective.

4. Public employment services in the light of the European Pillar of Social Rights

4.1. Since the proclamation of the EPSR, the national PES and EU PES Network should be more innovative in supporting the purpose of the EPSR and implementing its key principles.

4.2. In 2017, the European PES Network made a formal contribution to the EC's consultation on the EPSR. In 2018 it drafted its paper on Future work. This activity presented an opportunity for the Network to consider how the PES 2020 Strategy might be adapted to ensure it remains fit for purpose as PES seek to meet the new challenges of a rapidly changing labour market and to become genuine career guidance agencies. PES are working on modernising their organisation with a view to achieving 'Triple A' rating services — ability, agility, accountability — for customers, helping to create a more sustainable and inclusive labour market.

5. The new role of the PES from the EESC's perspective

5.1. The EESC welcomes the priorities set in the **EU PES Network Work programme for 2019** and **calls for greater interaction between the principles of the EPSR and the Network tools of benchmarking and mutual learning.** It can contribute both to better integrated PES services and implementation of the EPSR.

5.2. In November 2018, the EESC Labour Market Observatory (LMO) organised a **conference on Public employment services in the context of the implementation of the European Pillar of Social Rights.** The examples given confirmed the need for complementarity between public and private employment services and showcased the concrete benefits of good cooperation between PES and social partners. PES proactivity, the creation of a one-stop-shop for firms, joint training courses by PES and companies were together revealed to be key for providing people with sustainable jobs.

5.2.1. The EESC encourages the pursuit of a better response to job supply and demand, more incentives for both employers and workers (e.g. allowing low-wage workers to keep some unemployment-related social benefits) and a fair balance between employment flexibility and job security leading to more stable contracts. Europe is still far from utilising the full potential of the available workforce. Europe should support sustainable companies, in particular enabling them to create more quality and productive jobs.

5.2.2. The EESC, in its opinion [2] points out that access to social protection systems is a key factor for fairer societies and fundamental to a productive, healthy and active workforce. The EU should improve the way the existing Open Method of Coordination is supporting Member States **to benchmark progress to reform and improve the performance of their employment policies and national social protection and welfare systems**. Closer synergies between PES services and social infrastructure and benefits systems should be ensured in order to provide more support for unemployed people in their job search and avoid those seeking employment being penalised when they re-enter the labour market.

5.2.3. **Mobility:** for the EESC, the free movement of workers on a basis of non-discrimination and equal treatment and the removal of remaining barriers to mobility remains one of the EU's priorities. In its **opinion on EURES** [3] the EESC calls for a real instrument for matching supply and demand in the European labour market **in close cooperation with national public employment services**. EU-wide mobility of workers is connected with the ongoing effort to modernise the social security coordination system, and make it fairer for all Member States. Particularly in the case of unemployment benefits for cross-border workers, the *lex loci laboris* principle for determining the competent Member State should be applied, unless otherwise agreed between Member States.

5.2.4. **Skills geared to the labour market:** the social dimension of education as stated in **the first principle of the EPSR** states that everyone has the right to quality and inclusive education, training and **lifelong learning**. Moreover, the increasing labour market shortages across Europe are putting future growth at risk. Closer cooperation between **PES and social partners**, **companies, regional, Job and Skills Councils and other relevant regional structures should be enhanced to overcome regional disparities and offer adequate professional guidance, opportunities for upskilling and reskilling and professional transformation for jobseekers and people at risk of loss of work, with shared responsibilities among the different actors. This should include activation of self-employed people.**

5.2.5. **Cooperation with social partners:** when devising EU social policy, more space needs to be given to social partners, with full respect for their autonomy. In their role of key labour market actors they can, in cooperation with national PES, contribute significantly to map job opportunities also at local level, facilitating the transitions of people into or on the labour market – to support jobseekers during their search and help companies with human resources search processes, to help young people and adults choose the most appropriate upskilling pathways (ADEM in Luxembourg).

5.2.6. **Civil society**: the EESC is representing a variety of the civil society organisations delivering many opinions already addressing some of the principles covered by the EPSR. The added value of the CSOs is that they are close to the situation on the ground and familiar with the needs of different groups — migrants, people with disabilities, young people, women's rights — and can effectively contribute to more targeted PES work (this could include for example the role of labour consultants in Italy).

5.2.7. **Cooperation with the private employment services**: experience shows that equal involvement and integration of public and private services can have effective, beneficial results in terms of a truly inclusive and sustainable labour market. This complementarity has to be supported. Labour market forecasts/predictions are always very difficult. Labour market needs change very rapidly. Reliable data are essential. However, the inclusive labour markets we are calling for require all people to be included.

6. Persisting gaps in targeted PES assistance

6.1. The EESC appreciates that the main target groups are covered in both European PES networks' and national PES' working programmes. Nevertheless, it stresses that there are still gaps and PES have **to mainstream the principle of diversity and non-discrimination more** into their day-to-day work. The effort has to be continued or increased, particularly with respect to:

6.1.1. **Young people:** The EESC welcomes the fact that financial support for implementing the Youth Guarantee has doubled. PES should invest in a long-term approach to providing services to young jobseekers, including better use of ICT and web tools in order to strengthen the services for the most vulnerable groups of young people, **PES should enhance individual assistance to young people, cooperate with their families and inform them fairly about the labour market situation**.

[2] OJ C 440, 6.12.2018, p. 135.
[3] OJ C 424, 26.11.2014, p. 27.

6.1.2. **Adults**: the ageing population in Europe, **increased longevity in society and the need to foster intergenerational cooperation**, the accelerating changes in the labour market, emerging forms of work and the penetration of digital technologies into all aspects of daily life have resulted in a growing demand for new skills and a higher level of skills, **knowledge and competences**; this gives added urgency to the need to upskill or reskill all people who have not mastered basic skills or have not gained a qualification to ensure their employability **and active citizenship.**

6.1.3. **Women:** the EESC welcomes the directive on work-life balance (WLB) ([4]), helping parents and carers, and particularly women to better organise their work and daily duties. To this should be added the necessary investment in social infrastructure, such as care facilities for children and the elderly. This also includes effective assistance from national PES to integrate women into the labour market with due regard for the WLB approach.

6.1.4. **People with disabilities**: people with disabilities represent around one-sixth of the EU's overall working-age population, but their employment rate is comparatively low. This was the main message of the EESC hearing organised in 2017. In particular, women and girls with disabilities ([5]) continue to face multiple and intersectional discrimination based on both their gender and their disability. They are too often excluded, among other things, from inclusive education and training, employment, access to poverty reduction schemes, adequate housing and participation in political and public life. They need special assistance and an individual approach from PES.

6.1.5. **Migration: legal migration can play an important role in labour markets performing well**. The EESC stressed in its opinion ([6]) the importance of a coherent migration policy and well-designed regulatory framework, stating that without migration the Europe's economic and social model is in danger. Integrating refugees with the right to stay in Europe into training, employment and society in general will continue to be important. **PES in many countries have already taken a large number of initiatives to contribute to this.**

6.1.6. **Roma minority**: the EESC is very active on issues connected with the living and working conditions of the Roma community, focusing on better integration of Roma people ([7]). The EESC can see a synergy between the implementation of the *equal access principle* of the EPSR and further steps in more successful Roma integration. Assistance to Roma women in particular should be a priority for PES.

6.1.7. **The inactive population** is not a traditional target group for PES, although a significant share of the inactive population wants to work. The European PES Network published a study on *The role of PES in outreach to the inactive population*, which provides an overview of outreach measures for the inactive with particular reference to the role of PES. The EESC calls on the Commission and the Member States to redesign the reactivation policies aimed at this section of the population.

7. A complex support for national public employment services

7.1. The European employment guidelines 2019 (Guideline 7) encourage the Member States to increase the effectiveness of their active labour market policies. Member States should aim for more effective public employment services by ensuring timely and tailor-made assistance to support jobseekers, supporting labour market demand and implementing performance-based management.

7.2. To contribute effectively to the implementation of the EPSR, national PES will need stronger support and proper conditions:

7.2.1. **Sufficient human resources.** The complex services of the PES (search and selection of personnel outplacement, advice and assistance in requests for income support, training placements) require trained staff with special skills working in sustainable conditions and cooperating with labour consultants and private labour agencies.

7.2.2. **To address technological evolution.** Digitalisation of the economy and society brings new tools, which if properly managed can help PES in their role, including training PES' own employees, as well as real integration of databases for effective matching of companies and workers, both involved in turn in the evolution of skills and tasks arising from the new digital era.

([4]) OJ C 129, 11.4.2018, p. 44.
([5]) OJ C 367, 10.10.2018, p. 20.
([6]) OJ C 110, 22.3.2019, p. 1.
([7]) OJ C 27, 3.2.2009, p. 88.

7.3. On 2 May 2018, the Commission adopted a proposal for the Multiannual Financial Framework for 2021-2027. The proposal reflects the current social and economic context and provides a tangible response to the call from the European public for a more social Europe and for more investment in people in the EU. The European Social Fund Plus (ESF+) is a key EU instrument for investing in people and implementing the EPSR. PES will be funded through the Employment and Social Innovation (EaSI) strand of the European Social Fund Plus (ESF+).

7.4. PES' new responsibilities, particularly in the area of active employment policies, must be reflected in appropriate capacity and financial support.

7.5. The EESC calls for more systematic and structural cooperation between PES and other service providers in the social and employment fields to address the multiple range of barriers jobseekers face when trying to enter the labour market (health issues, housing, transport). The modernisation of PES is a complex process, and lack of coordination, programming, planning and division of responsibilities at the national and/or regional level leads to fragmentation.

7.6. The EESC considers that greater efforts should be made to monitor, evaluate and benchmark PES services to assess the effectiveness of their services in assisting jobseekers entering the labour market. Common standards and guidelines at European level could improve the effectiveness of PES and synergies among countries. Existing data source such as LFS should be utilised more, and agencies such as Eurofound can assist with such monitoring.

Brussels, 17 July 2019.

The President

of the European Economic and Social Committee

Luca JAHIER

Opinion of the European Economic and Social Committee on 'Teaching Europe — developing a toolkit for schools'

(own-initiative opinion)

(2019/C 353/09)

Rapporteur: **Gerhard RIEMER**

Plenary Assembly decision	20.2.2019
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1. Conclusions and recommendations

1.1. The EESC interprets the **Paris Declaration** of 2015 [1] and the 2018 **Council Recommendation** [2] as **a clear mandate from the MS supported by the EP resolution 2016** [3] to put teaching and learning about the 'European Union' firmly on the policy agenda. This is a new starting point for the promotion of a European dimension of teaching and providing the necessary support for educational staff.

1.2. The EESC believes that to a certain extent there is an **information gap in the education sector** when it comes to a general learners' understanding **about the role of the EU** and the impact that it has on the daily lives of European citizens. Despite the improved turnout — from 42,61 % (2014) to 50,95 % (2019) — the results of the recent elections to the EP show that there is still a strong need to inform and educate people from an early age about the European Union.

1.3. The EESC calls for **a new momentum of activity in the area of education about the EU**. It wants to use the window of opportunity offered by the renewal of the EP, the EC and especially the new Commissioner for education, culture, youth and sport. The EESC is convinced that a special focus on EU education for young people must be considered indispensable for a progressive development of real European citizenship, needed to build a robust European Union.

1.4. The EESC is trying to raise **with the two new opinions the focus as much as possible on education about the EU (SOC/612)** [4]**and teaching Europe at school**. It is important to think again about how to foster a better connection and awareness between, and of, people about the EU — its actions, aims and values. To achieve this, further efforts should be undertaken to better inform people about the EU during their initial school education, in particular, as well as in VET and higher education and in a lifelong learning context.

(1) Paris Declaration, 17.3.2015.
(2) Council Recommendation (2018), ST/9010/2018/INIT.
(3) EP resolution (2016) (2015/2138(INI)).
(4) OJ C 228, 5.7.2019, p. 68.

1.5. **Many measures have been taken at EU level and in the MS** to improve the situation and a variety of excellent materials and toolkits are available at national and EU levels which could be a source of inspiration for steering further initiatives. However, the clarity, accessibility and general information about what is available needs to be improved. The outcomes of the EC — Study 2013 ([5]) proves that there is an obvious political will in the MS to improve the quality of such information, but that there is still a long way to go.

1.6. The EESC thinks it is necessary to **undertake a new study, as critical research**, about the actual situation in MS regarding EU education in schools and in teacher training and CPD. An analysis of existing initiatives and curricula, especially in primary and secondary education, as well as of efforts undertaken by CSOs and the social partners, would be helpful. The study could be based on the Learning Europe at School Study of 2013.

1.7. In addition to this, an **inventory of the teaching and learning materials/resources** that have resulted from relevant EU-funded projects would be extremely helpful and necessary. A platform that pools together all these different tools categorised by language, age-group and topic — perhaps similar to the 'what-Europe-does-for-me' website — could be used for teaching and learning at school.

1.8. The EESC thinks that the **concept of curriculum should be considered more broadly** to include the co-curricular curriculum, which recognises the valued educational activities that support learning beyond classes and subjects to present the EU in the right perspective to youngsters and the population.

1.9. The EESC considers that **a small toolkit (a basic 'package') should be developed** for each school (learner and teacher) that would help to better educate all people about the EU. The contents of such a toolkit could take different forms and need to be adapted to the national and regional context, also to persons with special needs.

1.10. To foster further political support for enhancing education about the EU, a **High-Level group of experts on 'Teaching Europe'** should be established at the European level, represented by MS and integrating well-known experts. This group could provide policy proposals and recommendations for discussion by education ministers, which could lead to Council conclusions.

1.11. **Teachers play an important role as 'architects of the future'.** They need a better understanding of the EU and the competence to teach Europe to pupils at any age. There is a lack of knowledge about the EU and some are not experienced or confident enough to teach it in their classrooms. Therefore the EESC asks for a new focus on teacher training at EU and MS level, and to support teachers to use existing material and to make full use of the opportunities offered by the new digital technologies.

1.12. **The EESC believes in the vision** that young people who finish the school system do so with a basic knowledge of the EU, **a kind of 'EU literacy'.** The EESC knows that it is quite a challenge but also an opportunity to teach around 72 million pupils enrolled in primary, lower and upper secondary education in the EU but one that is worth taking on. This includes the possibility for them to have the chance to visit European institutions. Teachers, too, should have this opportunity in order to gather special experience, to discuss with the different organisations and institutions (such as the EESC) and to return home with a better understanding of Europe, its role, values and how it is organised.

2. A window of opportunity — a new initiative at the right time

2.1. The EESC wants to use the window of opportunity that comes with the renewal of the EC and the EP and especially the new Commissioner for education, culture, youth and sport to draw special attention to teaching Europe at school.

2.2. In previous opinions, the EESC has stressed the importance of education about European history, values, democracy and achievements and the importance of the EU as a way to make the EU more meaningful to its citizens. The formal education system has a great influence on young citizens' perception of the world and is therefore crucial in developing their understanding of the EU.

2.3. This opinion acts as a follow up to opinion SOC/612 ([6]) to support, strengthen and intensify the call for action in the field of Education about the EU. In this opinion, the EESC wants to put more emphasis on Europe and education about the EU in general and especially on teaching Europe in Schools.

([5]) Learning Europe at School, EC Study, 2013.

([6]) OJ C 228, 5.7.2019, p. 68.

2.4. The future of Europe and of the EU will be shaped and developed by our young people — by the students sitting in school classrooms today, influenced by their surroundings, families and friends. It is therefore important to get our young people closely involved in EU topics and to ensure that schools provide information, as well as critical and constructive discussions, about EU issues.

2.5. There is an information gap among citizens at MS level about the EU, how it works and what it does. This includes the role of the EU institutions and the impact that EU policies have on the lives of Europe's citizens. Educating people about Europe could either take the form of a specific subject or module, or could be integrated in different subject areas, as appropriate giving the freedom to national education authorities and schools, across various levels of education.

2.6. The role of schools and teachers and the extent and way in which teachers educate their pupils about the EU is therefore of increasing importance, especially in view of growing Euroscepticism in some MS.

2.7. The trend is for society to expect more and more from formal education at school. Such education, at least at primary and secondary level, should aim to provide pupils with the skills and competences that they need to think critically, to learn to interpret and analyse information and to develop their own opinions, rather than being a fact-driven learning process. This includes developing an informed opinion about the EU. Schools cannot do everything, so better coordination between the various structures of formal, non-formal and informal education would contribute to the success of the European project. It should also be said that the sooner young people encounter aspects of Europe and acquire an 'appetite for Europe', the more they will feel 'European'.

2.8. At the same time, this places a certain expectation on teachers whose responsibilities are growing. It is therefore important to further support teachers by making EU teaching practical toolkits available, with a wide range of ready-to-use materials on different topics, appropriate for different ages and available in all EU languages, and taking into account specific situations in the MS.

3. **The responsibility of the EU and the MS**

3.1. There is no doubt that the main responsibility for education and training lies with the MS. However given its complementary function, the EU could play a stronger role in proposing special measures and activities to improve general knowledge of the EU. The EESC thinks that now is the right time to act.

3.2. On the basis of the Paris Declaration signed by EU leaders in March 2015 ([7]), the EESC interprets the 2018 Council Recommendation ([8]) as a clear mandate from the MS to put teaching and learning about 'Europe' firmly on the policy agenda. This is a new starting point for the promotion of a European dimension of teaching and the necessary support for educational staff.

3.3. The EU has been dealing very intensively with education and training in recent years, but also started recently with the topic of 'Learning Europe at school'.

3.3.1. In 2011-2013, the Commission implemented the 'Learning EU @ School' initiative at the request of the EP. This was followed by the EP's resolution 'Learning EU at School' ([9]) in 2016, which emphatically underlined the importance of this subject and gave concrete recommendations for the EU and MS' levels which from our point of view still merit support and which should be a basis for new initiatives. The EESC acknowledges and supports initiatives of the EP and the Commission and hopes very much that this EESC initiative will give a fresh and strong impetus for a new way forward.

3.3.2. The EU Key Competences Framework for Lifelong Learning ([10]) was updated in 2018 and defines the competences each European citizen needs for personal fulfilment and development, employment, social inclusion and active citizenship. As part of the revised framework there is a section on cultural awareness and expression. This includes developing knowledge of local, national, regional, European and global cultures and expression, including their languages, heritage and traditions, and cultural products, and an understanding of how these forms of expression can influence one another as well as the ideas of the individual. Inspiration could be taken from this to update school curricula as well as non-formal and informal learning programmes to educate people about the EU.

([7]) Paris Declaration, 17.3.2015.
([8]) Council Recommendation (2018), ST/9010/2018/INIT.
([9]) EP resolution (2016) (2015/2138(INI)).
([10]) Council Recommendation (2018) (2018/C 189/01).

3.3.3. The Erasmus programme which was an incredible success, should continue to be an opportunity to learn about the EU. In the past 32 years, more than 10 million people have benefited from Erasmus ([11]). According to the Commission's proposal the new Erasmus programme 2021-2027 foresees a doubled budget compared with the former ones, from just below 15 to 30 billion and envisages providing support for activities that teach and explain the EU. There should be an opportunity, for instance, for the Jean Monnet initiatives to support actions beyond higher education in other fields of education and training.

3.3.4. There are some other important and successful EU programmes for young people. DiscoverEU ([12]) gives our youth the chance to travel by train for free throughout Europe to discover not only Europe's stunning landscapes and to meet like-minded travellers but also to increase their independence and confidence as well as explore their EU identity. The European Solidarity Corps ([13]) is another EU initiative that offers opportunities for young people to volunteer or work in projects in their own country or abroad and benefits communities or people around Europe.

3.4. The MS play a central role in education. The Commission's study (2013) ([14]) shows that there is an obvious political will in the MS to improve such information, but there is still a long way to go. The study identifies what works to develop students' understanding of the EU and provides recommendations for the Commission, and the various partners involved, especially teachers. Some MS have integrated learning about the EU into their curriculum and teacher-training programmes. However there is very little evidence that what is taught about 'Europe' is designed in a progressive manner to lead students from basic facts towards a more complex understanding. Also, the functioning of EU institutions and the decision-making process, which is core to civic participation, is a rather neglected topic compared to other more basic facts. This important study, moreover, is based on data that is more than 10 years old.

3.5. Some activities going beyond the national requirements for learning about 'Europe' exist in all MS. Schools, NGOs, foundations or universities that work with schools and teachers are already active in trying to improve the way in which 'Europe' is taught. There are knowledgeable and committed organisations working on this topic on the ground across the EU. Many initiatives are EU-funded, but not all. The existence of these activities shows that there is a demand and need for further development to support learning about 'Europe'.

3.6. There are many on-going initiatives concerning information as well as civil society programmes, including social partners' initiatives, but the Commission's 2013 study ([15]) shows that the information and the school programmes could be better structured.

3.7. The EESC's own initiative 'Your Europe, Your Say' (YEYS) ([16]) is also an example of good practice worth mentioning.

4. **Political proposals and incentives for implementation**

4.1. The EU, especially the incoming Commission and the new Commissioner for education, culture, youth and sport, should consider how to develop a new momentum with MS in order to promote an intensive general discussion on the role of teaching Europe at school.

4.2. A new study on the actual situation in MS regarding EU education in schools should be launched to complete and update the existing activities to provide more evidence and evidence-based policy guidance. This study should be the basis for new initiatives aimed at collecting examples, comparing the different cases of good practice, discussing them and showing the results.

4.3. In addition to the new study the Commission should produce an inventory of all the teaching and learning materials/resources that the most relevant EU-funded projects have produced since 2010 on topics related to teaching about the EU at school (e.g. projects financed through Jean Monnet initiatives, with a summary description for each).

4.4. To foster further political support for enhancing education about the EU, a High-Level group of experts on 'Teaching Europe' should be established at the European level, represented by MS and integrating well-known experts. It could be explored on a voluntary basis if there are common ways and means to educate people with basic facts and information about European integration. This group could provide policy proposals and recommendations for discussion by education ministers, which could lead to Council conclusions.

([11]) EC, 'Investing in people', May 2018
([12]) https://europa.eu/youth/discovereu_en
([13]) COM(2018) 440 final.
([14]) Learning Europe at School, EC Study, 2013.
([15]) Ibid.
([16]) EESC, Your Europe, Your Say.

4.5. An **EU Day in schools in the MS** should also be introduced (on a voluntary basis). This new initiative would provide a focussed opportunity to discuss EU-related topics in an intensive, positive and forward-looking way in classrooms all across Europe and to use and implement the toolkits.

4.6. Civil society initiatives and programmes — as well as those organised by social partners — in the field of education on Europe should be welcomed. They should be involved in discussions, in the implementation, preparation and/or selection of good practice packages for thematic discussion at school; in discussions about the importance and the future role of the EU ([17]). However, their impact could be much greater, if they are integrated in a broader agenda of school curricula and activities.

5. **Developing a toolkit for schools**

5.1. Many resources for teaching about the EU are already available from several sources. There is a huge amount of materials and toolkits especially at EU level. However, these are not always easy to find, especially if one is not aware of their existence. The focus should therefore not be on creating new teaching tools. Instead, existing ones need to be adapted, improved, and communicated (e.g. about Learning Corner). This could be done by creating a single online platform in which teaching tools from all these different sources are gathered.

Here teachers will be able to select materials based on the topic and the age group they are teaching, similarly to the 'What Europe does for me' ([18]) website that the EP created in advance of the 2019 EP elections.

5.2. Besides teachers, parents and other adults also have a significant influence on young people's perception of the EU. A toolkit for teaching about the EU in formal education should therefore be accompanied by lifelong learning opportunities for adults. In the light of the current issues with misinformation, this should include informing people of where they can find trustworthy information on the EU.

5.3. Developing toolkits is a shared responsibility, the main responsibility lying with the MS. Topics related to European issues should be scripted primarily at EU level and those related to Member State matters at national level. Books, videos, CDs or apps will include a national dimension alongside the EU dimension. How and to what extent teaching material is used has to be decided by the Member States and is the responsibility of teachers and their respective school.

5.4. A better and more intensive use of the existing material is crucial, especially existing links such as the EU's excellent Learning Corner ([19]), where the presentation of materials is outstanding.

It has popular topics for primary and secondary schools with materials according to age groups, knowledge tests and quite a lot of specific toolkits ranging from activity books, factsheets, games and teaching kits to videos. The age groups go from under 9 to over 15. Pupils can find games, competitions and activity books to help them discover the EU in an amusing way. Teachers, too, can find sources of teaching material for all age groups to help pupils learn about the EU and how it works. They can also draw inspiration for lesson plans and discover networking opportunities with other schools and teachers across the EU. What is needed is better communication of information, together with the MS, on how to use this.

5.5. There is a huge variety of toolkits available at EU level. Using them depends on a range of criteria: the stage of education, the subject, the education system and the particular nature of education policy in the MS. However, the EESC recommends developing a basic package (small toolkit), concentrated only on topics, for each school in the EU and using it for a new intensive outreach. This package should be made available, in collaboration with the MS's education ministry, to the school concerned, together with material specific to that country and in cooperation with EU engaged institutions and organisations like the social partners.

The package should be available online, on the school website as well as via regional and EU contact points, and include e.g.:

— an easy-to-read, compact set of a booklet, brochure for teachers and students ([20]);

([17]) The Future Evolution of Civil Society in EU by 2030.
([18]) https://what-europe-does-for-me.eu/
([19]) Learning Corner.
([20]) The Austrian example: a small and short brochure different for teachers and students with all the European and national links to websites with a short comment on different topics

— a short video or film created for each country and made by people from that country;

— a selection of materials offered at EU level aimed at teaching the EU at school. These should be geared specifically to the various school levels (nursery, primary, secondary and tertiary schools), as well as to the main online links, including the Learning Corner;

— material from the MS with tangible examples of good practice.

5.6. The aspiration should be that each pupil and student who finishes the school system does so with a basic knowledge of the EU, a kind of EU literacy. The EESC knows that it is quite a challenge to reach and teach around 72 million pupils enrolled in primary, lower and upper secondary school in the EU. This includes the opportunity for students and pupils to visit European institutions and get an overview of the EU and its history (House of European History). Teachers should also have the opportunity to get in intensive contact with EU institutions in order to gather special experience, to discuss with the different organisations and institutions (such as the EESC) and to return home with a better understanding of Europe, its role, its values and how it is organised.

5.7. This 'EU literacy' should be supported by a toolkit for the different levels, such as:

— At the primary school level, pupils should learn about the cultures and traditions of other EU countries, such as their languages, food, music, holidays, geography and traditional clothing and dances.

— At the secondary level of education, students should be introduced to more 'hard facts' about the EU and start developing a sense of civic responsibility. The toolkit should cover topics including EU history, the EU's main achievements (such as its contribution to peace), the EU institutions, EU politics, EU elections, media literacy and thinking critically about news stories and being an active citizen.

— For tertiary education, the toolkit should provide more in-depth information, for example on EU policies, political structures, the economy, the labour market, social policy issues, mobility and rights and social partnership. This could also include tools tailored towards specific professional groups such as journalists or local/regional politicians.

5.8. The important and crucial role of teachers

5.8.1. Teachers play an important role as 'architects of the future'. A specific programme for teachers is crucial, taking into account the specific situation and needs in MS. Today, many teachers lack knowledge about the EU and are not confident enough to teach it in their classrooms.

5.8.2. Teachers need a better understanding of Europe to be prepared for teaching Europe to pupils from an early age. One of the aims of teacher education should be for teachers to have a better understanding of the institutional process of integration and to be able to use the new didactic approach to make it clearer to their students. They will also need to deal with new didactic concepts of education.

5.8.3. The EESC welcomes the modernised and centralised platform called the Learning Corner recently launched on EUROPA ([21]). Targeted mainly at primary and secondary school pupils, their teachers and parents, the Learning Corner gathers in one place games, quizzes, learning and teaching materials developed by the EC and the other institutions and focusing on the EU and its benefits for Europe's citizens. **eTwinning** is the largest teachers' network in the world. Over **680,000 teachers** have registered on the eTwinning which allows teachers to create joint projects, improves teachers' and pupils' competences and is crucial in building a European sense of belonging. Teachers should be better informed about this tool.

5.8.4. The EESC thinks that it should be possible that certain institutions which are financially supported by the EU, especially the European University institute and the College of Europe, provide training on European issues to all teacher trainers in the EU. In addition, Erasmus+ ([22]) students and Jean Monnet academics should play an important role in schools to act as ambassadors for the EU.

([21]) Learning Corner.
([22]) OJ C 228, 5.7.2019, p. 68.

5.8.5. The EESC also considers it important that the EC has set up a Teachers' Testing Panel composed of one primary and one secondary school teacher from all MS, selected by the EC Representations. The panel advises on the content and style of the learning material being developed by the EC services. This could be very helpful in ensuring that what is offered reflects current trends and needs.

5.8.6. Beyond the teaching of Europe in the education sector, it is important that information is also accessible to the general public, for example in public libraries and other public places.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

Opinion of the European Economic and Social Committee on 'The sectoral industrial perspective on reconciling climate and energy policies'

(own-initiative opinion)

(2019/C 353/10)

Rapporteur: **Aurel Laurențiu PLOSCEANU**

Co-rapporteur: **Enrico GIBELLIERI**

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1. Conclusions and recommendations

1.1. European resource- and energy-intensive industries (REIIs) are of strategic importance to EU industrial value chains. They are required by the EU's climate mitigation policy to perform a deep transformation, and massive investment, towards climate neutrality before 2050.

1.2. The purpose of the current Emissions Trading System (ETS) is to incentivise this investment by setting a price for greenhouse gas (GHG) emissions, with contradictory requirements: (1) achieving climate goals requires higher prices; but (2) the external competitiveness of REIIs requires them to align with the low or even non-existent price of external competitors.

1.3. The EESC is concerned by the risk of carbon or investment leakage (production or investment being carried out where ETS does not apply) in REIIs, and of resulting job losses, in the current situation of divergent prices for GHG emissions on global markets.

1.4. In a previous opinion [1], the EESC called for a global ETS in order to create a level playing field in international competition between REIIs. This hope has so far been disappointed.

1.5. The EESC considers it essential to reconcile industrial and energy policies with climate policy in order to mobilise the huge investment made necessary by the transition to a zero-carbon economic model for REIIs, which should be a 'just transition', with the social partners being actively involved in its definition and implementation.

(1) OJ C 71, 24.2.2016, p.57, §1.9.

1.6. Investment by the EU and the Member States should have a bearing on RDI and on deployment of low to zero-carbon technologies for REIIs, including the additional electric power generation that they require, and education and training of their workforce. Under the next Multiannual Financial Framework (2021-2027), the funding included for this purpose in the Commission's proposal for the InvestEU programme and for the other investment programmes that will be linked to it should thus be increased.

1.7. The EESC intends to contribute to the reflection on the long-term industrial strategy called for by the European Council ([2]), by examining the technical and legal feasibility of one among many policy options currently in the public sphere: the implementation of border adjustment measures (BAMs) for the internal price of GHG emissions, based on the GHG emissions content of the basic metals, chemicals and materials embedded in industrial goods. It points out that it drew attention to the need to examine and potentially introduce a mechanism of this kind back in 2014, in its own-initiative opinion 'Market-based instruments — Low carbon economy in the EU' ([3]), but did not get an adequate response from the Commission or the Council.

1.8. The EESC advises the Commission to deepen its reflection on this and other policy options, such as a reformed ETS, carbon border adjustment ([4]), a VAT rate adjusted to carbon intensity ([5]), and to compare them in terms of:

— impact on carbon and investment leakage, in a future situation of higher prices and lower availability of ETS allowances in the EU,

— legal certainty on compliance with WTO rules,

— acceptability by trading partners,

— technical feasibility, specifically regarding the existence of globally accepted accounting and measurement standards and of reliable and recognised databases.

1.9. The EESC also advises the Commission to engage early in consultations with the EU's main trading partners to test their views on the options considered.

2. General comments

2.1. *The dilemma of climate policy applied to resource- and energy-intensive industries*

Climate policy is confronted with an inherent difficulty.

2.1.1. On the one hand, the purpose of this policy is to ambitiously reduce greenhouse gas (GHG) emissions (both from the combustion of fossil fuels and from industrial processes). The target for the EU is to reach carbon neutrality by 2050, as encouraged by the Commission's Communication 'A clean planet for all'. With these reductions, global warming should remain well below 2 °C and hopefully below 1,5 °C, in a way that is compatible with agriculture that is able to feed humankind. In a market economy, a very efficient tool is to set a price for GHG emissions. In this way, economic players can either profitably invest in emissions-saving equipment or processes (including Carbon Capture and Storage/Use) or can save money by reducing their consumption of materials (e.g. by using longer-lasting products) or by switching their purchases of materials towards those that produce fewer GHG emissions (such as recycled materials). In order for this method to be effective, the price for GHG emissions must be high and predictable enough to trigger investment or behaviour change.

2.1.2. On the other hand, energy costs represent a high proportion of total costs for REIIs: 25 % for steel, 22-29 % for aluminium ([6]), 25-32 % for glass ([7]).

([2]) European Council conclusions of 22 March 2019, EUCO 1/19.
([3]) OJ C 226, 16.7.2014, p. 1.
([4]) European Parliament resolution of 16 December 2015 on developing a sustainable European industry of base metals (2014/2211(INI)).
([5]) A. Gerbeti, CO_2 in goods and European industrial competitiveness, Editoriale Delfino (2014) and A. Gerbeti, A Symphony for energy: CO_2 in goods, Editoriale Delfino (2015).
([6]) A. Marcu, W. Stoefs: 'Study on composition and drivers of energy prices and costs in selected energy-intensive industries'. CEPS, 2016, available at: http://ec.europa.eu/DocsRoom/documents/20355
([7]) C. Egenhofer, L. Schrefler: 'Study on composition and drivers of energy prices and costs in energy-intensive industries. The case of the flat glass industry', CEPS, 2014, available at: https://www.ceps.eu/system/files/Glass.pdf

2.1.3. If the energy cost is increased because of a high price allocated to GHG emissions in the EU compared with prices elsewhere, and because of large-scale and early investment in low- or zero-emissions technologies in REIIs and in the related electricity generation, transport and storage capacities needed to feed them ([8]), causing high amortisation costs, the external competitiveness of EU-based REIIs is jeopardised. Despite their energy-efficiency efforts, they end up producing at higher prices than their external competitors. On these markets, with very standardised products, a higher price leads to a loss of market share and related jobs. If this happens, GHG emissions are simply transferred from EU producers to producers elsewhere (who often are less energy-efficient), with (at best) no effect on global GHG emissions. This phenomenon is known as 'carbon leakage'. In a global competitive landscape where the price of GHG emissions is zero, this translates into the need to set the price of carbon as low as possible — and even at zero.

This phenomenon is compound by that of 'investment leakage'. Even with a low price for GHG emissions in the EU, the uncertainty regarding its development is already hindering investment in the maintenance and upgrade of REII industrial sites, leading to another and very worrying loss of competitiveness for EU producers. Investment leakage for EU-based REIIs would dramatically increase if the prices for GHG emissions were high in addition to being volatile.

2.1.4. The Emissions Trading System (ETS) is the current attempt on the part of the EU to set a price for GHG emissions. For the most part it has been ineffective: the price for GHG emissions has been very low for years (even if it rose recently) yet sufficiently volatile to trigger investment leakage. In addition, it is complex and full of exemptions. One structural reason for this ineffectiveness and complexity may be that the ETS system was not able to solve the inherent difficulty, outlined above, between conflicting requirements for high and low prices for GHG emissions.

There may thus be a need to solve this dilemma and reconcile the conflicting policy goals of (1) climate change mitigation; and (2) the external competitiveness of Europe's REIIs, while heeding all other policy objectives, such as free and fair trade, in the framework of the long-term industrial strategy called for by the European Council.

2.2. ***Border remedies as a possible solution***

2.2.1. The option preferred by the EU institutions to solve this dilemma would be for a single, global ETS to set a worldwide price for GHG emissions. This hope however has been disappointed. The recent geopolitical developments in the direction of unilateralism provide little hope that such a worldwide agreement would be reached in time.

The provisions set out by the European Commission (recycling ETS proceeds to industry, innovation support, free allowances, authorisation for Member States to compensate for indirect costs …) may not deliver enough safeguards against carbon or investment leakage in a situation of asymmetric climate policies and increasing EU climate ambitions. This is why several voices have called for alternative approaches to reconciling climate policy goals with the external competitiveness of REIIs, as a possible solution. These approaches relate to the concept of BAMs as defined by the World Trade Organisation (WTO). The purpose of this opinion is to explore the technical and legal feasibility of such an option, by means of a concrete proposal.

2.3. The legal principles of the WTO: border adjustment measures for internal taxes on consumption should not discriminate against external economic players.

2.3.1. The principle of BAMs is as follows: when an internal tax on consumption is established in a jurisdiction, there is a risk that local producers (who are subject to this tax) will be placed at a competitive disadvantage compared to their external competitors (who are not), both on the internal market (where the competition is between local producers and importers), and on export markets. The authorities of this jurisdiction are allowed to restore the fairness of competition by: (1) imposing a tax on imported goods and (2) refunding the tax on exported goods.

([8]) According to a study by T. Wyns ('Industrial Value Chain: A Bridge towards a Carbon Neutral Europe', VUB-IES, 2018, available at: https://www.ies.be/node/4758), mapping 11 European REIIs, the wide-scale deployment of low-CO_2 technological pathways would require between 2 980 TWh and 4 430 TWh additional electric energy per year.

2.3.2. Provided they met certain conditions, product-related BAMs were accepted as legal by the WTO, without any concerns being raised regarding protectionism, following a review of such adjustments dated 1970 ([9]) (Report by the Working Party on Border Trade Adjustments). These conditions state that they should not discriminate against external economic players (Articles II-2a, III-2 and VI-4 of the GATT agreement ([10])), which means in this case that: imported goods should pay a tax no higher than that of local producers and exported goods should be refunded no more than the tax that has already been paid on the local market.

2.4. ***The envisaged mechanisms: a transparent accounting system for exporters; importers pay only for the GHG emissions content of the basic materials***

2.4.1. The mechanisms envisaged to adapt the general idea of BAMs to the context of GHG emissions are the following:

— in order to determine the amount to be re-funded to exporters, a transparent accounting system keeps track of the GHG emissions incorporated in each industrial item, and brings it forward along the value chain, as an additional line in invoices,

— importers pay the GHG emissions embodied in the basic materials used to make the industrial item, but not the GHG emissions used to transform or shape them, nor of their logistical movements. It is a very good approximation, because more than 90 % of the GHG emissions of an industrial item are embodied in the basic materials. It provides undisputable evidence for the customs authority to determine the tax base (the nature and weight of each material). It also gives a slight advantage to importers, so that they cannot claim that they are discriminated against.

These mechanisms are presented and discussed in greater detail below.

2.5. ***Refunding the price of GHG emissions incorporated in exported goods is a matter of accounting***

2.5.1. The system would be as follows. When an REII has had to pay for its GHG emissions (either in the form of ETS allowances bought at a variable price per kg of CO_2eq on a market or in the form of a carbon tax at a fixed price), it must keep track of this payment (and of the underlying volume of GHG emissions) in its accounting system, and forward it to its customers in its invoicing (including an amortisation of the GHG emissions content of its equipment). This would re-use the existing, elaborate system of GHG accounting that was developed in the EU for the sake of computing free allowances for ETS, and which is a clear asset. The experience gained over the last 50+ years with regard to VAT should demonstrate the technical feasibility of such a cost-forwarding scheme.

2.5.2. The position in the supply chain at which this payment should be included in invoices remains to be defined. If it were brought forward to the final consumer, this would have the following consequences:

— it would bring the proposed scheme closer to the template of an internal tax on consumption, such as VAT or excises, for which the WTO has explicitly accepted the legitimacy of BAMs, and would thus increase legal certainty,

— it would avoid penalising intermediate companies,

— it would incentivise consumer behaviour towards more climate-friendly options.

2.5.3. When a company exports a good incorporating expenses for GHG emissions, it must then draw from its accounting system the GHG emissions content of the exported product, and have this content refunded by the state (either by re-selling the corresponding ETS allowances on the market, or by having the carbon tax paid back) for the volume of GHG emissions contained in the product.

2.5.4. If the current free allocation of ETS allowances to best-performing EU producers were maintained, this re-fund would be made at the average cost of an ETS allowance at the scale of the EU economy, based on the spot market price and the proportion of free allowances issued to EU producers.

([9]) GATT, 'Report by the Working Party on Border Trade Adjustments', 1970, available at: https://www.wto.org/gatt_docs/English/SULPDF/90840088.pdf, specifically § 4, 11 and 14.
([10]) Available at: https://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_e.htm

2.5.5. This accounting system proves that the exporter is being refunded the exact cost for all the GHG emissions that had been incorporated into the product along the supply chain. The exporter is not being given an undue advantage, and the system is therefore in line with WTO requirements. This fairness is easier to prove on a case-by-case basis when the price for GHG emissions is fixed (as in a carbon tax). It is however only valid on average, between lucky and unlucky speculators on the ETS markets, and between high- and low-performing EU producers receiving different allocations of free emission rights, when the price for GHG emissions is variable (as in an ETS market).

2.6. *The remedy on imported goods can be based on the GHG emissions content of the incorporated basic metals, chemicals or materials*

2.6.1. The GHG emissions content of an industrial good can essentially be found in its materials.

The GHG emissions content of an industrial good can be split into three main components, each corresponding to different categories of value-adding operations:

— the GHG emissions content of the basic metals, chemicals and materials that make up the product, directly or indirectly (e.g. steel, ethylene, benzene, ammonia, hydrochloric acid, glass, wood, …),

— the GHG emissions content of the industrial operations transforming and shaping the basic metals, chemicals or materials (e.g. polymerising, moulding, machining, cutting, …),

— the GHG emissions content of the intra- and inter-site logistics between the various value-adding stages.

The vast majority of the GHG emissions content of an industrial product lies in that of the incorporated basic metals, chemicals and materials (specifically when they are non-recycled). The example of a machine-processed piece of steel, where the energy used in the process is 2,8 kWh ([11]), whereas the energy embodied in the material ([12]) is 117 kWh, i.e. 40 times more, illustrates the order of magnitude of the relative weight between these components. In the case of fertilisers, plastics, elastomers, solvents, lubricants and textile fibres, a very dominant fraction of the GHG content of the final product lies in the basic chemicals from which they were manufactured, which can be deduced from their formula. This means that the full GHG emissions content of an industrial product can be approximated by the GHG emissions content of the incorporated basic metals, chemicals and materials ([13]).

2.6.2. *Computing the remedy applicable to imported goods*

2.6.2.1. In order for the customs authorities in charge of managing the BAMs to work efficiently and with legal certainty, both for themselves and for the importing company acting in good faith, both the tax base and the tax rate must be established with minimal room for interpretation or legal dispute.

The tax rate when considering GHG emissions pricing is either a requirement to purchase ETS allowances for the volume of GHG emissions incorporated in the imported product, at the same price per ETS allowance as in the refund for exporters (in the case of a market-based system), or the carbon tax rate (when under a fixed rate regime).

2.6.2.2. The tax base must be verifiable by analysing the imported good itself, which is the least disputable piece of evidence. In the case in question, the ideal tax base would be the full GHG emissions content of the imported good.

Determining the full GHG emissions content of an industrial product is difficult because of the complexity of all value-adding operations that have been performed on it along the value chain, many of which leave no trace in the product itself.

The proposed option is to use the simple but workable approximation outlined above: the full GHG emissions content of the imported good is approximated by the GHG emissions content of the incorporated basic metals, chemicals or materials, restricted to those representing more than e.g. 1 % of the total mass. Micro-electronics, which generate large GHG emissions despite their small mass, would still be included in the calculation.

([11]) Yohei Odaa, et al.: 'Energy Consumption Reduction by Machining Process Improvement', 3rd CIRP Conference, 2012, available at: http://isiarticles.com/bundles/Article/pre/pdf/17172.pdf

([12]) Inventory of Carbon and Energy (IEC), available at: http://www.circularecology.com/embodied-energy-and-carbon-footprint-database.html

([13]) These emissions are generally positive. They can be negative in the case of sustainably-grown, bio-sourced materials (e.g. wood).

The total GHG emissions content of the materials present in the item is computed as follows: the mass of each kind of basic metal, chemical or material present in the item in significant proportion is multiplied by the GHG emissions intensity of this basic metal, chemical or material (i.e. the GHG emissions embedded in each kilogram of this basic metal, chemical or material).

The average GHG emission intensity at the level of each country has been determined for most basic metals, chemicals and materials. The figures are available in a range of publicly available databases (listed e.g. in the GHG Protocol ([14])), based on well-developed Life-Cycle Assessment (LCA) methodologies, including for China.

2.6.2.3. In order to encourage and reward lower GHG emissions intensity in individual facilities and the divulgation of data, the following virtuous circle mechanism is proposed.

— If a producer can reliably demonstrate its real GHG emissions intensity, then this value applies to its products being imported to the EU. If, however, no such reliable data is provided, then the average GHG emissions intensity of the country of origin is used, this average being computed on the remaining production and remaining GHG emissions when those that have provided reliable data are deducted.

— Thereby, the most climate-friendly producers in a country will engage in the accounting exercise first (in order not to be penalised by application of their national average). Because of this, the national average, after these 'virtuous' producers have been taken out of the computation, deteriorates over time, incentivising additional producers to provide reliable data.

2.6.2.4. The EU could, in addition, provide technical support to companies abroad in setting up the reliable GHG emissions accounting systems required, and thus continue its current friendly stance towards trading partners.

2.6.2.5. In order to prevent unscrupulous players from unduly attributing the low GHG emissions intensity from one facility to the production of another one, a traceability system, e.g. based on blockchain, could be developed and used.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([14]) The full list of databases providing data on GHG emissions for various materials and processes is accessible at: http://www.ghgprotocol.org/life-cycle-databases

Opinion of the European Economic and Social Committee on 'Promoting short and alternative food supply chains in the EU: the role of agroecology'

(own-initiative opinion)

(2019/C 353/11)

Rapporteur: **Geneviève SAVIGNY**

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1. **Conclusions and recommendations**

1.1. In this opinion the EESC emphasises that short chains and agroecology represent a new prospect for agriculture in Europe. For more than 50 years, while these innovative approaches have run counter to the globalisation of food systems, they have been taking shape, being studied as part of numerous national and European research programmes, receiving support for their development from public and private funds, and attracting attention from increasing numbers of new farmers working in these systems. The capacity and relevance of agroecology and short chains as a response to food challenges have consequently been confirmed. They could serve as a crucial pillar of a policy seeking to establish sustainable food systems and implement sustainable development targets within the next 10 years (2030).

1.2. Innovative systems that connect consumers and producers together, such as CSA (community supported agriculture) and other 'basket' schemes, are developing across Europe. Many of these producers practice organic farming or apply other environment-friendly methods that are not covered by a label. Local and regional authorities are often involved, putting local food governance systems in place that bring together the various actors, and in particular fostering the use of local produce in mass catering. Short-chain sales offer a real opportunity for small structures to build up the added value and profitability of farms. This re-localisation brings jobs and local dynamism, with strong commitment on the part of farmers who are bringing it about. For consumers, it is a source of fresh, high-quality produce that is enriched by its history and the human relations involved, and acts to stimulate interest and educate people about food and the value of products.

1.3. This form of production and distribution is not suitable for all farms, on account of types of production, geographical position or the absence of an urban population that can, for example, consume all the wine or olive oil from a highly agricultural area. Neither does it replace the need for food that is not locally produced. In longer chains, European quality labels (protected geographical indication, protected designation of origin, traditional speciality guaranteed) provide identification and enhance value, making it easier for consumers to choose.

1.4. Against this backdrop, the EESC sees the emergence of agroecology as a new paradigm for food and farming. As a science, a technique and a social movement, agroecology looks at the food system in its entirety and seeks to bring producers closer to their environment by safeguarding or even restoring the complexity and wealth of the agro-eco-social system. Agroecology, promoted by the FAO and the subject of numerous studies and conferences, is experiencing strong growth in Europe, not least at institutional level, as part of national agricultural development programmes.

1.5. The EESC considers that agroecology is the horizon towards which European agriculture should work: farming inherently depends on conserving natural resources for its development. Building on fully-developed models such as organic farming (avoiding a number of negative trends in the organic 'industry'), permaculture and other traditional small farming systems, commitments to moving towards fewer inputs, revitalising soils, introducing a variety of crops and protecting diversity must be encouraged and highlighted.

1.6. The EESC would like to see the agroecology project rolled out across the EU, based on a structured action plan along with various forms of leverage at local, regional and European levels. A comprehensive food policy promoted by the EESC can provide the framework for this. Important measures include:

— ensuring accessible finance to put in place the necessary structures, individual or collective (CAP second pillar);

— adjusting the application of food legislation to small farmers in a flexible way for small-scale production, as well as for requirements concerning labelling, etc.;

— setting up or strengthening appropriate education and advice services for transformation, direct sales and agroecology;

— encouraging exchange networks between farmers;

— gearing research to agroecology and producers' needs in short chains;

— at local and regional level: adapted competition rules should be introduced to make it easier to supply community catering through short, local chains.

2. **Introduction**

2.1. Two EESC opinions ([1]) pointed to the need to develop a comprehensive food policy in the EU based on a number of pillars, including the development of shorter food supply chains.

2.2. A growing number of initiatives have been launched at local and regional level to support alternative food systems and short food supply chains. A comprehensive food policy should build upon, stimulate and develop common governance at all levels — local, regional, national and European. Such an approach would create an enabling framework for these initiatives to flourish, whatever their scale, and is needed to achieve the Sustainable Development Goals in Europe.

2.3. In this setting, agroecology offers a new agricultural and food paradigm, supporting the development of these new food supply and production practices.

2.4. This opinion sets out to observe how producers and consumers are brought closer together in shorter chains, and how agroecology is developing, in order to identify the necessary conditions and tools to shift the food system towards full achievement of the Sustainable Development Goals.

3. **Developing short supply chains**

3.1. In the context of rural development policy (Regulation (EU) No 1305/2013), the European Union defines short supply chains as 'a supply chain involving a limited number of economic operators committed to cooperation, local economic development, and close geographical and social relations between producers, processors and consumers' ([2]).

([1]) EESC opinion on *More sustainable food systems* (OJ C 303, 19.8.2016, p. 64) and 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).

([2]) Regulation (EU) No 1305/2013.

3.2. Food distribution has undergone far-reaching changes since the late 1990s. Better food education and the successive health crises related to poor farming and agroindustrial practices have led an increasing number of consumers to adopt new quality criteria which include health and sustainable development references [3]. Deregulation of agricultural markets, strong price volatility — with prices often lower than production costs — and low farming incomes, in the face of growing concern among consumers for healthy, good quality food are leading some farmers to change their methods of production and marketing. Diversification is reflected in the whole chain, from production to consumption. New lines of agricultural production are appearing and producers have to take the initiative of looking for new markets or inventing new ways of selling via short supply chains in order for human and economic investment in diversification to pay off; practices are moving towards greater sustainability, driven by the fact that producers and consumers are coming closer together. In 2015, the European Parliamentary Research Service (EPRS) highlighted the fact that 15 % of farmers sold half of their production through short supply chains, and a 2016 Eurobarometer survey noted that four out of five European citizens considered that 'strengthening the farmer's role in the food chain' was important. Short supply chains are gaining ground in the various countries of Europe, but not at the same rate.

3.3. Thus there are very many forms of direct sales. Other initiatives are being developed, in addition to traditional forms of sales both on or off the farm. One of the most dynamic innovation sectors in the last 20 years is that of local and solidarity-based partnerships between consumer and producer groups for the supply of 'baskets' on a contractual basis, essentially made up of organic produce, which have been brought together and developed by the international organisation Urgenci. In many countries there are also group actions for making the sector more dynamic, by organising fairs and local events such as the *Campagna amica* network in Italy. There is also a very significant contribution from the cooperative sector. This is a sector which attracts young people and new start-up entrepreneurs, often enthusiastic about the concept.

3.4. The 'very positive' impact of short food supply chains was underlined in the aforementioned opinion [4], particularly as regards product freshness and organoleptic and nutritional quality. Following the development of a globalised food system over more than 30 years, it seems to be well recognised and accepted that closer links between producers and consumers, and locally-based systems, have numerous beneficial effects. Short circuits enhance the added value and profitability of small farms, enabling them to sell identified products that 'have a story to tell' to consumers, who are then prepared to pay more, and generate community activity and social links in rural areas. Improvements in food production quality and marketing channels give consumers responsibility in relation to the value of food and to waste, and therefore contribute to a reduction in the impact of food on climate change.

3.4.1. This way of trading generates positive externalities for the whole community (creation of jobs which cannot be relocated, maintenance of valued added in the areas concerned, increased attraction as tourist destinations or residential areas). These wider externalities must be taken into account in supporting the development of short supply chains and local potential.

3.4.2. There is a wealth of short supply chain initiatives based on social, organisational and regional innovation, which are still in the process of being set up. Many studies highlight the local dimension and collective identity as key factors in long-term sustainability. The challenge is therefore to empower operators to create local food systems based on local governance which is representative of these operators [5].

3.5. The internet is proving to be a new area of exploration and innovation for short supply chains. The way it has spread over the past decade or so has been reflected in the proliferation of short food supply chains. Offering a wider market than the traditional producers' market, it also helps to improve and streamline trade. Numerous on-line ordering platforms have emerged in the last five years. These 'food hubs' allow producers and consumers to interact directly, particularly in the case of products that can only be found locally. They can enable producers and consumers alike to get together and buy and sell as a group, thus facilitating logistics in the food chain. Digitalisation can also be applied to production and processing.

4. **Agroecology: A new way of doing farming**

4.1. At the Second International Symposium on Agroecology, held in Rome in 2018, the FAO proposed the following definition: 'Agroecology is based on applying ecological concepts and principles to optimise interactions between plants, animals, humans and the environment while taking into consideration the social aspects that need to be addressed for a sustainable and fair food system. By building synergies, agroecology can support food production and food security and nutrition while restoring the ecosystem services and biodiversity that are essential for sustainable agriculture.' [6]

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(3) Codron J.-M, Sirieix L., Reardon T. (2006), 'Social and Environmental Attributes of Food Products in an Emerging Mass Market: Challenges of Signaling and Consumer Perception, With European Illustrations', *Agriculture and Human Values*, vol. 23, No 3, pp. 283-297.

(4) See footnote 1.

(5) R. Le Velly: Dynamiques des systèmes alimentaires alternatifs [Trends in alternative food systems], *Systèmes agroalimentaires en transition*, Edition Quae, 2017, pp. 149-158.

(6) http://www.fao.org/about/meetings/second-international-agroecology-symposium/en/

4.2. Agroecology is built up around three major dimensions. The first is the agroecology which appeared in the 1920s as a series of scientific disciplines (physics, chemistry, ecology, spatial planning) which approach agriculture through complex systems of interactions in the agro-ecosystem. The second dimension is agroecology as a series of sustainable farming practices which optimise and stabilise harvests. Lastly, the third dimension of agroecology is as a social movement in the quest for food sovereignty and new multi-functional roles for agriculture (7). Agroecology has also evolved to take increasing account of food-related factors, as illustrated by texts such as *Redesigning the Food System for Sustainability* (Hill, 1985) and *Agroecology: The Ecology of Sustainable Food Systems*, a reference work by Steve Gliessman.

4.3. Agroecology is based on a common set of ten principles, defined and identified by the FAO, which guide 'countries to transform their food and agricultural systems, to mainstream sustainable agriculture on a large scale, and to achieve Zero Hunger and multiple other Sustainable Development Goals:

— **diversity, synergy, efficiency, resilience, recycling, co-creation and sharing of knowledge** (description of the common characteristics of agroecology systems, founding practices and innovative approaches);

— **human and social values, culture and food traditions** (contextual characteristics);

— **circular and solidarity economy, responsible governance** (favourable environment).

The 10 Elements of Agroecology are interlinked and interdependent' (8).

4.4. On the basis of these ten principles, several types of agriculture can claim to be agroecological: organic farming, which applies the same principles in a standardised framework (EU law on organic production and the labelling of organic products (9)), biodynamic agriculture, sustainable agriculture, agro-forestry, which combines crops and tree products, and permaculture share a common core, constituting a complex and systemic approach to agriculture from production to food consumption. The central role of preserving quality and life of soil in these types of agriculture must be emphasised.

Agroecology represents a paradigm shift for agriculture in order to combat climate change, rebuild living ecosystems and protect water, soil and all the resources that agricultural production depends on. Encouragement should be given to farmers who undertake to reconsider their practices and relationship with the ecosystem so as to reduce the negative externalities and increase the positive ones. Reducing chemical inputs, introducing more variety into rotation and conservation agriculture and preservation of biodiversity are steps that merit encouragement on the way to an agroecological transformation of all farms in Europe.

4.5. The social movement developed in the 1970s and 80s out of Latin America by organisations such as the Via Campesina set in motion the exponential international development of this approach to the food system in its three dimensions (scientific, technical and social). Europe is also involved in this movement. The FAO organised an initial symposium in Rome in September 2014, on 'Agroecology for Food Security and Nutrition', which was followed by several regional seminars, including one for Europe in Budapest in November 2016; it advocates the development of agroecology for achieving the sustainable development objectives and the Paris agreement. Another such event will be held in Europe in late 2019. The European research programme Horizon 2020 has incorporated numerous themes relating to agroecology, organic farming and short supply chains, and the European Partnership for Innovation (EIP-AGRI), which also explored these issues for agricultural development, is holding the next Agri Innovation Summit (AIS) in France in June 2019.

4.6. Agroecology has gradually gained institutional recognition, especially in France (10). By including it in the French Rural Code and putting legal and financial tools in place, France has made agroecology a pillar of its agricultural development (11). The financial resources and focus of a series of French programmes on the subject have generated and supported a large number of projects set up by farmers' groups to shift agricultural development and production towards greater sustainability (12).

(7) https://pubs.iied.org/14629IIED/?c=foodag
(8) (http://www.fao.org/3/i9037en/i9037en.pdf).
(9) Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91.
(10) Work of S. Bellon.
(11) Article 1, as amended by the French Act on the Future of Agriculture passed on 13 October 2014, *Code rural et de la pêche maritime* [Rural Code and Maritime Fishing Code].
(12) EIP Agroecology Europe: http://www.agroecology-europe.org/

4.6.1. Among the significant results of agroecology highlighted by academic studies and reported by development organisations are:

— for farmers: greater soil fertility, lower production costs, greater decision-making autonomy, the development of more resilient agricultural systems to cope with climate risks, and enhancement of the profession;

— for consumers: the health and nutritional quality of food and water, preservation of biodiversity and landscapes, and guarantees in terms of farming practices (livestock or crops) ([13]).

4.6.2. These results are consolidated by the collective dimension from the involvement of farmers as drivers of proposals and innovation in their environment, their desire to do better and the need to reduce their production costs. Internet platforms ([14]) may allow the necessary technical and scientific studies to be produced and the testimonies of farmers who have made this transition to be exploited, without overlooking the impact of training courses and group work.

4.6.3. Training for future farmers in public agricultural colleges incorporates the task of contributing to the development of agroecology. There is an increasing amount of teaching material on the subject ([15]) and students are more likely to foster agroecological transition and production in their future professional lives ([16]). The French agroecological transition programme provides for improvements in food for students by including meals made from local products on the menus of farming college canteens, which will increase students' awareness of the food issue.

4.6.4. So as to accompany the transition at regional level, the French government has created the *Projets Alimentaires Territoriaux* [Regional Food Projects], where freely formed collectives devise the measures needed to improve local food systems. It seems that, despite insufficient resources, the programmes are generating interest and the results are encouraging.

4.7. *Short supply chains and agroecology — connected transitions*

4.7.1. Agroecology is distinguished in particular by the diversity of complementary farm production. Whether for livestock products or agroecological crops, it is important that new outlets are created and made sustainable. Short food supply chains are thus seen as an appropriate response to this transition challenge.

4.7.2. Finally, it is important to stress that the combination of agroecology and short supply chains, at European, national and local levels, is now leading to the emergence of local food governance with new arrangements for involving the players concerned. Such procedures to reconnect cities to their nearby food production areas are under way in many places: Milan in Italy, Montpellier in France, Ghent, Brussels and Liege in Belgium and Toronto in Canada.

5. Development of short chains and agroecology for sustainable food systems

5.1. *Contribution to good quality food*

5.1.1. In 2012, a European research programme on short chains and local food systems, co-piloted by the University of Coventry and involving the European Commission's directorates-general for agriculture and health, underlined the quality, traceability and transparency aspects which have to be at the centre of the act of purchasing-selling. The EU therefore has to provide the means for producers and consumers to build and stabilise this triptych, whatever the form of the short chain. It has been noticed that the majority of products sold in short chains come from organic farming, or from non-certified methods that do not use synthetic inputs, depending on the country. This element seems to be the key for bringing together agroecology and short chains. Indeed, the principles and framework for agroecology may create an environment of trust which is sufficiently strong and stable without there necessarily being an agricultural system entailing labels, so that consumers can find the quality, traceability and transparency needed for the development and sustainability of short chains. Regular farm visits by consumers and other producers may offer an effective 'participatory guarantee' method to strengthen transparency, the preparation of contextualised indicators and the monitoring of agroecological practices ([17]).

([13]) C. Claveirol: La transition agroécologique: défis et enjeux [The agroecological transition: challenges and issues], *Les avis du CESE*, 2016.
([14]) https://rd-agri.fr/
([15]) https://pollen.chlorofil.fr/?s=agroecologie
([16]) http://www.bergerie-nationale.educagri.fr/fileadmin/webmestre-fichiers/formation/articles_presse/Plan_EPA1-bilan-Fevrier_2019.pdf
([17]) http://www.cocreate.brussels/-CosyFood-

5.1.2. Regarding individuals, the most recent research shows that short circuits improve personal health significantly. Firstly, they are more alert to what they eat and how it is produced. Secondly, arrangements of this kind are forum for powerful social learning, not least in terms of health eating habits.

5.2. *Food safety and accessibility*

5.2.1. At present, several European research projects ([18]) ([19]) are pointing out that short chains tend to be structured and organised to move from niche markets to genuine food consumption habits. This has, inter alia, been made possible by the networking of many players at EU level through projects supported by the various European funding programmes. This rapid development nevertheless remains limited because of the difficulties some products have of reaching poorer households. It would be appropriate to continue the work carried out in previous EESC opinions on the matter of policy levers to make these food products accessible. Several research projects on this subject are being completed in France (*RMT Alimentation* ([20]), *Projet Casdar ACCESSIBLE* ([21]) and the regional food projects ([22])).

5.2.2. Amongst the tools available, research and innovation resources provided by EIP-AGRI and DG Research in the future Horizon Europe programme may be devoted to agroecology and short chains. As part of the future CAP, ECO-schemes should be used to promote gradual adoption by farmers of methods based on agroecology and to steering systems towards the use of short chains. The same goes for measures under the second pillar, such as agri-environmental-climate measures and subsidies for the investments needed to implement them, together with processing and marketing tools. Training resources and appropriate advice must be built up, together with local community initiatives, under the LEADER programmes. Support for regional initiatives can, moreover, benefit from funds earmarked for cohesion.

5.2.3. Adapted rules should be devised so that public procurement contracts can be met through short chains, which is currently restricted by competition rules. Tailor-made rules are also needed for short chains. Regulation (EC) No 852/2004 on the hygiene of foodstuffs ([23]) provides scope for flexibility in applying the HACCP (hazard analysis and critical control point) method where small-scale producers are concerned: this scope should be used in all EU countries. The same applies to product labelling rules. Labels stating the origin of processed food (e.g. in restaurants or in mass catering) can play a supporting role: if the origin of a food product is made clear, it is more likely that consumers will choose a locally-made product or dish, even if this entails paying slightly more. 4G coverage (telephony and internet) in rural areas is a key factor in facilitating access to and contact with consumers as a result of growing digitalisation.

5.2.4. One frequently expressed concern is about the capacity of agroecology and local chains to feed the world and the 10 billion inhabitants it is expected to have by 2050. The work of numerous research organisations is clear in this connection; at international level, the development of agroecology and the mobilisation of resources within and outside agriculture are vital and possible in view of economic, environmental and social needs. In Europe, recent work by the Institute for Sustainable Development and International Relations (IDDRI) shows that it will be possible to feed all of Europe’s population by 2050 through a gradual agroecological transformation incorporating livestock breeding, crops and trees, with a zero carbon emissions target.

5.3. *The path to agroecology*

5.3.1. In order to roll out the agroecology project across the EU, a structured action plan is needed, along with various forms of leverage across different sectors of public and private activity covering numerous areas: training, agricultural development, redirecting aid, adapting regulations, regionalising sectors, genetic selection, overseas regions and international action ([24]). It would therefore be appropriate for the EU to work on opportunities for providing support so that agroecology and short chains can develop in tandem and be aligned with one another to ensure mutual sustainability. It is important for this policy lever to be ambitious enough for many agricultural businesses to engage in such a transition in the long term. Awareness of the time frame is important because it will allow the players concerned the time they need to become involved and also enable those who do commit themselves to achieve a complete transition in a system which is, in reality, complicated to set up.

([18]) https://ec.europa.eu/eip/agriculture/sites/agri-eip/files/eip-agri_brochure_short_food_supply_chains_2019_en_web.pdf
([19]) http://www.shortfoodchain.eu/news/
([20]) www.rmt-alimentation-locale.org/
([21]) http://www.civam.org/images/M%C3%A9lanie/AcceCible/PRESENTATION-Accessible.pdf
([22]) http://rnpat.fr/les-projets-alimentaires-territoriaux-pat/
([23]) Regulation (EC) No 852/2004.
([24]) C. Claveirol: La transition agroécologique: défis et enjeux [The agricological transition: challenges and issues], *Les avis du CESE*, 2016.

5.3.2. A comprehensive food policy such as the EESC has been promoting for several years, piloted by a European Food Council, for which the EESC could be a facilitator, and coordinated at directorate-general level by a European Commission vice-president, can form the framework of a programme. The proposal for a common food policy has been raised at European Union level through the work of IPES-Food ([25]).

5.3.3. The work of the FAO may provide inspiration for the development of agroecology at European level. The recommendations of the regional conference on sustainable agriculture and food systems in Europe and Central Asia are particularly enlightening in this connection. The analytical guide on Connecting Smallholders to Markets, adopted in 2016 by the Committee on World Food Security, recommends that states support territorial markets (local, regional and national) in achieving the Sustainable Development Goals.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([25]) IPES-Food, *Towards a Common Food Policy for the European Union*, Brussels, IPES Food, 2017.

Opinion of the European Economic and Social Committee on 'The farming profession and the profitability challenge'

(own-initiative opinion)

(2019/C 353/12)

Rapporteur: **Arnold PUECH D'ALISSAC**

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1. Conclusions and recommendations

1.1. Farm profitability and economic viability is a serious issue in the EU, where the income of a farmer is, on average, only 46,5 % of other economic sectors. Despite the low profitability, the EU agricultural sector plays a crucial role being the driver of rural economies and producing quality food which respects the highest standards in the world. It is impossible to achieve environmental sustainability in isolation from the equally important aspects of the economic, commercial, ecological and social elements of the farming activity.

1.2. The EU agricultural sector provides consumers with food security in the face of increasing pressure from climate change and societal demands in terms of environmental sustainability. Furthermore, the European agricultural sector actively contributes to keeping the EU competitive and dynamic on the international markets, and helping to ensure the trade surplus of the EU. The EU agricultural sector is also one of the biggest sources of employment, employing more than 40 million people across the EU. In these areas, agriculture is often the only economic sector that generates growth and jobs creation.

1.3. A fair, transparent, well-functioning and equitable food supply chain is needed in the EU: one that is good for farmers and all stakeholders including processors, retailers and, above all, consumers. At national level, consideration should be given to a reverse market negotiation approach through the establishment of value chains that aims to give farmers a monthly income of two times the minimum wage.

1.4. The EU agricultural sector provides positive public services and externalities that are not recognised by the market. Ensuring food security while respecting the highest production standards is a goal that has been reached. However, new challenges are rising like climate change, more pronounced price volatility as well as unfair competition from production systems with lower standards, unfair trading practices, depopulation of rural areas and ageing of the rural population, putting EU farmers in difficulty on the international market.

1.5. New technologies, together with inclusive research and innovation activities, are part of the solution to keep the EU agricultural sector competitive and enable EU farmers to tackle the sustainability issue directly and effectively.

1.6. Lifelong education and skills development are needed in order to provide EU farmers with the right tools to better exploit new technological potential and use innovative solutions in their farms.

1.7. EU farmers put in place several actions to increase their contribution to combating climate change as they are seeing its effects more and more, experiencing changing harvest times, early or late frosts, fires, flooding and drought. Furthermore, environmental measures should not endanger food safety and they have to keep in mind that farmers need a fair remuneration for the extra work that sustainable and mitigation measures often require.

1.8. A strong EU seeks to deliver not only on the objectives of the Lisbon Treaty but also on global targets such as the Paris Climate Agreement and the United Nations Sustainable Development Goals. These ambitious commitments need to be supported by a strong budget and efficient policies, guaranteeing the future, development and prosperity of agriculture and rural areas. European farmers and agri-cooperatives need a strong CAP budget for the next period.

2. **Introduction**

2.1. The EESC is drawing up this opinion to highlight the important role of European farmers and their contribution to the EU economy, contributing to global food security and keeping rural areas alive. Often this contribution is not rewarded as deserved, discouraging the new generation from taking over their family farms and reducing the attractiveness of the sector for newcomers.

3. **Farmers' role in the EU**

3.1. ***Contribution to food security, to the delivery of healthy and nutritious food and to the overall EU economy***

3.1.1. In a context where demand for food and biomass is increasing, EU farmers and their cooperatives and holdings are committed to producing, processing and marketing safe, high-quality food for European citizens and consumers worldwide. They provide consumers with food security in the face of increasing pressure from climate change and societal demands in terms of environmental sustainability. Furthermore, the European agricultural sector actively contributes to keeping the EU competitive and dynamic on the international markets. According to Eurostat ([1]), the agricultural sector accounted for 1,2 % of the EU's GDP in 2017 and created (gross) value added of EUR 188,5 billion, contributing actively to the trade surplus of the EU with EUR 137 billion of agricultural exports for the same period of time.

3.2. ***Employment in rural and less favoured areas***

3.2.1. The EUs agri-food chain is one of the biggest economic sectors of the EU, maintaining and creating growth and jobs and employing around 40 million people. Around 10 million people are directly employed by and work in farms and agri-cooperatives. Agriculture is the only source of employment for certain areas or regions

3.3. ***Farmers as defenders of traditional landscapes and managers of land***

3.3.1. EU farmers, agricultural holdings and their cooperatives manage around 173 million hectares, which is around 39 % of the total EU area. Farmers and their family members preserve the rural landscape and biodiversity, providing many positive outputs for society: with their assiduous work in terms of land and landscape management, they are actively contributing to mitigating the effects of major catastrophes in case of extreme weather conditions. Many farmers are also forest owners and their contribution to sustainable forest management is significant. Furthermore, farmers help to keep and restore the EU traditional landscape of rural areas, ensuring the preservation of cultural heritage and also providing positive synergies with the EU tourism sector. However, the efforts made so far by the agricultural sector cannot conceal the fact that significantly more must be done and more measures taken in order to achieve European and global biodiversity objectives, including the protection of bees, insects and birds. This conflicts to some extent with the need to generate a profit, so the EU absolutely must reward the agriculture sector's larger environmental contribution through additional resources allocated to the CAP.

([1]) Eurostat, Agriculture, forestry and fishery statistics 2018

4. Changes in farmers' profession

4.1. *Increasing societal demands on healthy diets, origin and quality of food, impact on environment and animal welfare*

4.1.1. Consumers have at their disposal a high amount of information linked with the products they consume every day. They are also paying increased attention to food's origin and quality as well as its environmental impact. Other important drivers of consumer choice are the respect of animal welfare practices and the distance from where the food is produced, including shortening supply chains.

4.1.2. In order to meet consumers' expectations, EU farmers have started to implement actions to even further improve animal welfare and reduce any negative impact of farming activities on the environment and the quality of soil, while producing high quality products. EU farmers, assisted by public authorities and academia, are investing energy and resources in order to embrace this new pattern of consumption.

4.2. *The role of technology and innovation in agriculture*

4.2.1. The EU agricultural sector is at the forefront of the technological and digital revolution, with many breakthroughs in genetics, automated vehicles, robots, drones, satellite imaging, remote sensing, big data etc. Furthermore, farmers have always adopted, developed and applied innovative farm business models and agronomic practices, including new techniques and production methods that have increased outputs and made farming practices more adaptable to changing circumstances.

4.2.2. In this perspective, new technologies help EU farmers to ensure food security while respecting the highest standards in the world and fulfilling consumers' expectations. In this sense, new technologies enable EU farmers to tackle the environmental issue directly and effectively. For instance, the reduction of plant protection products (PPPs) is achievable using a mix of technologies that help farmers in every aspect of production. Among others, new breeding techniques have the biggest impact to reduce the use of PPPs and foster plants' and animals' resistance to pests, fungi and external pathogens.

4.2.3. The role of technologies is linked not only with production itself but also with traceability, food safety, animal welfare and climate change mitigation actions that help to keep the EU agricultural sector one of the most advanced and safe in the world.

4.2.4. Access to finance is vital for EU farmers in order to implement innovative technological solutions on farms. In this regard, the subsidiarity function of the second pillar of the CAP must be preserved and fostered within the new CAP. It is important to understand that EU farmers will only implement the latest technological developments in their business through easy access to credit.

5. Challenges

5.1. *Climate change*

5.1.1. EU farmers make a serious contribution to combating climate change as they are seeing its effects more and more, experiencing changing harvest times, early or late frosts, fires, flooding and drought. Effective adaptation measures to climate change are therefore crucial for the long-term viability of farms. At the same time, farmers are cutting emissions both on and off the farm through sustainable management practices, by the implementation of new technologies as well as a more efficient use of crops, straw, manure and other residues for renewable energy, by solar heating and by providing electricity from wind power as well as other sources. The products from crops and livestock residues can also be used to produce biofuels and renewable industrial materials on-farm following circular economy principles. This helps to reduce emissions in other sectors and reduce the EU's dependency on its fossil fuel supplies.

5.1.2. It is important to note that the Paris Agreement as well as the Sustainable Development Goals set important targets for the EU agricultural sector that must be reached between 2030 and 2050. EU farmers are ready to pick up these challenges if equipped with the right tools. The 'toolbox' must include a positive and user-friendly policy framework, new technologies, water management strategies (i.e. storage and irrigation) and a strong CAP budget that sustains the additional efforts of the farmers. Depriving farmers of one of the abovementioned tools could endanger food security and negatively affect the quality of the EU food production.

5.2. ***Income in the agriculture sector***

5.2.1. The agricultural income ([2]) per annual work unit (AWU), expressed as an index, was 10,9 % higher for the EU-28 in 2017 than in 2016. However, this must be put in relation to other economic sectors where the average income is much higher. In fact, compared to average wages in the economy, the entrepreneurial income of a farmer per family work unit came to only 46,5 % in 2017.

5.2.2. This situation has a deep impact on the development of the sector in terms of overall attractiveness for external actors, investors and bank partners, preventing the development of synergies with other economic sectors and intensifying the problem of generational renewal in rural areas.

5.3. ***Price volatility and emergence of new markets***

5.3.1. Real terms (deflated) prices for most of the main products were higher in 2017 than in the previous year: the average milk price jumped to 17,1 % higher than in 2016, pig prices were 8,3 % higher, cereals were up 3,0 %, cattle prices were up 2,2 % and poultry prices were also higher (+ 1,0 %). In contrast, the real terms price of sheep and goats continued to decline (-1,4 %) in 2017. This positive trend of most commodities was part of the boom started in 2003. However, in 2008 a severe decline in prices occurred, triggering price volatility on the international market that challenged EU small and medium farmers as well as recent investors in the agricultural sector.

5.3.2. Due to its heterogeneous nature, the EU agricultural sector reacted differently to the 2008 prices shock: many small and medium farmers were forced to rely only on CAP direct payments to keep their activities alive but this was not enough to guarantee their farm's economic sustainability.

Looking at EU exports, the main EU trading partner in agricultural products is the USA (16 % of total agricultural exports, net worth EUR 33,3 billion in 2017). With such a concentration of exports in one single market, the EU agricultural sector is exposed to political decisions of third parties that could lead to severe fluctuation in prices (i.e. implementation of export bans or high customs duties).

The EU single market is the most open and accessible market in the world, leaving EU farmers facing the challenge of competing with imported agricultural commodities that respect different standards of production. However, traceability of food products coming from third countries is still perfectible and could lead to several controversies on food quality and food labelling related to the imported products (i.e. food products developed through new breeding techniques, application of PPPs, respect of animal welfare standards, etc.). These imports are very competitive in the EU market due to their different standard of production, creating tensions for the EU farmers that already respect the highest production standards in the world.

5.4. ***Depopulation of rural areas and generational renewal***

5.4.1. According to the European Commission, seven in every ten (71,5 %) farm managers on the EU's 10,5 million holdings were male and a majority (57,9 %) were 55 years of age or more. Only about one in every ten (10,6 %) farm managers was a young farmer under the age of 40 years and this share was even lower among female farmers (8,6 %).

5.4.2. Farmers, forestry owners, agricultural holdings and agri-cooperatives are the economic backbone of EU rural areas. The ageing of famers triggers a generalised depopulation of rural areas (the so-called 'rural diaspora') with direct consequences on the economic and societal fabric of these territories. Furthermore, new generations are discouraged from taking on their family business due to low profitability of the farming activity and difficulties in having access to the land.

6. **Opportunities**

6.1. ***Digitalisation and precision farming***

6.1.1. Agriculture has moved forward into an era of digitally enhanced farming, where every device that produces data during the various stages of agricultural production can send that information to be collected, processed and analysed. The use of big data could help farmers step into the future of farming and achieve ambitious targets.

([2]) Eurostat, Agriculture, forestry and fishery statistics 2018.

6.1.2. A farm produces many types of data that can be classified into different categories, such as agronomic data, financial data, compliance data, meteorological data, environmental data, machine data, staff data, etc. These sets of data stem from a wide range of more and more powerful and cost-effective sources, such as machinery, drones, GPS, remote sensors, satellites, smartphones and so on, and are supplemented by service providers, advisory bodies, public authorities, etc. In addition, other partners in the value chain, such as processors and retailers, supermarkets, hypermarkets and advertising agencies are collecting enormous amounts of data about the markets on which farmers sell their products.

6.1.3. The collection and use of data in agriculture is not a new concept; farmers have been doing just that since the beginning of agriculture. What is new, however, is the opportunity to develop a data-orientated farming sector thanks to the size and volume of these data, which are growing at an exponential rate. Another novelty is the quality of real-time information obtained at farm level and the technology used to collect, store, use, manage, share, process and communicate data.

6.1.4. Data ownership and the right to determine who can access and use the data is vital to keep farmers' involvement in the implementation of new technologies. At the present time, there is no common framework where data ownership is clearly explained. For this reason, the EU agricultural sector built a Code of Conduct on agricultural data sharing by contractual agreement ([3]), where it explains the data originator's right to be compensated for the use of data created as part of their activity.

6.1.5. Digitalisation and precision farming has a major role in shaping the future of the EU agricultural sector. They also impact the labour market and the type of skills needed in agriculture, and are redefining the role of farmers and the business models of agri-cooperatives.

6.2. ***Climate change mitigation and adaptation measures***

6.2.1. The EU agricultural sector implemented a large number of actions in order to improve its environmental sustainability over the last decades. The CAP imposes strict and challenging environmental actions and sustainable management practices that change the way farmers operate in the fields, combining effectively quality with sustainability.

6.2.2. Agriculture and forestry have a special role to play in climate change mitigation because they are the only economic sector that, through photosynthesis, removes greenhouse gases from the atmosphere. This achievement by the sector is still not fully recognised, calculated or accounted for properly, and a better evaluation of how forests and permanent and annual crops could contribute to greenhouse gas emission should be further taken into consideration by policymakers.

6.2.3. Today, famers would like to see their efforts in fighting climate change recognised by society as well as policymakers. Especially policymakers must be aware that the environmental measures should not endanger food safety and they have to keep in mind that farmers need a fair remuneration for the extra work that sustainable and mitigation measures often require.

6.3. ***Increased market transparency across the food supply chain***

6.3.1. The distribution of the value added in the food chain is approximately 25 % for the farmer, 25 % for food processing and 50 % for food retail and food services, according to the Commission factsheet released in March 2017.

6.3.2. At this time, strict compliance with the European Directive on Unfair Trading Practices is needed. Among agricultural and food supply chain enterprises there are consistently significant imbalances in bargaining power between farmers and processors of agricultural and food products. Large-scale commercial organisations (supermarkets, hypermarkets, large food and processing chambers operating throughout Europe) contribute significantly to this imbalance.

6.3.3. The processing and retail stages have expanded their total value added in the food chain through following on the increased consumer demand for convenience products. At the same time, the value added in agriculture has decreased from 2014 onwards (by 4 % lower in 2016). This is due to increasing input costs due to competition for scarce resources as well as the limited possibilities for farmers to add value to the basic product or to get remunerated for it.

([3]) COPA-Cogeca– EU Code of conduct on agricultural data sharing by contractual agreement.

6.3.4. Moreover, Oxfam in their recent study Ripe for change (2018) outlined the inequality of the food supply chain, based on examples from the UK, the Netherlands and Germany, amongst others. When looking into detail on the breakdown of end consumer prices, the study focused on the UK found that in 2015 more than half of this price went to supermarkets (52,8 %), 38,5 % went to traders and food manufacturers and only 5,7 % of the price went to small-scale farmers and workers. The last 3 % of the price went to the cost of inputs.

6.3.5. Under these circumstances, given the high level of concentration of the retail sector and the fundamental importance of defending a well-functioning internal market, the EU framework legislation that includes the prohibition of unfair trading practices (UTPs) with control and enforcement mechanisms combined with deterrent sanctions was a good starting point. It is crucial to continue this effort to increase market transparency, ensuring a fair share of the value to the farmers. Furthermore, in July 2020 the new regulation on posted workers will be implemented, and must contribute to a more transparent and fair business among the farmers at national level.

6.3.6. At national level, consideration should be given to a reverse market negotiation approach through the establishment of value chains that aims to give farmers a monthly income of two times the minimum wage.

7. **Solutions**

7.1. The family farm system so valued by European consumers needs good policies, fair and reasonable regulation combined with strong and effective legislation that will help mitigate against the serious threat of extreme price volatility and the ever increasing imbalance of power in the supply chain. The markets task force is a step in this direction but needs to be strengthened further.

7.2. ***R & I adapted to the needs of farmers, multi-actor approach and direct involvement of stakeholders***

7.2.1. Stakeholder participation is key to putting research into practice. Placing the interests of farmers at the heart of the innovation process will not only significantly accelerate its impact but will also ensure the practicability of research and innovation outcomes. Moreover, this will help to make sure that the research funds granted are better spent.

7.2.2. Farmers, agricultural holdings, forest owners and their cooperatives can be drivers of innovation and economic growth, including with the help of government programmes. Therefore, their involvement from the very beginning in research and innovation activities in the fields of agriculture, food, forestry and aquaculture should be promoted and encouraged. Their involvement in all stages of the projects will ensure more demand-driven research and innovation as well as helping to bridge the current gap between academia and practice, towards applicable solutions. Ultimately, this should result in our farmers and growers becoming more competitive.

7.3. ***Excellence and Quality (Organic, GIs, branding and short food supply chain)***

7.3.1. Products with high added value like Geographical Indication and organic products are a good source of income for many operators, especially farmers. These particular food chains are even more interesting if there is an absence of middlemen or intermediaries. In this case these short supply chains become a very remunerative source of income for the farmers and the rural community where these products are produced.

7.3.2. In details, the EU's short supply chains represent an alternative to conventional longer food chains where small farmers or cooperatives often have little bargaining power and the consumer cannot trace the food to a known producer or local area. Such a food system is of considerable interest since it responds to a number of needs and opportunities, both of farmers and consumers. The development of different types of short food supply chains (i.e., direct sales by individuals and/or collective direct sales, partnerships — community supported agriculture) is one of the approaches of the Common Agricultural Policy to improving competitiveness in Europe. Short food supply chains may act as a driver of change and a model to increase transparency, trust, equity and growth throughout the agri-food chain.

7.3.3. Having enough food ensures that a certain level of social stability can be maintained in the lives of EU citizens, given the situation in some parts of our planet where food is scarce, leading to economic migration to Europe and other countries.

7.4. ***Education and the development of new skills for the primary sector (shorter)***

7.4.1. According to Eurostat, most farm managers in the EU only have practical experience; this was the case for seven in every ten (68,3 %) of them in 2016. Less than one in ten (9,1 %) farm managers had full agricultural training, and the rest (22,6 %) had basic agricultural training.

7.4.2. Education in the primary sector is crucial to foster modernisation and improve the use of new technologies.

7.4.3. This is vital today, where digital skills are becoming an essential element of modern farm management. These skills are needed in many areas, and agriculture is not an exception. There is an increase in the need for people with ICT and digital skills in agriculture, but there is a clear skills gap in the economy, especially in rural areas.

7.4.4. In order for the farming community to take full advantage of the opportunities of technological and digital transformation, it is necessary to improve the level of digital skills within the farming work force.

7.4.5. This can be done at farm level and also within associations and cooperatives, as well as within the EU education and training system, which must provide lifelong programmes to develop new skills.

Brussels, 18 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

Opinion of the European Economic and Social Committee on 'Transport, energy and services of general interest as drivers of sustainable European growth through the digital revolution'

(own-initiative opinion)

(2019/C 353/13)

Rapporteur: **Alberto MAZZOLA**

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1. Conclusions and recommendations

1.1. The EESC believes that sound European systems of transport, energy and services of general interest are vital for a fully integrated continent addressing the global challenges of sustainable competitive growth in a modern, digitalised and smart environment able to deal with economic growth, prosperity, job opportunities, poverty, inequality, climate, peace and justice, as required by the UN Sustainable Development Goals. The active participation and engagement of EU citizens — as entrepreneurs, producers, workers, consumers, prosumers, investors and final users — must be, according to the EESC, at the centre of policy options and actions.

1.2. The EESC is strongly convinced that completion of the EU Single Market still remains the most important pillar to enhance European digitalised growth. The EESC asks the European Commission (EC) to enforce and verify the correct implementation of the approved legislation both for businesses and consumers and **urges the EC to review the Single Market White Paper** in order to devise a strategy to complete the Single Market by 2025, for stronger businesses accompanied by wider worker and consumer protection and covering new fully interconnected and interoperable smart European transport, energy and services of general interest.

1.3. The EESC recommends the development of a **regulatory environment that drives competition and innovation**, and empowers citizens and companies with trust and an awareness of the benefits of digital technology applied to transport, energy and services of general interest to citizens, consumers, companies and workers, including all of these combined into a single 'e-person'. The EESC suggests moving from concepts of data ownership to a definition of data rights for persons and legal entities. Consumers should be in control of data produced by connected appliances so that consumers' privacy is ensured.

1.4. **The free flow of data is essential**. The EESC therefore calls for effective solutions that eliminate the problems associated with the accessibility, interoperability and transfer of data, while securing adequate data protection and privacy, fair competition and wider consumer choice. The same conditions must apply to public and private companies with reciprocity for data exchanges and compensation of costs.

1.5. The EESC calls upon the EC and Member States to allocate enough resources and powers to efficiently monitor and enforce existing legislation. Further, the EESC calls upon Member States to swiftly adopt the EC's proposal for an **EU collective redress scheme**. It shall be ensured that only well-grounded cases are taken forward, thus avoiding excessive litigation.

1.6. The EESC has a clear position on the question of the extent to which it is ethically acceptable to delegate the choices to be made to **systems based on artificial intelligence** (AI): all automated systems, however sophisticated they may be, must operate according to the principle of human control over the machine.

1.7. **The EESC calls upon the EC to publish guidance and clarifications on the General Data Protection Regulation (GDPR)** to achieve uniform enforcement and a high level of data and consumer protection, including for connected and automated cars, and to revise product liability and insurance rules to adapt them to a situation where decisions will increasingly be made by software. Cybersecurity is of utmost importance in order to guarantee a safe and accepted transition.

1.8. The EESC urges the **EC to develop an appropriate framework for digitalised national healthcare systems to share** the health data of EU citizens in accordance with the GDPR., i.e under strict conditions of privacy and anonymity, for the purposes of research and innovation carried out by EU institutions and companies.

1.9. As **5G** will raise **mobile and internet technology** to the status of a **General Purpose Technology** strongly contributing to 'the process of industrial mutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one …', the **EESC urges the EU institutions and Member States to complete the Digital Single Market, including the development of capabilities to integrate and use 5G services to defend and improve the competitiveness of European industries** such as transport and automotive, energy, chemical and pharmaceuticals, manufacturing, including SMEs, and finance, where Europe is a leading global power.

1.10. The EESC asks the EC to strictly monitor progress in the deployment and real use of 5G and calls on the Member States to further accelerate the process. The EESC suggests adopting **a European policy requiring each country to have at least two suppliers, at least one of them European**.

1.11. In addition, in order to be able to assess the potential risks of electromagnetic radiation to human health and the environment, the EESC calls on the Commission to commission a biological impact assessment of 5G radiation.

1.12. The EESC points out that digital transformation of the European energy and transport systems demands new skillsets for workers and employees at all levels and underlines the need for stronger links between education and training providers and industry, fostering **large-scale mechanisms to enhance digital literacy and digital life-long capacities** and permanent training: the European Social Fund must contribute on these issues. Education and training is also necessary for citizens and consumers so that they are not excluded from the digital market because of a lack of access to the electronic communications network or due to digital illiteracy. For the EESC there is a need to improve cyber hygiene also through awareness campaigns among individuals and businesses ([1]).

1.13. The **EESC**, in order to organise the transition to zero- and low-emission mobility, **supports: an integrated and systemic approach, that is technology-neutral**; low and zero emission vehicles and infrastructure; a gradual long-term switch to alternative and net-zero carbon fuels; increased efficiency, as with the SES, by making the most of digital technologies, as with the European Rail Traffic Management System (ERTMS), and smart pricing and further encouraging multi-modal integration and shifts towards more sustainable transport modes; **empowered citizens with growing connectivity to choose 'mobility-as-a-service'.**

([1]) OJ C 227, 28.6.2018, p. 86.

1.14. The energy sector's contribution to decarbonisation should be channelled, according to the EESC, through various actions:

— the deployment of key emerging technologies for a climate neutral, energy-efficient and circular economy;

— **concentration on smart grids** to integrate and optimise the use of different renewable sources;

— clean technologies in the production, storage, transmission, distribution and consumption of energy, demand-side response, energy efficiency, buildings and micro-generation;

— a special strategy for energy-intensive industries and regions;

— a more robust Emissions Trading System;

— stronger instruments for security and cybersecurity of structures and networks.

1.15. The EESC points out that:

— large interconnected European energy, transport and communication infrastructures are the vital nodal points of the Single Market and are required if the EU is to stay at the leading edge of worldwide progress and competition;

— the transport priority of completing the TEN-T network requires investments of around **EUR 500 bn** for the core network alone by 2030;

— investments by market players in Europe for 5G are estimated at **EUR 60-100 bn** annually for the next five years; connectivity in rural areas would require a EUR 127 bn investment;

— achieving a net-zero greenhouse gas economy will require additional investments in the range of EUR 175 to 290 bn a year for a total of **EUR 520-575 bn** in energy, and about **EUR 850-900 bn** in transport.

1.16. In order to finance such huge investments, about 9-10 % of EU GDP, mostly private, and largely additional, the EESC **recommends fostering an investment-friendly environment, including the implementation of the 'golden investment rule'** and new financial schemes through cohesion instruments, EIB, CEF and Invest EU, Horizon Europe and Public and Private joint initiatives. The EESC hopes that the public and private investors can bear these investments, and for this purpose recommends that administrative procedures be simplified, funds and financing broadened, negative and positive externalities internalised, and an investment friendly environment fostered. The ongoing work to create an EU taxonomy for greening finance is an important step.

1.17. However the EESC is deeply convinced that only a **political and social trade-off** based on a shared systemic vision with clear achievement of intermediate verifiable objectives in the short and medium term would ensure the acceptance of such a huge financial engagement by private investors and of such a huge public investment by the European taxpayer.

2. Cross-cutting challenges

2.1. The Sustainable Development Goals are a call for action by all countries to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to economic growth, prosperity, poverty, inequality, climate, job opportunities and peace and justice. The SDGs are also an urgent call to shift the world onto a more sustainable path. Digitalisation is strictly connected to the SDGs, as it enables them by empowering industry, innovation, infrastructure and the society as a whole. There is clear evidence of the positive link between digitalisation and the achievement of many SDGs.

2.2. The EESC considers that Europe must be open to the development and introduction of new kinds of business models, based on digital platforms, provided that transparency and social clauses are safeguarded.

2.3. While more and more people have access to digital technologies, a digital divide in the use of digital technologies persists as some people do not have access to them and some people are more capable than others of leveraging the digital transformation for a better life.

2.4. The digital transformation of the European economy demands new skillsets at all levels. In many Member States the links between education providers and industry are missing, when on the contrary these developments require cooperation to be stepped up so as to prevent skills gaps and mismatches from developing. Continuous education and training and lifelong learning are crucial elements in adapting to the transformation of workplaces and in fostering professional development. Education and training, also via research projects, is an essential way to foster talents and provide high level skills for the EU to remain competitive.

2.5. The EESC furthermore believes that the EU and Member States needs to support workers at risk of losing their jobs as a result of both the digital and energy transitions. For that purpose, the EESC calls on the EC, European Parliament and Council of the EU to ensure that the European Social Fund and the European Globalisation Fund are properly designed and funded to address those challenges.

2.6. The free flow of data is essential. The EESC therefore calls for effective solutions that eliminate the problems associated with the accessibility, interoperability and transfer of data, while securing adequate data protection and privacy. The same conditions must apply to public and private companies with reciprocity for data exchanges and compensation of costs.

2.7. The EESC calls upon the EC to ensure fair competition and consumer choice in the domain of access to data. In the automotive industry, fair access to in-vehicle data will be crucial to ensure that consumers have access to competitive, convenient and innovative mobility services. The EESC recommends that the EC provide guidance with regard to how the GDPR and privacy rules apply to connected and automated cars. Similar challenges might also arise in the domain of public transport for Mobility-as-a-Service (MaaS).

2.8. The EESC also calls upon the EC to revise product liability and insurance rules to adapt them to a situation where decisions will increasingly be made by software. Principles of security and safety by design and by default should be systematically applied to increase trust in the take-up of these technologies.

2.9. Cybersecurity is of utmost importance in order to guarantee a safe transition. There is a need to fully address the challenges identified for crucialsectors at EU level — fostering the role of the European cybersecurity agency, to reduce the risk of weak links in the increasingly interconnected European grid. The EESC particularly welcomes the work of European Network of Transmission System Operators for Electricity (ENTSO-E) in this regard.

2.10. Large quantities of data are generated by sensors and by the progressive roll-out of smart meters. Such data must be processed and made accessible by the relevant stakeholders in a safe, transparent way that preserves individual freedoms. The EESC stresses that while the potential of smart technologies is significant, it nevertheless tests many well-established principles of consumer protection, such as privacy, liability and safety, as well as efforts to combat energy poverty. As for data, regulators need to find an approach through which consumers always have access to and are in control of the data they produce and which fosters competition and brings innovative services.

2.11. Artificial intelligence is about to transform all sectors and gives rise to a number of challenges. For instance, guarantees are needed in relation to the transparency of automatic decision-making and the prevention of discrimination against consumers.

2.12. Consumers also need to have access to simple and standardised products, especially for consumers who are not experts, elderly consumers and all those in vulnerable situations.

3. **Transport**

3.1. In the EU Single Market, the transport sector accounts for 6,3 % of EU GDP and directly employs around 13 million people in the EU: more than 7 % of total EU employment, including about 2,3 million people in automotive manufacturing.

3.1.1. Transport is a vital enabler of several SDGs regarding economic development, industry and SMEs, as well as trade and investment. Meanwhile, transport has also problems to fulfil the SDGs 2 as well as the objectives of the Paris Agreement ([2]).

3.1.2. Transport policy-making needs to focus on the completion of a fair, effective and fully digitalised Single Market which brings tangible benefits for all. Today it is still a patchwork, including with regard to international competition. The transport sector also fulfils an important function as one of the key enablers of the Single Market at large.

([2]) OJ C 367, 10.10.2018, p. 9.

3.1.3. 'In road transport an appropriate balance valid throughout the EU between liberalisation and social clauses to apply to road drivers has not yet been found despite the recent proposed changes in road legislation' ([3]). The lack of enforcement is today recognised as the major road problem together with a shortfall of about 20 % of road drivers.

3.1.4. EU rail freight transport, liberalised in 2007, is not yet interoperable, even though 50 % of traffic is international. Passenger satisfaction should be further improved. The deployment of ERTMS should be a centrepiece of the EU Digital Railways strategy in order to enable its advantages to be put into practice (e.g. technical and operational harmonisation, increased network capacity, improved reliability, reduced maintenance costs, automatic train operation, etc.).

3.1.5. In aviation, markets are functioning more efficiently. Air fares have reduced by a factor of ten since liberalisation and routes multiplied by seven, but infrastructure and service costs have doubled. There are still a considerable number of problems and uncertainties regarding the various forms of employment of aircrew, sometimes involving practices that constitute a violation or circumvention of applicable law. In terms of greater efficiency, the Single European Sky (SES) should be fully implemented, resulting in more direct flight routings, less travel time and about 10 % reduction in CO_2 emissions. The Council should stop blocking it. The EESC calls for the swift adoption of the Revised Air Passenger Rights Regulation by the Council as major clarification is required to significantly reduce the number of court cases.

3.1.6. The recently adopted Port Service Regulation (PSR) finally provides ports and their stakeholders with a solid but flexible legislative framework together with the General Block Exemption for Ports.

3.2. ***Decarbonisation and zero emissions***

3.2.1. Transport still depends on oil for 94 % of its energy needs. Road transport accounts for about 73 %. Transport is the only EU industry to have increased its CO_2 emissions since 1990.

3.2.2. In 2018 the EC presented its 2050 vision for a climate-neutral future. 'Achieving deep emissions reductions will require an integrated system approach. This includes promoting (i) overall vehicle efficiency, low- and zero emission vehicles and infrastructure; (ii) a 2050 switch to alternative and net-zero carbon fuels for transport; (iii) increased efficiency of the transport system – by making the most of digital technologies and smart pricing and further encouraging multi-modal integration and shifts towards more sustainable transport modes' with sufficient funding for the transition and extension of the public transport network in rural as well as in urban areas. However, shifting to a greener economy is a difficult and painful step ([4]).

3.2.3. Achieving a 100 % reduction of CO_2 in transport by 2050 is estimated to require investment of about EUR 800 bn per annum, mostly financed by the private sector ([5]). To support such investment, a strong regulatory framework for sustainable finance is needed.

3.2.4. With regard to the technology-neutral approach, the EESC would like to underline that propulsion technologies other than electricity, such as hydrogen or completely fossil-free liquid fuels such as HVO100, also provide great potential for clean mobility ([6]). A modal shift toward public transport is also an active means of climate protection. Manufacturing electric batteries will be an factor for energy independence.

3.2.5. The EESC agrees that the implementation of the International Maritime Organization (IMO) target for shipping should be recognised as the first priority for the sector with 2023 as a milestone for a breakthrough in rolling out the measures to reduce emissions and to define the pathways in terms of future fuels.

3.2.6. Investing in clean and alternative fuel infrastructure is time- and cost-intensive for all modes and should be accompanied by corresponding incentives to make use of the intended infrastructure, firstly by providing all the information needed by users through open platforms.

([3]) OJ C 81, 2.3.2018, p. 195.
([4]) ESPAS, *Challenges and choices for Europe*, April 2019.
([5]) COM(2018) 773 final.
([6]) OJ C 345, 13.10.2017, p. 52, OJ C 262, 25.7.2018, p. 75.

3.3. ***Zero transport fatalities, autonomous driving, mobility as a service***

3.3.1. Human error is involved in 95 % of all traffic accidents on Europe's roads, in which more than 25 300 people lost their lives in 2017 and 1,2 million were injured, with the cost of accidents amounting to EUR 120 bn per annum.

3.3.2. Land transport technology will most likely be revolutionised by **digitalisation** and automation: the EESC notes that this new technology has the capacity to both improve transport market efficiencies but also to provide analytical data to assist in the control and enforcement of existing legislation and the protection of human and social rights.

3.3.3. Digitalisation will also be the key for the development of new market models, including various types of platforms and the **sharing economy**, which is far from being completely developed and will most likely not cover rural areas where public transport is not available. The EESC calls on the EC to guarantee the safety of shared means of transport, starting with electric scooters.

3.3.4. By introducing **automatic driving**, it should be possible to reduce fatalities significantly, or even eliminate them entirely. However, the EESC believes that driverless cars will only be accepted when they provide the same level safety as other passenger transport systems such as trains or large aircraft. The EESC notes that problematic areas may be a hurdle for public acceptance: 1) additional costs, 2) the growing complexity of driving a car ([7]), 3) the long time span of 'mixed traffic' (automatic and manual), when the number of accidents could increase and road capacity could decrease, 4) concerns about safety and cybersecurity, and 5) legal uncertainties about liability in case of accidents.

3.3.5. According to the EESC 'zero fatality' could be brought further into the analysis: urgent need for national laws on traffic rules and the corresponding sanctions to be harmonised; affordability of new, 'safe' cars for consumers and businesses; only humans can, by definition, make 'ethical' choices and machines must operate alongside humans and not replace them; premium cuts by insurance companies as a way of giving people an incentive to buy safer vehicles; any new regulation on data access for vehicles must follow the safety first principle.

3.3.6. Connected and automated mobility solutions across transport modes, including public transport, represent an important area of innovation where the EU has the potential to become a world leader. This can developed only through cooperation by public and private efforts and investments.

3.3.7. Mobility-as-a-Service (MaaS) describes a shift away from personally-owned modes of transportation and towards public transport and mobility solutions that are consumed as a service ([8]). The key concept behind MaaS is to offer travellers mobility solutions based on their travel needs. MaaS regards the entire transport system as a single entity. On-demand mobility can also help improve access to mobility for citizens who live in remote areas or who experience mobility difficulties (elderly and/or disabled persons for instance).

3.4. ***Investment***

3.4.1. The EESC recognises that in many areas in Europe today's transport infrastructure network does not deliver. Anticipating the constantly rising demand for transport services, significant amounts of public and private investment are needed to build and improve transport infrastructure.

3.4.2. **Completion of the TEN-T network** on time. with optimised geographical coverage, must be an absolute priority: the core TEN-T network by 2030 and the comprehensive network by 2050 or earlier. Achieving the core network alone requires investments of around EUR 500 bn, without considering resilience and upgrading existing infrastructure. These investments cannot be funded by CEF grants or EU instruments only, and MS resources are probably not enough. There is a concrete risk of substantial delays.

([7]) OJ C 440, 6.12.2018, p. 191.

([8]) OJ C 345, 13.10.2017, p. 52.

3.4.3. Grants will continue to play an important role in EU investment policy in the transport sector, particularly in those cases where market investments are more difficult to realise. However, blending grants with other sources of financing such as the European Investment Bank or private sector loans, and mobilising public and private sector investors including public and private cooperation, are essential additional tools.

3.4.4. 'The EESC calls for investment in technology and infrastructure on which digital transport can be built, in particular traffic management and control systems: SESAR […] ERTMS […] and C-ITS. Furthermore, 5G connections have to be made available along the TEN-T core network. EU funding instruments such as the Connecting Europe Facility, InvestEU and Horizon EU should prioritise these undertakings' ([9]).

3.4.5. 'The EESC […] considers that […] a **road pricing system** which complies with the "user pays" and "polluter pays" principles would have a positive effect provided the revenues are earmarked' ([10]).

4. **Energy**

4.1. ***A single market for energy***

4.1.1. In 2016, the EU energy sector turnover was EUR 1 881 bn and directly employed around 1 630 000.

4.1.2. All Europeans should have access to secure, sustainable and affordable energy. This is the primary objective of the Energy Union. The EESC voices its disappointment at the significant differences in energy prices across Member States, revealing a major failure in the **Single Energy Market**. With the implementation of the EU Energy Union and the Single Digital Market, it expects prices, except for the tax component, to converge.

Human-centric digitalisation of the energy sector is crucial for the EU, since it can enable energy consumers and prosumers to be at the centre of the issue and contributes to a new design for energy markets.

4.2. ***Digitalisation and new technologies***

4.2.1. In the context of the SET Plan, digitalisation provides new opportunities for suppliers by optimising their valuable assets, integrating renewable energies from variable and distributed resources, and reducing operational costs; at the same time, it should favour all by reducing energy bills for the public and businesses, through energy efficiency and participation in flexible demand mechanisms. The EESC calls on the EC to assess the results achieved and where necessary to take further action.

4.3. ***Smart energy grid and renewable energy sources (RES)***

4.3.1. The costs of some renewables costs are estimated to be already close to current market prices.

4.3.2. Distributed energy solutions and smart controls are becoming cheaper. Smart grids are a key component of this emerging system; with digitalisation, they will help to link up new energy environments. The smart energy systems of the future will not develop in isolation: they will connect — digitally and physically — different types of energy and transport networks, with increasing opportunities. Electricity is likely to be the first energy sector impacted, digitalisation enabling stronger connections to the heating and cooling sector, in particular in buildings and the mobility sector, fostering enhanced participation of stakeholders in local, regional and European value chains involving local communities and prosumers in energy communities and energy transactions and boosting European innovation and businesses.

4.3.3. H2020 has provided financing for a series of demonstration projects on grid distribution, transmission grids, distributed storage, large scale storage, RES and H&C, covering technologies for the consumer, grid technologies, ancillary services for the market, energy and hydro storage, batteries, wind turbines, PV, solar, thermal, biogas and micro-generation. The EESC welcomes the creation of the Innovation Fund that will provide increasing support to demonstration projects.

([9]) OJ C 345, 13.10.2017, p. 52.
([10]) OJ C 81, 2.3.2018, p. 195.

4.3.4. The EESC urges the EU to take more steps towards eradicating energy poverty. Concrete measures should be taken to facilitate the deep renovation of buildings and solar panels should, wherever useful, be installed for those in, or at risk of, energy poverty. The EU should bear in mind that the poor cannot afford such measures.

4.3.5. The EESC welcomes the work of the Coal Regions in Transition Platform. The energy transition indeed impacts some regions more than others, especially where fossil-fuel extraction, power and energy-intensive production is concentrated. Therefore, the structural change in coal and carbon-intensive regions and sectors will have to be carefully monitored and effectively managed, ensuring a fair and socially acceptable transition that leaves no worker and no region behind.

4.3.6. Energy-intensive industries account for more than 6 million direct jobs in Europe and are the basis for multiple value chains, including clean energy systems. Emissions from the energy-intensive industries account for 60 to 80 % of industrial emissions. The challenges in decarbonising energy-intensive sectors are enormous and will require both technological and non-technological innovations (e.g. new business models).

4.4. ***Investment in energy***

4.4.1. Strengthening the European energy market, facilitating the energy transition and ensuring secure system operation all rely on adequate, well-developed and cost-effective transmission grids in Europe.

4.4.2. Innovation, such as power-to-gas grid injections or hydrogen, may bring substantial results and become economically viable if efficiently supported.

4.4.3. The average annual investment in the energy sector in the 100 % CO_2 reduction scenarios ([11]) would amount to EUR 547 bn per annum (2,8 % of GDP) in 2031-2050, compared to EUR 377 bn (1,9 % of GDP) for the baseline These figures represent a significant amount, even for a developed economy.

5. **Services of general interest**

5.1. The main strategic line is to implement a people-centred approach to delivering services of general interest as drivers of sustainable European growth. The 20th and final principle of the European Pillar of Social Rights deals with 'access to essential services' and states that everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. To take effect, specific sustainable development and cohesion measures are needed.

5.2. ***Citizens and businesses are demanding more open, transparent, accountable and effective*** governance. Reaching economies of scale and agility by adopting cloud computing architectures will help move towards e-government, e-health, e-procurement and e-invoicing, allowing public services to share information and making it easier for citizens and businesses to interact.

5.3. There is a risk that elderly, or digital illiterate, consumers are excluded as a result of the complete digitalisation of SGI. Consequently, some conventional delivery points for these services should be maintained.

5.4. The EESC recommends that the European Semester include provisions regarding the accountability and transparency of the allocation of services of general interest in Member States as well the access and proper functioning of the services.

5.5. Many citizens in the European Union face, to different degrees, severe economic difficulties in accessing essential services, among others in the fields of housing, energy, electronic communications, transport, water, healthcare and social services.

5.6. Lack of access to SGIs may depend on a range of factors: it may be economic, geographical, social (unequal treatment), physical (due to disability) or the fact of being inappropriate to needs and/or technical progress (mismatch/inadequate level of quality and/or safety). Digital technologies can help overcome some of these challenges.

([11]) COM(2018) 773 final.

5.7. In the case of healthcare services, digitalisation has the potential to deliver better disease prevention, diagnosis and treatment. Tools such as the electronic health record (EHR) may allow consumers constant access to their medical history and pharmaceutical prescriptions. Mobile health apps and online medical consultations may provide excellent support for patients and consumers in their efforts to maintain their health and prevent illness, especially for those who live in remote areas. However, the benefits of digital health products and services entail serious risks when it comes to patients' privacy, security and safety, as breaches of personal health records and data stored in healthcare settings may become more frequent. The EU should develop a comprehensive regulatory framework to ensure a harmonised approach.

5.8. Given the growing use of digital health services and products, not least in a cross-border environment, it is also key to harmonise the approach to liability for such services and products across the EU. Legislative measures such as strong market surveillance and law enforcement, as well as efficient redress tools for digital health products and services, must be put in place to contribute to the effective protection of EU consumers.

5.9. The EESC urges the EC to develop an appropriate framework for national healthcare systems to share for research and innovation developed by EU institutions and companies the health data of EU citizens in accordance with GDPR, i.e. under strict conditions of privacy and anonymity.

5.10. In the case of SGI, operators should deliver services digitally while still keeping other channels open for those who are disconnected by choice or necessity.

5.11. SGI in public transport are crucial to improve quality of life and meet basic EU objectives. Wide discretion is necessary for public authorities to provide, commission and organise SGI.

6. **5G**

6.1. ***Rolling out of 5G on the Single Market***

6.1.1. Public authorities have started to take measures to facilitate the introduction of 5G on the Single Market, including 5G spectrum assignments. In the coming months, European mobile operators should prepare to deploy and perform tests under 'real' conditions, as the first 5G smartphones and terminals are expected to be available in the first half of 2019. However, only twelve Member States have completed or launched at least one spectrum auction as of early December 2018.

6.1.2. At international level, all countries are competing to be among the first to launch 5G nationwide. The EU is also competing. The five major vendors of infrastructure include two European suppliers, two Chinese, and one Korean. No major European company is among the first to produce 5G devices and chipsets.

6.1.3. The EESC warns that the competiveness of European industries such as transport and automotive, energy, chemical and pharmaceuticals, manufacturing, including SMEs, and finance industries, where Europe is a leading power, will depend on the capability to integrate and use 5G services.

6.1.4. The EESC is aware that scientists have issued warnings about the dangers that electromagnetic radiation from 5G may pose to human health and the environment, particularly high-volume, deep penetration radio-frequency signals in buildings and other enclosed spaces. The EESC calls on the Commission to commission a biological impact assessment of 5G radiation and the risk of interference with other frequency ranges.

6.2. ***5G investment needs***

6.2.1. Investments by market players in Europe for 5G are estimated at EUR 60-100 bn annually for the next five years. They will provide all main European socioeconomic drivers with gigabit connectivity. Improved connectivity in rural areas will require a further EUR 127 bn investment.

6.2.2. 5G will raise mobile and internet technology to the status of a General Purpose Technology affecting productivity and economic activity across a broad range of industries handling a greater number of devices and higher volume of data, enabling the massive use of IoT and developing Mission Critical Services.

7. **Specific remarks**

7.1. Further, the EESC asks the EU Institutions to take in deep consideration the following challenges on which the Committee has already worked and will continue to work in the future as important issues to address in the context of this Opinion:

— Internalise all external costs through positive and negative incentives ([12]);

— Energy Taxation Directive in accordance with CO_2, NOx, SOx ([13]);

— A distributed energy solutions system ([14]);

— ETS market stability for the next ETS trading period (in 2021), and measures post-2020 ETS ([15]);

— A grid digital information exchange platform to manage electricity flows ([16]);

— Energy Big Data management ([17]);

— Social and economic challenges involved in phasing out coal ([18]);

— Small modular nuclear reactors (50-300 MW), cheaper and easier to install. EU standards required ([19]);

— Long-distance high voltage grids linking continents: a Euro-Asian perspective ([20]);

— Security of supply and investment protection ([21]);

— Energy efficiency ([22]);

— Precertification of products ([23]);

— Cloud rules ([24]);

— EU manufacturing platforms ([25]);

([12]) OJ C 190, 5.6.2019, p. 24; OJ C 110, 22.3.2019, p. 33.
([13]) OJ C 228, 5.7.2019, p. 37.
([14]) OJ C 34, 2.2.2017, p. 44.
([15]) OJ C 424, 26.11.2014, p. 46; OJ C 288, 31.8.2017, p. 75.
([16]) OJ C 34, 2.2.2017, p. 44; OJ C 345, 13.10.2017, p. 52; OJ C 262, 25.7.2018, p. 86.
([17]) Final study on The ethics of Big Data: Balancing economic benefits and ethical questions of Big Data in EU policy context; OJ C 242, 23.7.2015, p. 61.
([18]) OJ C 303, 19.8.2016, p. 1.
([19]) OJ C 237, 6.7.2018, p. 38; OJ C 341, 21.11.2013, p. 92; OJ C 110, 22.3.2019, p. 141.
([20]) OJ C 228, 5.7.2019, p. 95; OJ C 143, 22.5.2012, p. 125.
([21]) OJ C 143, 22.5.2012, p. 125; OJ C 271, 19.9.2013, p. 153; OJ C 424, 26.11.2014, p. 64; OJ C 264, 20.7.2016, p. 117.
([22]) OJ C 191, 29.6.2012, p. 142.
([23]) OJ C 228, 5.7.2019, p. 74; OJ C 75, 10.3.2017, p. 40; OJ C 81, 2.3.2018, p. 176.
([24]) OJ C 487, 28.12.2016, p. 86.
([25]) Information Report of Consultative Commission of European Economic and Social Committee on Industrial Change on Fostering incremental innovation in high manufacturing areas; OJ C 332, 8.10.2015, p. 36; OJ C 299, 4.10.2012, p. 12.

— Telecoms and data network [26];

— Data flow must be secured and trusted [27];

— Data ownership and data rights [28];

— Data storage in the EU [29].

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

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[26] OJ C 125, 21.4.2017, p. 74.
[27] OJ C 440, 6.12.2018, p. 8; OJ C 227, 28.6.2018, p. 86.
[28] OJ C 288, 31.8.2017, p. 107; OJ C 81, 2.3.2018, p. 209; OJ C 237, 6.7.2018, p. 32.
[29] OJ C 345, 13.10.2017, p. 52; OJ C 227, 28.6.2018, p. 11.

III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

545TH EESC PLENARY SESSION, 17.7.2019-18.7.2019

Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the European Council and the Council — Towards a more efficient and democratic decision making in EU tax policy'

(COM(2019) 8 final)

(2019/C 353/14)

Rapporteur: **Juan MENDOZA CASTRO**

Rapporteur: **Krister ANDERSSON**

Rapporteur: **Mihai IVAȘCU**

Consultation	European Commission, 18.2.2019
Legal basis	Article 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	2.7.2019
Adopted at plenary	17.7.2019
Plenary session No	545
Outcome of vote (for/against/abstentions)	171/17/18

1. **Conclusions and recommendations**

1.1. The EESC supports the Commission's ambition to kick-start a necessary debate, given the sensitivities of Qualified Majority Voting (QMV) in tax matters.

1.2. In the past, the Committee has, in other opinions already, indicated of its support for changing the unanimity rule and that it is open to a qualified majority approach.

1.3. At the same time, the EESC considers that there are certain conditions that would need to be met for QMV to be successfully implemented.

1.4. The unanimity rule in taxation may increasingly appear as politically anachronistic, legally problematic and economically counterproductive.

1.5. Tax competition often brings rising pressure on public budgets; additionally, tight public budgets put pressure on competitiveness.

1.6. In the future, with an adoption of QMV, the European Parliament would play an important role in tax matters.

1.7. Unanimity in taxation has impacted on other wider EU policy priorities.

1.8. A gradual shift to QMV would help reach environmental objectives more effectively at a time when action on climate change is more urgent than ever.

1.9. The proposed Common Consolidated Corporate Tax Base (CCCTB), under discussion for the past 20 years, contains, if properly designed and introduced, significant benefits for businesses and citizens. An EU value-added tax (VAT) reform with adequate coordination at EU and Member States level is much needed because huge revenues are currently lost because of the fragmented system.

1.10. The EESC also considers that taxation policy in general and combating tax fraud in particular must remain a priority policy area for the upcoming European Commission. The Committee considers that the best results against cross-border tax fraud can be better achieved at European level and salutes the publication for the first time of the EU list of non-cooperative jurisdictions for tax purposes.

1.11. On the other hand, the EESC is aware that tax policy has always been closely linked to the sovereignty of Member States, as it is of utmost importance to them.

1.12. As a principle, the EU should be strong in matters of global importance. The EESC understands that tax competition for some EU Member States was a factor to solve financial problems in the past. The recent adoption of anti-tax avoidance measures has shown that Member States are willing to enhance transparent and fair tax competition.

1.13. In this respect, the EESC highlights — and welcomes — the progress made at EU level in the fight against aggressive tax planning and tax evasion, and in improving the value-added tax (VAT) system. At the same time the EESC would like to see progress in other areas.

1.14. Following in-depth economic, social and fiscal analysis, any new rule must be fit-for-purpose and all Member States must at all times have sufficient possibilities to participate in the decision-making process. Creating an advantageous outcome both at the EU level and at the level of the individual Member State should be the ultimate objective.

1.15. When decided, the four proposed steps should be implemented gradually and the European Commission should perform an evaluation after each implementation.

1.16. EESC underlines the need for a wider process to possibly progress towards a more effective QMV that will take time and be in sync with other policy initiatives. In that sense, the EESC points out the necessity of:

— A sufficiently strong EU budget.

— Better coordinated economic policy.

— A substantial analytical work assessing to what extent current tax measures have been insufficient.

2. **Summary of the Commission proposal**

2.1. Member States can adopt measures and directives at EU level aimed at putting in place common national tax rules for indirect taxes such as VAT or direct taxes such as corporate tax. However, the current EU legislative process for these issues has its downsides, according to the Commission, as it requires unanimous agreement amongst all Member States before action can be taken. This unanimity may not be achieved or may lead to sub-optimal policies.

2.2. Legislative proposals in the area of tax are governed by Articles 113 and 115 of the Treaty on the Functioning of the European Union (TFEU). Both articles provide for a special legislative procedure via which the Council votes unanimously on taxation issues and the European Parliament is merely consulted.

2.3. The Treaties also contain the necessary provisions to change the decision-making process from unanimity to Qualified Majority Voting (QMV) in the Council under certain circumstances.

2.4. Article 48(7) of the Treaty on European Union (TEU), the so-called 'passarelle clause', allows Member States to move from unanimity to QMV or from the special legislative procedure to the ordinary legislative procedure in areas that are otherwise subject to unanimity.

2.5. With its Communication, the Commission aims to open a debate on how to reform decision-making in EU taxation policy. It makes the case for a **gradual transition in four steps** to QMV under the ordinary legislative procedure in certain areas of shared EU taxation policy.

2.5.1. In **Step 1**, Member States should agree to move to QMV for measures that improve cooperation and mutual assistance in fighting tax fraud, tax evasion, as well as for administrative initiatives for EU businesses, e.g. harmonised reporting obligations.

2.5.2. **Step 2** would introduce QMV as a useful tool to progress measures in which taxation supports other policy goals, e.g. fighting climate change, protecting the environment or improving public health.

2.5.3. The use of QMV under **Step 3** would help to modernise already harmonised EU rules such as those for VAT and excise duty.

2.5.4. **Step 4** would allow a shift to QMV for major tax projects, such as the Common Consolidated Corporate Tax Base (CCCTB) and a new system for the taxation of the digital economy.

2.6. The Communication suggests that Member States should quickly come to an agreement to develop Steps 1 and 2 and should consider developing Steps 3 and 4 by the end of 2025.

2.7. The Commission claims to tackle herewith the following problems with the current decision-making process on taxation policy:

2.7.1. The need for unanimous agreement makes it more difficult to reach any compromise at all, because the opposition of just one Member State is sufficient to prevent agreement. Member States often hold back from seriously negotiating solutions in the Council, as they know that they can simply veto any result that they do not like.

2.7.2. Even when agreement in the tax field is reached unanimously, it tends to be at the level of the lowest common denominator, thus limiting the positive impact for businesses and consumers or making implementation more cumbersome.

2.7.3. Some Member States may use important tax proposals as a bargaining chip against other demands they may have on completely separate files, or to put pressure on the Commission to make legislative proposals in other areas.

2.7.4. Decisions taken unanimously can only be reversed or changed unanimously. This tends to make Member States overly cautious, dampening ambitions and weakening the final outcome.

2.8. Giving the European Parliament equal weight in deciding the final shape of EU tax policy initiatives would allow it to make a full contribution to shaping EU tax policy.

2.9. No new competence would be given to the EU, nor would the competences of Member States be reduced. The Commission also argues that this would not affect the rights of Member States to set personal or corporate tax rates as they see fit.

2.10. The cost of non-action in tax policy at EU level is, according to the Commission, high. Cost of the slow progress on the VAT definitive regime, the CCCTB, the Financial Transactions Tax and the Digital Services Tax is estimated at around EUR 292 billion across these four areas (1).

(1) COM(2019) 8 final, p. 4.

3. **General and specific comments**

3.1. **The EESC supports the Commission's ambition to kick-start a necessary debate, given the sensitivities of QMV in tax matters.** In the 21st century, a successful tax policy must allow the EU to tackle economic and financial challenges that can and will arise in the future. The unanimity rule in taxation made sense in the 1950s, with six Member States; now, however, it increasingly may appear as politically anachronistic, legally problematic and economically counterproductive.

3.2. The Committee, in **other previous opinions**, has indicated to be in favour of changing the unanimity rule and to be open for a qualified majority approach ([2]). The EESC issues the present opinion taking into account this background and considering its role as a body wishing to advance the European Project.

3.3. At the same time, the EESC considers that, under current circumstances, there are certain **conditions** related to a wider context that would need to be met for QMV to be successfully implemented.

3.4. The EESC is of the opinion that, when decided, the **implementation of the four proposed steps should be gradual** and the European Commission should perform a thorough and comprehensive evaluation after each implementation.

3.5. **Unanimity in taxation has impacted other, wider EU policy priorities.** Taxation is also essential for many of the EU's most ambitious projects, including the Economic and Monetary Union (EMU), the Capital Markets Union (CMU), the Digital Single Market, the 2030 Climate and Energy Framework and the Circular Economy. The Commission's proposal to revise the Energy Tax Directive is another example.

3.6. A gradual shift to QMV would help **reach environmental objectives** more effectively at a time when action on climate change is more urgent than ever. Data from Eurostat suggests that, on average, EU countries acquire only around 6 % of their total tax revenues from environmental taxes. The vast majority of this is from energy and transport related taxes, with minimal revenue from taxes on pollution or resource use (less than 0,1 %) ([3]).

3.7. Under discussion for the past 20 years, the **proposed Common Consolidated Corporate Tax Base (CCCTB)**, if properly designed and introduced, contains significant benefits for businesses and citizens. There will be a reduction in compliance costs and complexity for larger businesses (and those opting in) that trade across the EU. The CCCTB can play a key role in combating aggressive tax planning and help to restore faith in the tax system on the part of citizens ([4]).

3.8. **The EESC supports an EU value-added tax (VAT) reform.** In the absence of an agreement on this issue, EUR 147 billion in VAT is not collected each year due to tax evasion, tax avoidance and poor revenue collection by Member States. The current system is highly fragmented and complex and subsequently reduces and distorts trade and investment by creating unnecessary and extensive administrative burdens and trade barriers for businesses ([5]). VAT fraud currently costs public budgets around EUR 50 billion per year.

3.9. **The divergent tax policies that have arisen in the Single Market have negative effects.** Fragmentation weakens the unity of the Single Market and generates higher costs for tax bases such as labour, income and consumption. In essence, workers and consumers all over Europe are paying for the lack of consensus among Member States. Furthermore, diverging tax systems are an obstacle for SMEs attempting to trade on the Single Market.

3.10. The EESC is aware that tax policy has always been closely linked to the **sovereignty** of the Member States as it is of utmost importance to some of them.

([2]) EESC Opinion OJ C 230, 14.7.2015, p. 24; EESC Opinion OJ C 434, 15.12.2017, p. 18; EESC Opinion OJ C 271, 19.9.2013, p. 23; EESC Opinion OJ C 332, 8.10.2015, p. 8.
([3]) Euractiv — Time to get rid of EU's unanimity rule on green fiscal matters.
([4]) EESC Opinion OJ C 434, 15.12.2017, p. 58.
([5]) EESC Opinion OJ C 237, 6.7.2018, p. 40.

3.11. The OECD's **Base Erosion and Profit Shifting (BEPS)** Project ([6]) identified that the scale of BEPS, before any measures combating fraud were introduced, amounted globally to USD 100-240 bn ([7]). The European Parliamentary Research Service has calculated the relevant figures for the EU to be in the range of EUR 50-70 bn ([8]). This is equivalent to 0,35 % of the EU GDP.

3.12. Currently **the European Parliament's political role in tax matters** is merely consultative when it comes to tax policy responses. Should a switch be adopted from unanimity to QMV concerning taxation, the European Parliament could play an important role in tax matters.

3.13. **The Commission aims to open a debate on how to best reform the way the EU exercises its pre-allocated competencies in the field of taxation.** The progressive transition towards the full application of QMV is proposed to happen in specific policy areas of special interest for all Member States. With its Communication, the Commission does not seek to create any new competencies for the EU. Nor does it aim to shift towards a system of harmonised personal and corporate tax rates across the EU.

3.14. **Tax competition** often brings a rising pressure on public budgets. If this happens, it will not only deepen the widespread distributional imbalances but also weaken the demand side, therefore becoming harmful to economic development. In the context of the eurocrises, because of budgetary constraints, stringent austerity policies have been put into place.

3.15. **Competitiveness and budgetary stability**. Additionally, tight public budgets often put pressure on competitiveness because of the lack of opportunities to finance future investments in, for example, infrastructure, digitalisation or research and development. Finally there are also interdependencies between budgetary stability and financial market stability.

3.16. **Anti-tax avoidance measures.** The EESC believes that the role of the European Union is vital on matters of global importance. Although, in the past, some Member States have used tax competition to solve some internal financial problems, the recent adoption of anti-tax avoidance measures has shown an openness and willingness to enhance transparent and fair tax competition.

3.17. **EU's Fiscal Policy.** The EESC strongly believes that the European project is based on the condition that all the Member States must at all times have sufficient possibilities to take part in the decision-making process. The main objective is to create an advantageous environment, both for the EU and the individual Member States.

3.18. ***Tax planning and tax evasion***

3.18.1. **The EESC highlights — and welcomes — the progress made at EU level in the fight against aggressive tax planning and tax evasion, and in improving the value-added tax (VAT) system.** During the current mandate of the Commission, some 14 proposals in the tax area have been adopted, more than in the previous 20 years ([9]). Transparency rules have been strengthened to include much more information sharing between Member States on the cross-border tax affairs of citizens and large businesses. VAT collection has been improved with new rules for online sales of goods and services, as well as new cross-border cooperation tools to tackle VAT fraud ([10]).

3.18.2. **Lack of progress in some areas.** The EESC must point out that no major progress at European level has been achieved on reforming corporate taxation, mainly due to lack of political will in the Council. Also, important proposals on the taxation of digital services and tax avoidance have been blocked due to the unanimity voting system.

([6]) https://www.oecd.org/tax/beps/
([7]) http://www.oecd.org/ctp/oecd-presents-outputs-of-oecd-g20-beps-project-for-discussion-at-g20-finance-ministers-meeting.htm
([8]) http://europa.eu/rapid/press-release_MEMO-16-160_en.htm
([9]) Commissioner Moscovici, tweet on 13 February 2019.
([10]) EESC Opinions: OJ C 237, 6.7.2018, p. 40; OJ C 283, 10.8.2018, p. 35.

3.18.3. **The EESC considers that taxation policy in general and combating tax fraud must remain a priority policy area for the upcoming Commission.** Bearing in mind the numerous tax haven scandals (LuxLeaks, Panama Papers, Paradise Papers etc.) and with reference to the latest estimates of tax evasion within the EU, which point to a figure of approximately EUR 825 billion per year ([11]), the EESC pleads for a tight time frame.

3.18.4. **The best results against cross border tax fraud can be achieved at European level.** The EESC is critical of the fact that important legislative proposals on this issue have been blocked by the Council. A recent Eurobarometer survey shows that three quarters of EU citizens believe that fighting tax abuse should be a European priority ([12]).

3.18.5. **Non-cooperative jurisdictions**. The EESC salutes the publication for the first time of the EU list of non-cooperative jurisdictions for tax purposes, in December 2017 and its revision ever since ([13]). The 'Black List' and the 'Grey List' method introduced by the European Commission is fully supported by the EESC ([14]). In the light of the 'Panama' and 'Paradise' Papers scandals, the EESC has already urged Member States to close loopholes for aggressive tax planning ([15]). Non-cooperative jurisdictions are a threat to the EU's internal market ([16]).

3.19. **The EESC underlines the need for a wider process** to possibly progress towards QMV that will take time and should be synchronised with other policy initiatives.

3.19.1. **A sufficiently strong EU budget** would allow for financial transfers as compensation for shocks or comparative disadvantages. In this regard, the High Level Group on Own Resources established to examine 'how the revenue side of the EU budget can be made more simple, transparent, fair and democratically accountable', highlights the importance of an European fiscal policy ([17]).

3.19.2. **Better coordinated economic policy** could remove the need for counterbalancing uncoordinated national tax rules. The EU economy will be more effective in a context of structural reforms, targeted investment, fair taxation, fair trade agreements, restored leadership in innovation and the completion of the Single Market.

3.19.3. **It is however also of vital importance that the Single Market is realised.** The rules regarding non-discrimination and the four freedoms guaranteed by the Treaty should already ensure the fulfilment of the conditions for a Single Market. Developments in the area of state aid and the number of infringement cases have also shown that the Commission has means for correcting such distortions. There would be a need for substantial analytical work assessing to what extent current tax measures have been insufficient.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([11]) European Parliament - Report on financial crimes, tax evasion and tax avoidance.
([12]) European Parliament News: Tax fraud.
([13]) https://www.consilium.europa.eu/media/31945/st15429en17.pdf
([14]) https://www.oxfam.org/en/even-it/full-disclosure-eus-blacklist-tax-havens
([15]) https://www.eesc.europa.eu/es/node/56888
([16]) EESC Opinion OJ C 229, 31.07.2012, p. 7.
([17]) Future Financing of the EU ('Monti Report'). December 2016.

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, the Committee of the Regions and the European Investment Bank — Fourth report on the State of the Energy Union'

(COM(2019) 175 final)

(2019/C 353/15)

Rapporteur: **Christophe QUAREZ**

Referral	European Commission, 3.6.2019
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	3.7.2019
Adopted at plenary	17.7.2019
Plenary session No	545
Outcome of vote (for/against/abstentions)	183/2/5

1. Conclusions and recommendations

1.1. The EESC takes note of the Fourth Report on the State of the Energy Union (SEU), supports the objectives of the Energy Union and welcomes the emphasis on the engagement and mobilisation of EU society to take full ownership of the Energy Union. It reiterates its proposals for an effective Energy Dialogue with organised civil society at EU, national, regional and local level. It also calls for the establishment of a closer link between future reports on the State of the Energy Union and the Long-Term Strategy proposed for 2050.

1.2. The EESC is surprised by the European Commission's statement that 'the Energy Union is a reality'. The Energy Union may be a reality in terms of EU policy decisions, but it is not yet a reality in European citizens' daily life. The EESC thus calls on the European Commission to hold Member States accountable for the decisions they themselves adopted at EU level. It also calls for increased ambition for the energy transition and climate action.

1.3. The EESC indeed regrets the persistence of divergent views expressed by national governments, as well as the differences between what national governments vote for in Brussels and implement at home. The EESC calls on the European Commission to make further use of its powers, including legal powers, to ensure that EU energy law, including the 2020 energy and climate targets, are respected by Member States. The EESC calls on the European Commission to analyse the reasons for the divergent views expressed by national governments, as well as the reasons why some Member States will miss their energy and climate targets.

1.4. The EESC regrets that the European Commission did not make sufficient use of the Fourth State of the Energy Union report to highlight the lack of clear progress around four of its Energy Union priorities: putting the citizen at the centre, reducing energy imports, being number one in renewables, and creating clean energy jobs.

1.5. The EESC stresses once again that Europe needs a 'Social Pact for a Citizen-driven Energy Transition', to be agreed by the EU, Member States, regions, cities, social partners and organised civil society, in order to ensure that the transition leaves no one behind. It should become the sixth dimension of the Energy Union and cover all social aspects, including quality job creation, vocational training, consumer education and training, social protection, specific plans for transition regions where jobs are lost, health and energy poverty. This initiative should be part of the European Pillar of Social Rights.

1.6. The EESC welcomes the launch of the Energy Poverty Observatory, which can only be a first step towards developing a European action plan aimed at eradicating energy poverty in Europe. In this regard, social tariffs or energy cheques can only constitute temporary relief and should be gradually replaced by public subsidies helping poor Europeans to adopt structural solutions, such as deep retrofits of buildings.

1.7. The EESC regrets that insufficient attention has been dedicated to the evaluation of the EU's energy dependence and its geopolitical implications. This should include monitoring the evolution of the EU's dependence vis-à-vis imported energy (e.g. oil, natural gas, coal and uranium), as well as imported energy transition goods (e.g. batteries, solar panels) and foreign investment in EU strategic energy assets and companies (e.g. US companies buying key segments of the thermal power plants value chain, Chinese companies buying electricity grid companies, Russian investment in some countries' energy sectors).

1.8. In the light of the importance of climate change as a key EU political topic, both in the perception of the citizens and in the programmes of political parties, the EESC calls on the next European Commission to make the fight against climate change a top priority for its 2019-2024 term. This priority should be reflected in the European Commission's organisation, with the creation of a position of European Commission First Vice-President responsible for Climate Action.

2. **Background and reflection on previous EESC recommendations**

2.1. There is strong and increasing support among the EU public for the Energy Union objectives and more ambitious climate and energy policies. Recent Eurobarometer surveys ([1]) outline that around 80 % of EU citizens consider climate change to be a very serious problem, and that fighting climate change and using energy more efficiently can boost the EU economy and jobs. This support has become more visible with the youth movement #FridaysForFuture.

2.2. The EESC notes the increasing support for Energy Union objectives in the European business community, both outside and within the energy sector as shown for example, by Eurelectric and the B team.

2.3. There is a growing body of expert and scientific findings confirming that the EU economy can benefit from its transformation into a climate-neutral economy. Recent evidence was proposed by the European Commission and its November 2018 Long-Term Strategy ([2]).

2.4. The EESC nevertheless regrets the persistence of divergent views expressed by national governments, as well as the differences between what national governments vote on in Brussels and implement at home. The EESC calls on the European Commission to make further use of its powers, including legal powers, to ensure that EU energy law, including the 2020 energy-climate targets, is respected by Member States. The EESC calls on the European Commission to analyse the reasons for the divergent views expressed by national governments, as well as the reasons why some Member States will miss their energy and climate targets.

2.5. The EESC welcomes the initiatives launched in recent years and recalled in the SEU, including on EU islands, coal regions, Battery and Energy Poverty. All of these are key to pushing for an integrated industrial policy that can support a socially fair energy transition that creates quality jobs, and should be seen as industry's opportunity to showcase Europe's capacity to develop adequate solutions to current challenges.

([1]) Special Eurobarometer 459 Report 'Climate Change', March 2017.
([2]) COM(2018) 773 final.

2.6. The EESC has repeatedly stated that the Energy Union has to provide a stable and favourable environment for European enterprises, with a view to enabling and encouraging them to invest and employ, paying special attention to the potential of SMEs. The EESC thus welcomes the entry into force of the Energy Union Governance Regulation and calls on organised civil society to play a more active role to ensure the proper implementation of this regulation.

2.7. The EESC also welcomes the European Commission's 'Energy prices and costs in Europe' report released in January 2019, as it provides transparent information on the recent rises in energy prices, largely linked to a rise in the price of fossil fuels, that led to an increase in the EU fossil fuel import bill of 26 % between 2016 and 2017, to reach a total of EUR 266 bn. The EESC calls for more transparency on fossil fuel subsidies and divergence of energy prices across the European Union, including as a result of different national energy taxation choices.

2.8. The EESC has asked for the social dimension to be included among the evaluation criteria in the next State of the Energy Union (SEU) report. It thus strongly welcomes the social initiatives taken by the European Commission, such as those linked to carbon-intensive regions and energy poverty, as well as the existence of a specific SEU report sub-section dedicated to the social dimension of the Energy Union.

2.9. The EESC has always considered that the availability of and physical access to affordable energy are the key to avoiding energy poverty. It thus welcomes the launch of the Energy Poverty Observatory, which can only be a first step towards developing a European action plan aimed at eradicating energy poverty in Europe. It calls on the European Commission to expand the mandate and resources of the Observatory so it can continue to work on heating poverty and expand its work to cooling poverty and mobility poverty.

2.10. The EESC notes that undertaking the energy transition does not require significantly different amounts of investment compared to those needed to maintain the current energy system based on the inefficient use of imported fossil fuels. The key challenge is to re-allocate capital from high-carbon to zero-carbon assets and infrastructures.

2.11. To help private investors perform this re-allocation of capital, public authorities should ensure effective and predictable carbon prices for all economic activities and phase out all fossil fuel subsidies. Possible elements include a carbon price floor for the ETS, combined with the harmonisation of energy taxes. The EESC thus strongly supports the European Commission proposal to ensure that the EU harmonisation of energy taxation can be decided by qualified majority, rather than unanimity as this procedure can allow a single national government to block any European Union progress. The aviation sector could be the first sector where such harmonisation could occur.

3. **Comments on the Fourth State of the Energy Union Report and follow-up steps**

3.1. ***Create strong and democratic governance for Europe's energy transition***

3.1.1. The EESC considers that the EU and its Member States need to further democratise energy policymaking. They can better use tools such as deliberative polling and European Citizen Initiatives and ensure systemic engagement with organised civil society. A more decentralised energy system, with a greater role played by local energy communities, can constitute an important element in underpinning the democratisation and ownership of the European energy transition.

3.1.2. To provide a stable and favourable business environment for European companies, especially SMEs, the EU and all its Member States should develop long-term energy plans to achieve the carbon-neutrality objective they agreed to in the Paris Agreement. The EESC thus calls on the European Union to adopt the objective of making the EU a climate-neutral economy by 2050. Sector-related and regional decarbonisation strategies should later be devised to identify business and local opportunities and anticipate future job gains and losses in order to ensure a smooth transition.

3.1.3. The EESC criticises the vagueness of several political promises. For example, the EESC regrets that the European Commission has never clarified what was meant by its ambitions to make Europe 'number one in renewables'.

3.1.4. The EESC welcomes the initiatives aimed at helping carbon-intensive regions and islands in their energy transition. The EESC reiterates its call to the European Commission to engage all Member States and regions to jointly map the strengths and weaknesses of each European region vis-à-vis the energy transition. The mapping should feed into their industrial strategies and smart specialisation strategies, as well as help them to anticipate the likely outcome in terms of job creation, losses and redefinition due to the transition (3).

3.1.5. The EESC acknowledges that strong and democratic Energy Union governance requires the creation of a 'European Energy Information Service' within the European Environment Agency that would be able to ensure the quality of the data provided by Member States, develop one entry point for all the datasets needed to assess the progress of the Energy Union, develop with stakeholders the assumptions for different scenarios, provide open source models to allow for testing different assumptions and check consistency between different projections. Its work should be freely accessible to all decision-makers, businesses and the general public.

3.2. *Jointly drawing up a Social Pact for a Citizen-driven Energy Transition*

3.2.1. The EESC warmly welcomes the European Commission's statement that: 'The social implications of these [energy transition] changes must be a part of the policy process from the outset, and not simply be an afterthought'. The EESC calls on the European Commission to put this statement into practice and stands ready to provide its support and expertise.

3.2.2. The EESC reiterates that Europe needs a 'Social Pact for a Citizen-driven Energy Transition', to be agreed by the EU, Member States, regions, cities, social partners and organised civil society, in order to ensure that the transition leaves no one behind. It should become the sixth dimension of the Energy Union and cover all social aspects, including quality job creation, vocational training, consumers' education and training, social protection, specific plans for transition regions where jobs are lost, health and energy poverty. This initiative should be part of the European Pillar of Social Rights. Such a Pact could build on national experiences, for example the French 'Pacte pour le pouvoir de vivre' which gathers together 19 Trade Unions and NGOs.

3.2.2.1. The EESC believes that the European Union needs to provide proper funding to support workers at risk of losing their jobs as a result of the transition to a climate-neutral economy. For that purpose, building on the experience of the Coal Regions in Transition Platform, the EESC calls on the European Commission, European Parliament and the Council of the European Union to ensure that the European Social Fund, Regional Funds and the European Globalisation Fund are properly designed and funded to address the challenges of the transition to a climate-neutral economy. This would signal Europe's will to ensure that no-one is left behind.

3.2.3. The EESC would like to see the Energy Union be developed in such a way that it becomes an opportunity to eradicate energy poverty in Europe and improve quality of life, job creation and social inclusion. Building on the findings of the European Energy Poverty Observatory and on the newly developed 'European Energy Poverty Index', a European action plan to eradicate energy poverty should be drawn up in cooperation with stakeholders, including consumers' organisations and anti-poverty NGOs such as the European Anti-Poverty Network, to ensure that public action increasingly targets the root causes of energy poverty. Noting that in its opinion on the Clean Energy For All Europeans package (4) it found that energy poverty is about investment and that vulnerable households in particular face obstacles in accessing financing, the EESC stresses the need to move progressively from palliative measures to preventive measures, such as renovation to transform old buildings into net-zero-energy buildings. In this regard, social tariffs or energy cheques can only constitute temporary relief which should be gradually replaced by public subsidies helping poor Europeans to adopt structural solutions, such as deep retrofits of buildings.

3.2.3.1. The EESC considers the transition to a climate neutral economy to be the opportunity to provide jobs to Europeans. The European Commission states that there are already four million Europeans working for the 'green economy'. Accelerating the energy transition will create more jobs, especially when the transition is performed through local energy communities. The EESC considers that greater effort should be invested in vocational training to attract young Europeans, including the young unemployed, into energy transition jobs. The EESC therefore asks the European Commission to develop the Erasmus Pro programme to attract more young people into the growing sectors of the climate-neutral economy (e.g. energy efficiency, renewable energy generation) by improving the image and working conditions of such jobs.

(3) OJ C 367, 10.10.2018, p. 1.
(4) OJ C 246, 28.7.2017, p. 64.

3.2.4. The EESC considers that the EU and all its Member States should make the fight against air pollution a high-level policy priority. Regulatory measures aiming at reducing air pollutants emitted by vehicles and power plants should be strengthened and measures put in place to eventually phase out the use of fossil fuels in transport and power generation. The EESC also requests that, in a forthcoming report, the European Commission provide a detailed analysis of the drivers for the creation of green jobs and the hurdles to be overcome.

3.2.5. The EESC welcomes improvements in the Fourth SEU Report concerning information on the use of EU investment instruments, especially on the Connecting Europe Facility. It notes however the need to improve the means for start-ups, citizen, local energy communities and community-based projects to access these resources (e.g. support for financial platforms, especially in Member States lacking such entities). The EESC wishes to further investigate the social dimension of the energy transition, through a separate exploratory opinion or information report.

3.3. ***Transport***

The EESC recalls that the transport sector accounts for a third of the EU energy consumption. While EU emissions have been declining, this is not the case for the transport sector. It continues furthermore to rely almost entirely (94 %) on oil, most of which is imported.

3.3.1. The EESC welcomes the adoption of the Clean Mobility Package as a first step to ensuring a clean mobility transition. It welcomes the promotion of electrification but recalls that electrification will not suffice and that unprecedented efforts should be undertaken to increase energy efficiency and reduce the need for unnecessary mobility demand — e.g. long distances between home and workplace.

3.3.2. The EESC would have welcomed EU-wide action to avoid low-income owners being left behind with polluting vehicles that have increasingly restricted access to many urban areas. Possible actions could be done within the Urban Agenda, as well as promoting walking, biking, public transport, low-cost retrofits or conversions of drivetrains in existing vehicles from fossil fuels to zero-emissions technologies.

3.3.3. The EESC welcomes the fact that the Fourth SEU Report recalls the importance of the European Battery Alliance. The EESC supports this initiative to ensure that the EU plays an ambitious role on this global market ([5]).

3.4. ***Infrastructure, investment and industrial development for the energy transition***

3.4.1. The energy transition has significant implications for all segments of the economy, especially utilities, energy-intensive industries and industries providing energy solutions. Their radical transformation requires hundreds of billions of euros of investment. They face risks, challenges and opportunities, and it is crucial for the EU to help industries, as well as energy cooperatives and citizens, grasp the opportunities, tackle the challenges and mitigate the risks.

3.4.2. The EESC regrets that insufficient attention has been dedicated to the evaluation of EU energy dependence and its geopolitical implications. This should include monitoring the evolution of EU dependence on imported energy (e.g. oil, natural gas, coal and uranium), as well as imported energy transition goods (e.g. batteries, solar panels) and foreign investment in EU strategic energy assets and companies (e.g. US companies buying key segments of the thermal power plant value chain, Chinese companies buying electricity grid companies, Russian investment in some countries' energy sectors).

3.4.3. The EESC considers that the EU should step up its ambition in all clean energy areas to provide European businesses with a sound domestic market where innovation can be deployed, as well as an integrated industrial strategy aimed at exporting clean energy solutions to the rest of the world.

3.4.4. The EESC regrets that public investment (national and EU) in the Energy Union's research and innovation priorities has stagnated at the level of EUR 5 billion a year, while energy research and innovation should be a top priority to safeguard Europe's competitiveness and climate. The EESC calls on the European Commission's JRC to provide further data on that element, expressed both in absolute terms and in percentage of EU GDP.

([5]) OJ C 367, 10.10.2018, p. 1.

3.4.5. The EESC warmly welcomes the creation of the European Innovation Council pilot and the proposal to create 'Research and Innovations Missions' as a way to better steer research and innovation towards projects that effectively tackle societal challenges, including the transition to a climate-neutral economy. In that regard, the EESC asks the European Commission, the European Parliament and the Council of the European Union to propose establishing a specific mission to make 100 European cities climate neutral by 2030. This will provide EU researchers, innovators and businesses with massive opportunities to co-design and test innovations, learn from experience, and be better ready to make a swift energy transition in Europe and in the rest of the world.

4. Involvement of civil society and contribution of the EESC

4.1. The EESC is convinced that the Energy Union may be a reality in terms of policies, but it is not yet a reality in European citizens' daily life. The EESC welcomes the fact that EU policymakers have, between 2015 and 2019, laid the foundations of the Energy Union, but much more remains to be done in the forthcoming years and decades.

4.2. The transformation of Europe's energy system will indeed be swifter, cheaper and more democratic if it is powered by people who increasingly become active consumers, prosumers, workers, crowdsourcers and crowdfunders of the energy transition. The European Union should aim to move from a situation where energy policy, even at national level, has been driven by 'decisions by a few' to one where it is effectively driven by 'action by all'. This has never been so achievable, given the rise in climate awareness among EU citizens, especially Europe's young people.

4.3. The EESC regrets the lack of real proposals to better engage civil society organisations and citizens. While the Energy Union Tour was a positive development, the EESC invites the European Commission to increasingly engage with decision-makers and stakeholders and specifically meet with national and regional economic and social councils and organised civil society to jointly deliver clean energy to all Europeans.

4.4. Recalling the tools available in the Regulation on Energy Governance, the EESC proposes that a permanent citizens' dialogue should be set up and that it should be a compulsory preparatory element of all major political decisions and all EU law-making pertinent to climate change. Transparency and accountability should be significant elements of such a dialogue, meaning that the input into dialogues should be publicly available and that clear information should be provided as to how concerns raised during the dialogue were taken into account. It is key to the success of such a dialogue that it is felt to be close to citizens. Therefore, while an internet dialogue may be useful, it is not sufficient but must be complemented by meetings and direct contact with the general public. It is therefore necessary that the dialogue is visible and that adequate financial and staff resources are available and that it is given a face in the form of a dedicated European Commission vice-president, a Commissioner or other high–level figure.

4.5. The EESC would like to actively contribute to the further development of synergy and cooperation among EU-level institutions, organised civil society, and local and regional authorities and their institutions, relevant to the Energy Union goals. Local and regional authorities, through their closeness to the level of the general public and their knowledge of each specific local context, hold the key to effectively adapting and implementing energy-related policies. They constitute a key decision-making level in sectors such as transportation, urban planning, buildings and welfare, which makes them extremely important for coordinated measures in favour of energy efficiency and renewable energy sources.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

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, the Committee of the Regions and the European Investment Bank on the Implementation of the Strategic Action Plan on Batteries: Building a Strategic Battery Value Chain in Europe'

(COM(2019) 176 final)

(2019/C 353/16)

Rapporteur: **Colin LUSTENHOUWER**

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1. Conclusions and recommendations

1.1. The European Commission's first progress report on the implementation of the Strategic Action Plan on Batteries shows that a variety of actions have been launched to develop a significant battery industry in the EU.

1.2. Although it is far too early to draw definitive conclusions, the EESC supports the initiatives that the Commission has taken and has announced it will take to work with Member States and European industry to break Europe's dependence on non-EU — particularly Asian — countries.

1.3. There is much to be done in the coming years to achieve the necessary level of technological expertise in the EU, to secure the supply of raw materials from third countries and EU sources and to ensure that batteries can be recycled safely and cleanly.

1.4. Investing in staff is the joint responsibility for the government and the business community.

2. Introduction

A. In May 2018, the European Commission published a communication entitled 'Europe on the Move' (1). This communication sets out the policy the Commission has in mind with regard to sustainable mobility for Europe: safe, connected, and clean.

2.1. The policy forms part of the Juncker Commission's 'European Energy Union' policy — a comprehensive framework integrating climate policy into energy policy and complemented by a targeted industrial policy to meet the objectives of the Paris Agreement. These objectives seek first and foremost to cut CO_2 emissions from fossil fuel-based energy production (2) as well as transport which, in Europe, relies on vehicles (trucks, cars) using combustion engines and which are themselves powered by fossil fuels (petrol, gas).

(1) COM(2018) 293 final.

(2) Energy production and use account for 79 % of EU greenhouse gas emissions, European Court of Auditors' briefing paper of 1 April 2019 on EU support for energy storage.

2.2. Within the context of 'Europe on the Move', a specific action plan was drawn up by the Commission with a view to developing and producing batteries. To this end, the Commission presented a separate annex to the abovementioned Communication entitled a 'Strategic Action Plan on Batteries'.

B. Why a specific action plan for batteries?

2.3. Batteries have become an indispensable part of our daily lives. In our mobile phones, our PCs and tablets, our domestic appliances, and especially in our electric vehicles (EV), batteries are key to ensuring that these objects function effectively and safely and that they preferably have a long life. At the same time, the lifespan of a battery is still (too) limited. Within these product groups, the Commission's policy, as set out in the Action Plan, focuses mainly on battery development for EVs, but also on other aspects such as battery second use and recycling ([3]).

2.4. Battery systems are good for small-scale energy storage. Large-scale energy storage, of the energy produced by offshore wind farms for example, does not seem to be really feasible in batteries. This large-scale energy storage should be carried out using other energy carriers, such as hydrogen and ammonia ([4]). In this area too, the Commission supports a wide range of initiatives using the Horizon 2020 budget, such as 'power-to-gas' technology ([5]). In the same vein, great attention is paid to the technological development of efficient and safe ways of connecting to high-voltage electricity grids ('power to the grid') using energy storage, so as to eliminate the very high costs of 'offshore converter stations'. This could also prevent a high degree of the grid loss that still occurs using high voltage power cables in or on the seabed between offshore wind farms and the mainland, perhaps leading to efficiency gains of around 10-15 % in sustainable offshore energy production.

2.5. Batteries are expected to account for around 40 to 50 % of the cost of an EV, but it is already clear that those costs could fall. Given the very rapid development of electric vehicles ([6]), the availability of effective, safe and environmentally-friendly batteries has once again become an acute issue. The Commission sees a huge market for European industry, which could amount to 400 GWh and EUR 250 billion by 2025. This represents opportunities for Europe, not only from the point of view of climate objectives but also from an economic and employment perspective. As Commissioner Bieńkowska recently said: 'We anticipate a strong battery industry in the EU that contributes to the circular economy and to clean mobility'.

2.6. But let us be clear about the situation: Europe lags far behind Asian countries and businesses in terms of battery development (R & D) and production. As much as 85 % of all batteries that we use in Europe come from China, Japan or Korea. European production represents a mere 3 % of world production, with the USA accounting for around 15 %. This means that if we want to transform mobility from fossil propulsion into electric propulsion in Europe, we will be entirely dependent on Asian production capacity.

2.7. As if this were not serious enough, the raw materials needed for battery production, such as lithium, nickel, manganese and cobalt, are currently being extracted in limited quantities in Europe, though potential reserves are present. These European reserves will need to be exploited, though it currently seems that they will only be able to cover around 15 to 20 % of total demand. The necessary raw materials also come from Latin America, Africa and Asia, where the Chinese have reportedly created large mining companies so as to provide them with unhindered access to these raw materials ([7]). What is more, European minerals are often refined and processed in China too.

2.8. The extraction and processing of raw materials is energy-intensive and produces important volumes of mining waste, including in some cases hazardous waste.

2.9. Europe, on the other hand, is facing the problem of processing batteries. The large number involved means we are confronted with a new and worrying waste disposal problem, not least because the recycling of materials from these batteries is still in the early stages. Even now, only some 10 % of the material from batteries is recovered. There is thus considerable potential for processing/recovery.

([3]) Although the primary focus is on cars, it should not be forgotten that developments are also under way to produce electrically powered vessels (e.g. small ferries).

([4]) See also the EESC opinion on 'Energy storage: a factor in integration and energy security' (OJ C 383, 17.11.2015, p. 19).

([5]) An interesting project called 'WaterstofNet' has been set up in Flanders: a cluster of producers (wind and PV), hydrogen technology (electrolysis and compression) and end-users in the chemical and transport sectors.

([6]) In Norway, for example, it is expected that more electric cars will be sold for the first time this year (2019) than traditional cars with combustion engines. Within this group of EVs, a well-known US car brand supplies most of those EVs.

([7]) The Chinese government has set itself the target that, as of 2025, EVs should account for 20 % of all new cars sold.

3. The 2019 Progress Report

3.1. In its opinion of 17 October 2018 (8), the EESC supported the Commission's proposals for more sustainable transport and the Strategic Action Plan on Batteries. At the same time, the Committee pointed out that many factors could hamper the implementation of the plan, such as dependence on third country raw materials, lack of alternative fuels, management difficulties, processing and disposal of used batteries and a lack of skilled workers.

3.2. On 9 April 2019, the Commission published the first progress report on the May 2018 Strategic Action Plan on Batteries. The progress report points out that many sectoral and regional initiatives are being developed. The European Battery Alliance, for example, appears to be an enabling platform where businesses, policy-makers and scientists can coordinate their efforts to deliver on the bold and ambitious objective of bringing the EU and its industries back to the forefront of the rapidly developing battery technology. An initial call for proposals with a budget of EUR 114 million has been launched under the Horizon 2020 programme, and a further call with a budget of EUR 132 million will be launched for 2020. In addition, large-scale funding can be provided from the resources available for EU regional policy. Business and science seem keen to get involved in order to complement their own investments with EU funding and to step up development of R & D.

3.3. A number of initiatives have been developed since the publication of the Action Plan, but many of them, including interregional initiatives, are still only in the preparatory phase. Barely one year since the publication of the Action Plan, it still seems far too early to take stock. However, there is clearly a widespread sense of urgency: policy-makers, scientists and businesses realise that it is late, even too late. The stakes are very high: there is a real risk that very large parts of the European automotive industry will relocate their production to regions close to battery cell production units, mainly in Asia. This raises the question of the jobs of some 13 million European workers in the sector.

4. The way forward?

4.1. Since the Juncker Commission came into office and the European Energy Union programme was adopted, a number of actions have been developed which, against the backdrop of climate policy, have set in train an industrial policy that has given the transition to a more sustainable society an entirely new focus. The Commission's industrial policy, supported by the Member States, has been given a far greater steering and initiating role than was previously the case. The EESC welcomes the Commission's new approach and calls on it, the Member States and European business to continue to pursue the course that was recently initiated.

4.2. Such an approach is welcome and, given that European industry seriously lags behind in battery development and production, it is also necessary. However, an industrial policy with a steering role also carries the risk of backing the wrong horse (picking the supposed winner prematurely). Nonetheless, the Committee welcomes the new approach covering the entire industrial value chain (the value chain approach). Industrial policy based on the value chain methodology is also much better suited to 'circular thinking' than the old sectoral approach of industry. That said, the value chain approach also requires another more appropriate policy that is, for example, adapted to State aid policy. Given that the battery production industry has been made a spearhead of EU industrial policy, the Commission will also need to adopt a flexible and supple approach to the investment aid that Member States grant to businesses in these chains. By applying the eligibility criteria for IPCEI ('Important Project of Common European Interest') in a flexible way, European industry can be helped through substantial public funding. Such funding could, to some extent, come close to the levels of support that Asian businesses receive from their governments. The EESC welcomes this new application of the IPCEI instrument.

4.3. However, the question arises as to whether the policy set out in the Strategic Action Plan might not be too late to bridge the enormous gap vis-a-vis Asian countries and their businesses. It should also be asked whether the financial resources deployed are sufficient. To put it bluntly: 'Is it too little, too late?' (9) The European Court of Auditors set out its concerns in a recently published briefing paper: 'However, there is a risk that the measures taken so far will not be sufficient to achieve the EU's strategic objectives for clean energy.' It should be noted, however, that the Commission's role is limited, as are the financial resources at its disposal. The Commission is right to be somewhat detached. Its role is that of matchmaker. It is primarily for Member States, European business and its research institutions to take up this challenge. It is therefore very welcome that the French and German governments decided at the beginning of May 2019 to each make around EUR 1 billion available to support initiatives by their business communities to develop a battery production industry. This is one of the first very practical outcomes of the European Battery Alliance launched by the Commission, where Member States, the Commission and business work together.

(8) EESC opinionon 'Europe on the Move' (OJ C 62, 15.2.2019, p. 254)
(9) See also the European Court of Auditors' briefing paper of 1 April 2019 on EU support for energy storage.

4.4. In the EESC's view, it is still far too early to draw any final conclusions, so soon after the adoption of the battery action programme. The EESC welcomes the multitude of initiatives launched or developed by a number of stakeholders. The results will (should) become apparent in the coming years. Technological development within and outside the EU never stops. This dynamic process means that the battery strategy is not a one-off initiative but requires a structural approach in EU policies. It also means that the investments in means of production now needed by Member States have a long payback period (20 to 30 years is no exception).

4.5. The question is also whether the EU is even capable of building a competitive sector for battery development and production given that the necessary raw materials are not available in the necessary quantities within the EU. Even though initiatives are being developed to extract lithium in some EU Member States, for example (including re-opening abandoned mines), it seems illusory to believe that the EU will be able to become completely self-sufficient. Furthermore, the European population has serious reservations about mining and, in most cases, the NIMBY principle also applies here (Not In My Back Yard). The positive effects for local communities of the socially and environmentally conscious extraction of raw materials deserve to be brought more to the attention of the population. It is also evident that 'local ownership' — i.e. the involvement of the local population, in financial and other terms — can avoid a situation where there is such resistance to these activities that they cannot get off the ground.

4.6. In view of the raw materials situation, the EESC stresses that it is important for all parties involved to step up R & D efforts to develop new types of battery, such as solid state batteries, that would significantly reduce dependence on these raw materials.

4.7. How realistic is it to expect, as the Commission seems to think, that 10 to 20 mega-producers will emerge in the EU? Are long-term investors in capital markets sufficiently willing to invest the approximately EUR 10 billion needed? While fully appreciating the priorities set out in the action programme, the Committee still finds it disappointing that no mention is made of the question of access to the capital needed for these major investments. Banking financing alone is completely insufficient. Capital markets, and in particular infrastructure funds, will need to be ready to invest in these projects using risk capital ([10]). This requires a long-term policy, adequate returns and underlying support from national authorities. The parties need to stop looking at each other; the government can play a role here as a driver of an investment process. The Franco-German initiatives show that these countries are aware of this. The recently launched Investment Platform with EIT InnoEnergy as a 'driver/accelerator' could also, in the EESC's view, prove very valuable in bringing together investors and promoters.

4.8. At the same time, targeted information campaigns will be needed to inform European consumers that purchasing batteries produced in Europe, where human and environmental safety standards are taken into account, has many advantages over purchasing batteries from third countries, where these standards and values are not respected to the same extent. Carrying on as we do at present is a permanent way of exporting our environmental problems.

4.9. The EESC believes that more practical initiatives are needed to develop material recycling from old batteries. So-called 'urban mining' can make a substantial contribution to the provision of the necessary raw materials. There is significant potential for future recycling of the urban mine provided that economic incentives, collection amounts, recovery technologies and, ultimately, recycling rates improve. The recent Commission report on the implementation and impact of the Batteries Directive unfortunately shows that the collection of conventional batteries has not yet reached the desired level. About 57 % of such batteries are still not recycled. It is therefore right that the Commission, as indicated in its concise but very effective report, is considering adapting the 2006 directive, not least given the arrival of new batteries, such as those targeted by the action plan. The Committee awaits these proposals with great interest. In addition, the Committee notes that current battery processing facilities will have to be adapted again in view of the large flows of new battery types in the near future. New technology will also need to be developed for recycling or processing; the EESC believes that targeted R & D in this specific area requires the EU's full support, as it will help improve the living environment and can to a large extent reduce the dependence on raw materials from outside the EU.

4.10. The Committee would also like to see targeted research into the recovery of materials from residual waste heaps of coal and steel and other types of extracted metals. It should not be ruled out that these sources could also help meet the need for raw materials. The EESC welcomes the recently published report on the recovery of critical raw materials from mining waste and landfills ([11]) by the Joint Research Centre of the European Commission and calls for political support to be ensured for the study and analysis of the critical raw materials issue, given that the 'global battle for raw materials' is becoming more serious.

([10]) On 2 May 2019, Tesla announced that, although it had recorded a loss of in excess of USD 700 million in Q1-2019, it would like to raise USD 2 billion on the capital market for a new battery plant and the development of a new type of electric car. The American capital market is easily able to make such investments in the form of shares and/or bonds. The question arises as to whether the fragmented EU capital market can match this.

([11]) Recovery of critical and other raw materials from mining waste and landfills: State of play on existing practices, EUR 29744 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-76-03391-2, doi:10.2760/494020, JRC116131.

4.11. To what extent does the regulatory framework contribute to the development of the necessary R & D in the EU and the application of the technology produced as a result? The Commission has a natural tendency to consider laws and regulations. After all, these are the steering tools available to it. But it might better to monitor and analyse developments in the market, together with the industry and the social partners, before resorting to the instrument of regulation. First initiate, promote and produce and, only after thorough analysis has been carried out, regulate — this appears to be a more desirable policy approach for this precarious sector.

4.12. The EESC calls on the Commission to continue to ensure that calls for tender are genuinely tailored to EU businesses which are often small in scale, so that these medium-sized producers do not miss out on funding due to the fact that their small-scale R & D does not meet the requirements for the size of the projects in the calls for tender. However, the EESC welcomes the fact that the Commission has designed the tenders in a new, more joined-up way, making them more accessible to EU businesses.

4.13. The Committee considers it important that EU funding is also made available for projects which have been developed by European medium-sized battery production companies and have already undergone significant technological development (Technology Readiness Level 5 to 9). This group of companies, which are more focused on entering the market than on basic research, still seem to be excessively excluded from EU funds. For this group in particular, access to EU subsidies for training and retraining workers will have to be designed in a simple way.

Brussels, 17 July 2019.

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of the European Economic and Social Committee
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