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506TH EESC PLENARY SESSION OF 18 AND 19 MARCH 2015

Opinion of the European Economic and Social Committee on ‘The current system guaranteeing food safety and security of the food supply in the EU and ways to improve it’

(own-initiative opinion)

(2015/C 268/01)

Rapporteur: Igor ŠARMÍR

On 27 February 2014, the European Economic and Social Committee, acting under Rule 29A of the Implementing Provisions of its Rules of Procedure, decided to draw up an own-initiative opinion on:

The current system guaranteeing food safety and security of the food supply in the EU and ways to improve it.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 5 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 18 March 2015), the European Economic and Social Committee adopted the following opinion by 181 votes to 9, with 17 abstentions.

1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) appreciates that food safety is one of the European Union’s priorities and that a robust system to guarantee it has been put in place. It particularly welcomes the fact that since 2002 food safety in the EU has come under the authority of a specialised agency, the European Food Safety Authority (EFSA), which has all the means necessary to assess the safety of products placed on the European market.

1.2. The EESC believes that the EFSA has proved that it is competent throughout its existence. There is no doubt that it plays a very important role in preventing health risks in Europe. Thanks to the EFSA, the EU has one of the most effective systems for protecting public health in the world. However, given that public health is an extremely sensitive subject and that consumer confidence is a major concern for the EFSA, further steps must be taken to study how the current system can be improved, especially in light of the new questions raised by science. With a view to meeting this objective, the EESC wishes to make several proposals.

1.3. The transparency of the procedure for assessing new products due to enter the food chain, including chemical and other products, is without doubt an important condition for ensuring consumer confidence in the system and the products being tested. The EESC believes that some improvements are possible in this area. For example, statutory studies submitted by manufacturers, which must prove that the product concerned is harmless, are not published in scientific journals and not only does the scientific community not have routine access to the raw data from these studies, but trade secrecy has been overtly invoked in several cases. The EESC is convinced that this is not legally sound, since, according to the EFSA itself, data from statutory studies is not of a confidential nature.

1.4. The EESC calls on the European Commission to start making appropriate changes to the rules on this matter making it compulsory for the statutory studies concerned and the raw data from these studies to be disclosed on the EFSA's website as a matter of routine, once it has completed its assessment.

1.5. The EESC welcomes the recent initiatives taken to publish information in a proactive way.

1.6. In the past, the agency has found itself in a delicate situation as a result of the conflicts of interest of some of its experts. The EESC welcomes the steps taken by the EFSA in 2012 to normalise the situation but recommends keeping a careful eye on the matter because of the extremely sensitive nature of this aspect of the official assessment.

1.7. EFSA's work is complicated by the existence of scientific studies whose findings are clearly influenced by the source of their funding and which could invite considerable controversy. The EESC recommends that the EFSA pay special attention to this practice, since scientific literature is an important reference point for the assessment procedure.

1.8. The EESC congratulates the EFSA on its considerable efforts over several years to achieve a better understanding of the effect of mixtures and to develop new methodologies which can be used during the assessment procedure, and encourages the EFSA to implement them as soon as possible.

1.9. The EESC recommends adopting a cautious approach as regards the application of the principle that 'the dose makes the poison', since for 20 years many endocrinologists have being providing evidence that, for substances known as 'endocrine disruptors', the key variable is not the dose, but the moment of exposure. The regulatory framework has yet to take account of this new data, as flagged up in a recent European Parliament report ([1]).

1.10. The EESC recommends that the European Commission draw up, after consulting endocrinologists, a list of products that may have a negative impact on the development of the endocrine system. The EESC urges the European Commission to apply the precautionary principle to substances on this list, pending a consensus within the scientific community on whether they pose a hormonal risk or are harmless.

1.11. The importation of pests and diseases from third countries can have dramatic consequences for producers and consumers in the European Union. Stronger border controls, application of the reciprocity principle and a political willingness on the part of the European authorities are vital if the system's consistency is to be guaranteed.

1.12. The EU must ensure that it can rely on a trade system that does not undermine food safety guarantees for Europeans. The review of legislation on plant and animal health is an opportunity to improve the implementation of the control systems, to apply them in a uniform way and to curb the adverse social, environmental and economic impact.

1.13. The EESC calls for foods to be made fully traceable 'from farm to fork' (including imported foods) so that consumers are able to select foods of a certain quality and which meet current EU safety standards.

2. **General comments**

2.1. This opinion deals with two slightly different subjects, which nevertheless have a common denominator: reassuring European society about the availability of safe food. The first part of the opinion is about the current system for assessing new products intended to enter the food chain while the second part seeks to flag up certain issues which international trade relating to agri-food goods poses for farmers, on the one hand, and consumers and the general public, on the other.

2.2. Food safety is one of the EU's official priorities and, from an institutional point of view, is undoubtedly ensured in an effective way by the European Commission and the EFSA. There can be no denying that any microbiological risks are now firmly under control. During the course of the 20th century, however, alongside microbiological risks appeared chemical risks, a field in which the situation is far less clear-cut.

([1]) European Parliament resolution of 14 March 2013 on the protection of public health from endocrine disrupters (2012/2066(INI)).

2.3. Over the past 60 years, more than 100 000 new substances, produced by synthetic chemistry, have been released into the environment. In spite of this, only a negligible proportion (1-2 %) have been assessed in terms of possible risks to human health ([2]). This is concerning from the point of view of food safety, among other things. Apart from the substances which enter the food chain directly (additives, residues of pesticides or plastics) and which are in principle subject to the assessment procedure, other substances can enter the food chain indirectly via soil, air and water.

2.4. After being used and consumed for long periods of time, some longer than others, a number of man-made chemical products have already been withdrawn from the market because their toxicity and/or carcinogenic properties have been scientifically proven (see for example point 2.5). However, other products still have not been banned despite scientists' suspicions which are, to a greater or lesser extent, well founded. It is therefore perfectly legitimate to look into a possible link between the exposure of the human population to these new man-made chemical products, on the one hand, and on the other, the astronomic increase in developed countries of cases of cancer, and neurodegenerative diseases, as well as sterility, diabetes and obesity.

2.5. The EU has put in place a robust system to prevent risks associated with the entry of new products, including chemical products, into the food chain. At an institutional level, the European Commission (DG SANTE) is responsible for risk management, whilst the EFSA, the European agency with authority for technical matters, is responsible for risk assessment. Implementation of the new system has already yielded some reassuring results for consumers: for example, following in-depth assessments, the number of pesticides authorised in the EU fell dramatically between 2000 and 2008 (from 1 000 to 250). However, it is a worrying development for farmers, who are beginning to feel the effects of the absence of active substances allowing them to carry out pest control. Paradoxically, many of these active substances which are banned in the EU are permitted in third countries which export their produce to the European market.

2.6. Despite the existence of a robust system, experience has shown that some aspects of the assessment process can still be improved, especially as new scientific discoveries and their commercial applications often pose new challenges for the evaluation procedure. These challenges are of a systemic and methodological nature.

3. **Ways of improving the system of evaluating new foodstuff ingredients**

3.1. The EFSA assessment is based on a scientific study which should demonstrate that a particular product is harmless. Under current legislation, this baseline study has to be presented by the requesting party, i.e. the company wishing to put the product on the market. This in itself offers little in the way of reassurance because the findings of scientific studies can differ radically depending on their sources of funding (see point 3.4). However, it is true that EU rules applied by the EFSA provide for conditions which these studies must comply with, as well as, for the subsequent stages of the assessment procedure, mechanisms to act as a counterweight to the practice described above.

3.2. Another problem with the assessment procedure is the confidentiality surrounding these statutory studies, which seems to be controversial. They are not published in scientific journals and the raw data are often covered by the 'trade secret', preventing the scientific community from conducting any counter-expertise ([3]). We realise that trade secrets must be used to protect data and information relating to new products which could reveal either the composition of the products or the way in which they were manufactured. However, this is not the case with data from statutory studies, which do no more than report on how guinea pigs react after having consumed the products being tested. Since in this case the use of trade secrets is not justified by the protection of the legitimate interests of producers ([4]), the EESC considers this to be unfair and calls for legislation to be adapted to make raw data from statutory studies systematically available to the scientific community (on the Agency's website), once the assessment has been carried out by EFSA.

([2]) This estimate was made independently by Vincent Cogliano of IARC (International Agency for Research on Cancer) and by Andreas Kortenkamp, Head of Centre for Toxicology of the University of London.

([3]) For example, the raw data of the statutory study on genetically modified MON 863 maize was made available to the scientific community only after a ruling by a German court in 2005 and, in January 2013, Monsanto threatened the EFSA with legal action 'for having revealed the trade secret' following the disclosure by the EFSA director on the internet of data relating to GM NK 603 maize, under pressure from the media and some in the scientific community.

([4]) According to the EFSA itself, statutory (reference) studies are not of a confidential nature.

3.3. The EFSA is a public agency set up to provide independent scientific assessments of new products forming part of foodstuffs. In the past, however, the agency was criticised because of the conflicts of interest of some of its experts. In most cases, they were also ILSI consultants ([5]). The EESC welcomes the fact that in 2012 the EFSA made a major effort to solve this problem, meaning that the situation is now back to normal. Given its sensitive nature, the EESC recommends keeping a close eye on this matter.

3.4. In the course of conducting assessments, the competent agencies also refer to relevant studies published in the scientific literature. However, it has been proved that the results of scientific studies can differ radically depending on the sources of funding ([6]). The independence of researchers is key to ensuring the sustainability of the system, and the task of the EFSA is complicated by the need to distinguish between high-level scientific studies and those whose value is questionable because of methodological or other errors.

4. **Possibilities for improving the methodology of the assessment procedure for potentially hazardous products**

4.1. The methodology for assessing chemical products that may be used in foodstuffs is based on the Paracelsus principle. According to this principle, 'all things are poison and nothing is without poison; only the dose makes a thing poison'. For each product, then, all that is necessary is to calculate an 'acceptable daily intake' or ADI. In other words, the great majority of new products can be consumed on a daily basis, provided the amounts are not in excess of a fixed dose.

4.2. For centuries, the application of Paracelsus' principle could be taken to be reliable. However, the new man-made substances, included in foodstuffs for several decades, represent a fresh challenge and Paracelsus' principle can no longer be applied blindly.

4.3. The first problem to arise is how to manage the food intake of individuals. Consumers are in fact completely unaware of the existence of the ADI and, as a result, do not even have the theoretical possibility of checking whether they are consuming more than the 'authorised' amount of a particular substance that may be contained in a range of foods that they consume on a daily basis ([7]). The reality is that the concept remains scientific and highly technical and is used only by a narrow circle of specialists.

4.4. The human organism is not exposed to a single chemical substance, however, but to a large number of residues of pesticides, plastics and food additives that are also found in foodstuffs. Moreover, the ADI is calculated only for each individual chemical substance, without taking account of a possible cumulative or synergistic effect. Unfortunately, this effect is far from being purely hypothetical: on the contrary, a number of studies have already shown that the cumulative action of several substances can have serious consequences, even though they have tested as harmless individually ([8]).

4.5. The agencies responsible for assessing potentially harmful products, such as the EFSA or the FDA in the United States, have been studying the cumulative and synergistic effects for several years but the fruits of their efforts have not yet been translated into legislation ([9]). This is due to scientific difficulties and the complexity of this task. However, the EFSA has declared that it is quite close to having scientific knowledge in the field translated into regulation and the EESC urges it to do so as soon as possible.

([5]) ILSI (International Life Sciences Institute) — a lobbying organisation for multinational corporations in the fields of agrochemicals, the agri-food industry and biotechnology, such as Coca-Cola and Monsanto. In spring 2012, following a report by the Court of Auditors (Special Report No 15/2012), which highlighted the lack of clarity in the management of conflicts of interest at the EFSA, the European Parliament postponed until a second reading its decision to approve the agency's budgetary discharge for 2010, pending further information about its policy on conflicts of interest.

([6]) See, for example, Frederick vom Saal & Claude Hughes, 'An extensive new literature concerning low-dose effects of bisphenol-A shows the need for a new risk assessment', *Environmental Health Perspectives*, Vol. 113, August 2005, pp. 926-933.

([7]) For example, the artificial sweetener aspartame is present in 6 000 different products.

([8]) For example, Sofie Christiansen, Ulla Hass et al., 'Synergic disruption of external male sex organ development by a mixture of four antiandrogens', *Environmental Health Perspectives*, Vol. 117, No 12, December 2009, pp. 1839-1846.

([9]) In 2006, the European Commissioner for Agriculture, when questioned by the MEP Paul Lannoye, admitted the existence of a regulatory gap concerning the evaluation of mixtures. Yet despite this admission, no significant progress has been made.

4.6. Lastly, the principle of Paracelsus has been called into question by the phenomenon of 'endocrine disruptors'. These are substances that tend to mimic the action of hormones, especially the female hormone oestrogen. According to many endocrinologists, they frequently have an adverse effect even when the organism is exposed to significantly lower quantities than the ADI and it is not even possible to set a threshold under which they would not be harmful ([10]). It has been demonstrated that the critical variable in the case of endocrine disruptors is not the dose but the moment of exposure. In this instance, the most dangerous period is when the endocrine system is developing (prenatal life, early childhood and puberty). Another particular feature of endocrine disruptors is that their toxicity may become apparent several years or even several decades after exposure.

4.7. A considerable number of substances, both natural and man-made, are now considered by endocrinologists to be endocrine disruptors, and many of them are frequently contained in food products for human consumption. These include various pesticides, dioxins, PCBs and phthalates, for example, but the most heated debate today surrounds the packaging material bisphenol A ([11]).

4.8. There is evidence that endocrine disruptors play a key role in the alarming decline in male fertility (a phenomenon which has been observed since the Second World War), and have contributed to the significant increase in testicular and prostate cancer in men and breast cancer in women, as well as other serious diseases ([12]).

4.9. The competent European bodies, namely the EFSA and DG SANTÉ, hesitate to take the steps which have been strongly recommended by endocrinologists because the scientific community is split over whether very low doses are harmful ([13]). However, many of the scientists who carry out original research in endocrinology believe that very low doses of substances identified by them as endocrine disruptors have a very dangerous effect, especially on pregnant women and small children. For them, this is beyond doubt and has been proven by 'thousands of scientific studies' ([14]), whereas for the EFSA the idea that very low doses do have an impact is purely hypothetical.

4.10. Following the comprehensive report ([15]) commissioned by DG ENV which confirmed the opinion of the endocrinologists, in October 2012 DG SANTÉ invited the EFSA to reflect on the criteria for defining endocrine disrupters, and to assess the relevance of the testing methods which exist in this area. However, these steps have yet to be taken and, for the time being, the European Commission is proposing only a roadmap which paves the way for a definition of endocrine disruptors ([16]). The task itself has therefore been postponed until late 2016.

4.11. Endocrinologists have repeatedly made it known that they disagree with the EFSA and other advisory or regulatory bodies in respect of endocrine disruptors, not least by means of the declaration of consensus published by the American Endocrinology Society, which has more than 1 000 members ([17]), at the international seminar held in Berlin in September 2012, and the Berlaymont Declaration issued in May 2013 ([18]). All signatories of that declaration were specialists who actively publish work on the subject and believed that, as a matter of priority, EU legislation should begin to take account of the knowledge accumulated over the years. For example, the latest pesticide regulation of March 2013 provides for mandatory tests to determine whether a new product is, among other things, mutagenic, but not to assess its hormonal activity. This illustrates that the concerns of endocrinologists are still far from being taken seriously by the competent authorities.

([10]) *The 2013 Berlaymont Declaration on Endocrine Disruptors.*

([11]) In 2008, the sale of feeding bottles manufactured using BPA was prohibited in Canada, and in 2011 the EU did the same. Since 1 January 2015, France has banned the use of Bisphenol A for all products intended to come into contact with foodstuffs. This ban was justified by a scientific opinion issued by the national agency ANSES. On 21 January 2015, the EFSA published an opinion stating that 'BPA poses no health risk to consumers of any age group (…) at current exposure levels.'

([12]) European Parliament resolution of 14 March 2013 on the protection of public health from endocrine disruptors (2012/2066(INI)), recitals A and C, and *The 2013 Berlaymont Declaration on Endocrine Disruptors.*

([13]) The EFSA refers in particular to the seminar it held in Brussels in June 2012 where only some (a minority) of the participants were experts in endocrinology.

([14]) Statement by the American endocrinologist Frederick vom Saal at the international conference held in Berlin in September 2012.

([15]) Andreas Kortenkamp, Olwenn Martin, Michael Faust, Richard Evans, Rebecca McKinlay, Frances Orton and Erika Rosivatz, 'State of the art assessment of endocrine disrupters', final report, 23 December 2011.

([16]) European Commission roadmap on Defining criteria for identifying endocrine disruptors in the context of the implementation of the plant protection product regulation and biocidal products regulation, June 2014.

([17]) Evanthia Diamanti-Kandarakis et al., '*Endocrine-disrupting chemicals: an Endocrine Society scientific statement*', *Endocrine Reviews*, vol. 30, No 4, June 2009, pp. 293-342.

([18]) See footnote 10.

4.12. The EESC believes that regulation should, as a matter of urgency, start to take account of knowledge accumulated in the field of endocrinology, and thus agrees with the European Parliament's ([19]) position. Even if the 'wider scientific community' is split, the opinion of many endocrinologists should provide ample justification for, at the very least, applying the precautionary principle to substances identified by endocrinologists as endocrine disruptors.

5. **International Trade: agricultural pests and diseases**

5.1. The World Trade Organisation (WTO) requires its members to conduct negotiations to continue and facilitate trade in agricultural produce, entailing substantial and progressive reductions in domestic subsidies and protection for their products in the interest of promoting ever greater liberalisation.

5.2. Against the backdrop of an increasingly liberalised global market, with trade in plant products becoming more and more common, spurred on by the trade agreements that the EU is constantly signing with third countries, there is a heightened risk of new pests and diseases being introduced into Europe.

5.3. There is great concern and fear on the part of European producers regarding the entry of harmful agents, many of which are extremely hazardous and are not yet established in Europe. The entry and propagation of some of these agents could cause a sharp fall in various areas of European production resulting, particularly in the case of minority crops, in severe financial losses for producers.

5.4. The entry of foreign pests and diseases not endemic to the EU would, in addition to posing a threat to certain agricultural products, lead to a rise in production costs for European farmers and consequently a decline in the profitability of farms. They could also have a major economic, environmental or social impact across the European continent.

5.5. We would cite, by way of a practical example that clearly and unequivocally shows the gravity of the problem, the recent case of citrus fruit imported from South Africa. During the last season, a significant number of shipments of South African citrus fruit arriving in European ports were contaminated by a dangerous fungus, Guignardia citricarpa (black spot). In the event, 35 shipments of imported South African citrus fruit containing the pathogen were intercepted.

5.6. This shows how lax regulations in the EU are putting 500 000 hectares of European citrus-growing areas at risk, as there is no known treatment for effectively eradicating the disease. If introduced into Europe, it would have extremely adverse economic, environmental and social repercussions, jeopardising the security of food supplies.

5.7. The draft regulation on plant health is an improvement on Council Directive 2000/29/EC of 8 May 2000 on protective measures against the introduction into the Community of organisms harmful to plants or plant products and against their spread within the Community ([20]), however, it continues to overlook some aspects of vital importance, meaning that many outstanding problems still lack a solution.

5.8. It should also be pointed out that production conditions for imports from third countries are not the same as those in force in the EU. Third countries allow the use of many plant health products that are banned in the EU, MRLs (maximum residue limits) are higher than those allowed in Europe and social and working conditions are quite different (lower levels of protection, if any).

5.9. From the point of view of the European consumer, it must be stressed that in terms of safety and traceability, there is a patent difference between goods of external origin and those produced in the EU.

([19]) See footnote 1.
([20]) OJ L 169, 10.7.2000, p. 1.

5.10. Current legislation limits or restricts the use of an increasing number of active substances used to treat certain pests and diseases. Restrictions imposed on European farmers could affect up to 50 % of the products available over the last few years. At the same time, there has been an increase in requirements concerning the individuals applying such products, in that they have to undergo greater training and make use of more protective measures during treatment.

5.11. The principle of reciprocity should ensure that all produce sold on the same market is subject to the same obligations or standards as those applicable in Europe (health security, eco-conditionality and use of active substances, etc.).

Brussels, 18 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

Opinion of the European Economic and Social Committee on 'Smart islands'

(own-initiative opinion)

(2015/C 268/02)

Rapporteur: Ms DARMANIN

On 10 July 2014, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Smart islands

(own-initiative opinion).

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 19 March), the European Economic and Social Committee adopted the following opinion by 147 votes to 1 with 5 abstentions.

1. **Recommendations**

1.1. Islands have unique characteristics which bring specific difficulties, but these characteristics can be turned around to become opportunities if smart and sustainable development policies are implemented to give islands the competitive advantages that derive from sustainable growth and better jobs.

1.2. In the context of the development and implementation of smart and sustainable development policies, the specific features of islands, particularly in terms of their vulnerability to the impacts of climate change, should also be taken into account. Policies and initiatives should therefore ensure the appropriate mainstreaming of climate change adaptation measures in order to ensure that islands build and strengthen climate resilience in all areas of their economies.

1.3. Smart Policies for Smart Islands would include an 'Island Test', whereby any EU policy would be tested as to its effect on islands and proper consideration given to the island dimension. The EESC calls on the Commission to implement Island Tests across all DGs.

1.4. The EESC proposes a whole series of smart policy recommendations with a view to boosting smart islands, each of which is explained and described in detail in points 4 to 11 below. They relate to:

— the digital agenda: investment in infrastructure, completion of the single market and investment in R & D,

— energy supply: islands as test beds for ocean, tidal, wave, solar and wind energy; and the combination of these technologies,

— urban mobility and transport: H2020 and Interreg having programmes targeted at maritime transport and urban mobility with a view to sustainability in islands; combining state aid with sustainable transport,

— maritime policy: maritime surveillance; R & D in sea mining and oceanography using islands as research centres; impact assessment of islands on maritime policy; role of islands in maritime policy,

— trade in goods and services: best practices of niche trade; adaptation of policy conducive to niche trade on islands; open laboratories for economic and social development in islands,

— tourism: accessibility; specificities of the nature of tourism and impacts of tourism,

— water management: policy with specific characteristics unique to islands, and lastly

— education, training and lifelong learning.

1.4.1. It is understood that implementation of these recommendations, in the first instance, and depending on the competences and responsibilities involved — be they shared or not — would fall to local, regional, national or EU-level authorities. Here, cooperation between levels is strongly advocated.

2. **Scope**

2.1. In this opinion, the EESC uses the United Nations' definition for islands as a basis. However, on the one hand, it limited the scope to islands which form part of the European Economic Area (EEA) and, on the other, expanded to include small and medium-sized islands which are in themselves also States and members of the EEA. This refers specifically to Malta, Cyprus and Iceland.

2.2. With the term 'Smart islands', the EESC is specifically referring to an insular area that creates sustainable local economic development and a high quality of life by excelling in multiple key areas of sustainability, such as the economy, mobility, energy, environment, ICT, water, education, human capital and demonstrates excellence in governance.

3. **Introduction**

3.1. European islands are sometimes at a disadvantage compared with the European mainland due to their isolation and peripheral nature. However, geography brings great advantages as well as disadvantages, and at the current time, islands are also offering immense potential for growth and development, not only for themselves but also for Europe as a whole. This is why the EESC is calling for smart policies and smart development initiatives at EU, national and regional levels that also cater for the specific characteristics of islands. Nevertheless, responsibility for smart policies in islands should be shared between all the aforementioned levels and not fall exclusively to one category. In view of this shared responsibility, but not exclusively due to this, the EESC calls for an expert group on islands that would oversee policy and its applicability and effect on islands. Furthermore, the EESC recommends that open platform for islands be established, to act as a forum for coordination and action among islands in relation to the Smart islands objectives.

3.2. The specific characteristics of islands often lead to certain specific social features, such as the depletion of the population as people move to the mainland due to what may be seen as better opportunities, difficulties related to transport and, sometimes, marginalisation. However, some islands have managed to turn these disadvantages into positives by developing niches and setting themselves apart.

3.3. In view of the specific characteristics of islands, the EESC calls for EU policies to include an 'Island Test', whereby any policy would be tested as to its effect on islands and proper consideration would be given to the island dimension. The EESC calls on the Commission to implement Island Tests across all DGs.

4. **Digital capability**

4.1. With the internet clearly set to be a growth area for Europe, our 2020 targets include ensuring that all Europeans have access to broadband by 2020 and that 50 % of the public are making online purchases by 2015.

4.2. With regard to the objective of ensuring widespread internet coverage by 2020, there are infrastructure problems and some areas, including some islands, are lagging behind. As matters stand, a number of islands, particularly the more remote ones, currently have low internet penetration and poor public access to the internet.

4.3. Although one of the EU2020 targets was to ensure that the whole of Europe had internet coverage by 2013, this goal has not yet been reached on some islands, due primarily to infrastructure-related problems.

4.4. Digital capability is one of the ways in which islands can diminish the geographical barrier of isolation, not only through the opportunities eCommerce offers for entrepreneurship, employment and SMEs, but also by enabling the public to reap greater benefits from the single market.

4.5. To this end, the EESC calls for specific action to be taken at both European and national level to:

(i) invest in infrastructure to ensure full broadband penetration on islands;

(ii) complete the digital single market, thereby ensuring that islands are not penalised and allowing them to participate fully in the single market; and

(iii) invest in R & D at European level by using islands' potential to boost employment and growth in remote areas. Furthermore such R & D should be used as a tool to achieve greater social innovation in the islands.

5. **Energy sustainability**

5.1. Europe has introduced energy targets for 2020, 2030 and 2050 so as to become more sustainable and to curb the use of fossil fuel in order to meet our energy needs. Some of the EU's islands are not only dependent on fossil fuel for all their energy needs but are also dependent on specific restricted shipping methods to obtain it.

5.2. It is therefore even more important that islands become more sustainable in their energy use. Islands are, by their very nature, well-positioned to make the most out of ocean energy, wind energy and solar energy.

5.3. There are success stories demonstrating that islands have the potential to become sustainably self-sufficient in terms of their energy requirements. For example, Samsø, off the coast of central Denmark, has been that country's 'Renewable Energy Island' since 1997. Using 11 land-based wind turbines, it was able to become completely self-sufficient in renewable energy within 10 years. In 2014, El Hierro, one of the Canary Islands, also became completely self-sufficient in renewable energy through the use of wind turbines and hydroelectric power.

5.4. Islands in Europe could draw great benefits from renewables. As well as reducing their carbon footprint, the sector is a source of growth and employment, not only within the industry itself but also beyond it, as in the case of Samsø, which has become a tourist attraction as a result of its efforts to become sustainably self-sufficient.

5.5. The EESC therefore calls for action to be taken at both European and national level in the following areas:

(i) focussing research and development on ocean energy, wave energy and tidal energy on islands, not only using the islands as test beds, even if this is a related issue, but also drawing on local knowledge and research expertise;

(ii) studying the effects of combining different forms of renewable energy in small and localised areas such as islands; and

(iii) targeting specific innovation initiatives at islands.

Such action should take into account the specific conditions prevalent on islands in the different seas/oceans.

6. **Transport and mobility in Island cities**

6.1. Transport is a particularly difficult issue for people living on islands, since they are sea-locked and therefore heavily reliant on ferries and airlines. Furthermore, when it comes to the import and export of goods, islands are also highly reliant on sea transport. In view of this, ferry services generally receive State aid and subsidies in order to alleviate part of the burden of ferry costs on residents. Many transport companies still use low quality fuel which is a threat to maritime transport workers, local populations and tourists.

6.2. Although urban mobility is dependent on the wide use of motor vehicles, more sustainable methods of urban transport are increasingly being introduced, one example being the use of low-emission vehicles in the Aeolian Islands. There is greater scope on islands for the introduction, or more extensive use of, hybrid and electric cars.

6.3. The EESC recommends that action be taken in the following areas:

(i) specific Horizon 2020 projects should be targeted at energy-efficient maritime transport projects for islands;

(ii) State aid for transport should be given to companies that take concrete steps to reduce emissions and use high quality fuel in maritime transport;

(iii) Interreg projects should be targeted at energy-efficient urban mobility within islands;

(iv) emphasis should be placed on creating decent and more sustainable jobs in the islands. The EESC also calls for reducing precarious employment for the staff of airlines that fly island routes and cruise liners, whose business often benefits from the attractiveness of islands;

(v) accessibility for the elderly or people with disabilities should also form part of smart transport policies on islands.

7. **Maritime policy**

7.1. In recent years, greater attention has been paid to the blue economy and its potential. Maritime affairs are of great importance to the islands, surrounded as they are by the sea.

7.2. Islands can reap specific benefits from the implementation of maritime policies at EU level.

7.3. The EESC reiterates its prior calls for opinions regarding the importance of EU islands for maritime traditions and know-how in seafaring activities. EU islands have a comparative advantage as providers of seafarers who possess generations of maritime know-how which should not be lost. However, in a period of acute unemployment ashore, the EU shipping industry is suffering from a well-known scarcity of EU seafarers who could be employed as officers in the EU fleet.

7.4. The EESC recommends that action be taken in the following areas:

(i) steps should be taken to ensure that islands draw specific benefits from maritime surveillance;

(ii) islands should be given research and development tasks in the areas of sea mining, oceanography and sea-bed mapping and their capability in these areas enhanced; islands can play a bigger role in protecting biodiversity and the initiatives taken at various levels in this area should be supported;

(iii) the European Commission should conduct a European impact analysis on the role of Europe's islands in maritime affairs;

(iv) a concentrated effort should be made in the area of maritime affairs, with a specific focus on islands and their role;

(v) EU action is required to attract EU islanders to pursue the maritime profession and provide them with the necessary training.

8. **Island produce and services**

8.1. Islands across Europe have developed at different rates: some are still within the Migration, Remittance, Aid and Bureaucracy stage (MIRAB) (Bertram and Watters, 1985); others are Small Island Tourist Economies (SITE) (McElroy, 2006); and some have finally made it to the People, Resources, Overseas, Finance, Transportation (Profit) stage (Baldacchino, 2006).

8.2. Some clear examples of good practice among islands at the PROFIT stage are:

— Jersey: private wealth management,

— Malta: electronic gaming,

— Iceland: cloud computing,

— Cyprus: flag registry,

— Crete: LASIK eye treatment.

8.3. Islands are more competitive when they can identify and excel in niche markets.

8.4. The EESC would therefore recommend that:

(i) best practice be identified for islands;

(ii) regional policies cater for such niche development;

(iii) islands be used as open laboratories for the development of such products or services that can then be taken up widely in mainland Europe.

9. **Island tourism**

9.1. Islands are very often linked with tourism (the SITE model); but while tourism is an important industry for islands, it should not be seen as the sole or main industry and due consideration must be given to industry as a whole.

9.2. Niche tourism provides a clear competitive advantage for islands as compared with more accessible areas in mainland Europe. However niche tourism should not necessarily mean more expensive tourism. In this respect, islands' accessibility is key to ensuring accessibility in financial, physical and also transport terms, while respecting environmental protection requirements.

9.3. The EESC would therefore recommend that:

(i) policies relating to tourism give specific consideration to island situations;

(ii) accessibility with regard to tourism should include both the island transport aspect, as referred to above, and also accessibility in financial and mobility terms as well as the question of environmental protection requirements.

10. **Water management**

10.1. Islands face similar problems when it comes to water management, namely: water scarcity; decreased water quality; inadequate water practices, such as the over-use of resources; and added demand due to tourism.

10.2. Volcanic islands add a dimension to water management generally not dealt with in water policies: the aspect of water sources for health purposes.

10.3. The EESC therefore recommends that water management policies give specific consideration to the specific characteristics of islands in so far as their requirements often lean more towards:

(i) the reuse of water;

(ii) making a distinction between drinking and non-drinking water;

(iii) desalination;

(iv) rain water collection; and

(v) improving the sustainability of sources of water used for health reasons.

11. **Education, training and lifelong learning**

11.1. Education is often seen as a key element for improving living standards. This is all the more true of islands. Whereas tertiary institutions on the islands often excel in specific areas, also reflecting the niche approach, mainstream advanced education should also be accessible to islanders.

11.2. To this end, the potential of the digital world should be further exploited, to ensure that learning and education is as accessible to islanders as it is to people living in mainland Europe. A clear example of the potential of the digital world is provided by the Cyclades, where teleconferencing is used extensively for training purposes.

11.3. Islands suffer from greater depletion of the population due to relocation, and hence Lifelong Learning can and should be one of the policies and practices designed to retain a workforce that is not only highly employable but also attracted to remaining on the island.

11.4. The EESC therefore recommends that policy ought to:

(i) reflect on the role of education in the advancement of islands;

(ii) implement lifelong learning approaches to ensure employability and a workforce that can harness the full potential of the labour market within the islands;

(iii) ensure that islands are not depleted of their workforce.

Brussels, 19 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

Opinion of the European Economic and Social Committee on 'European cooperation on energy networks'

(own-initiative opinion)

(2015/C 268/03)

Rapporteur: Mr COULON

On 16 October 2014, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

European cooperation on energy networks.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 18 March), the European Economic and Social Committee adopted the following opinion by 167 votes with 3 abstentions.

1. **Conclusions and recommendations**

1.1. The EESC considers enhanced European cooperation on energy networks to be essential for the general public and businesses.

1.2. Civil society and regional players have a key role to play in energy transition, which is the only way to ensure energy efficiency, control over energy prices and the continuation of efforts to combat climate change.

1.3. The EESC proposes that forums for discussion between regions and civil society organisations be created on the joint initiative of the European Economic and Social Committee and the Committee of the Regions, to include the economic and social councils or similar institutions of each Member State.

1.3.1. The EESC welcomes the proposal of the Commission in its Energy Union communication to set up an energy infrastructure forum. This forum should provide for broad civil society consultation, so as to:

— provide for systematic feedback and identification of local best practice,

— promote discussion on local rules and steer funding towards efficient models,

— foster acceptance of and commitment to energy issues.

1.4. The EESC recommends introducing a 'European energy savings account' which could be opened by any European and which would yield a return slightly above the EU annual inflation rate. This would tap funding specifically for European energy projects to supplement public or private (corporate) funding.

2. **Introduction**

2.1. The development of energy networks will already be a vital issue for Europe over the next few years. Extending and consolidating these networks is an absolute prerequisite for successful energy transition, which is essential for combating climate change, for Europe's competitiveness and economic attractiveness, and for ensuring security of supply to consumers.

2.2. This trend will require hundreds of billions of euros to be mobilised, for which the groundwork has been laid in the Commission's programme for a job-rich recovery. This investment will go hand in hand with the spread of smart networks (both transport and distribution), which promise to be a significant market. Additional, novel types of funding will need to be generated, including by promoting community-funded projects.

2.3. A proper EU energy infrastructure policy means developing key sectors to support innovation, which will strengthen European competitiveness on the global market.

2.4. This focus on energy networks will be a key aspect of European integration and cooperation in the sphere of energy more generally. This now pressing issue has been comprehensively addressed in previous EESC work, including opinions on developing a European energy community. It is precisely the objective of the Energy Union proposed by the new Commission and steered by European Commission vice-president Maroš Šefčovič.

2.5. Echoing the EESC's priorities, the Energy Union duly aims to promote dialogue and cooperation, which are the only way to reduce costs, increase efficiency and respond to the needs of ordinary people and businesses.

3. **Challenges for gas infrastructure in Europe**

3.1. In 2014, the situation in Ukraine reawakened concern in Europe about natural gas supplies. With reserves from North Sea and Dutch gas fields declining, diversification of import sources is now a major issue, along with the continent's capacity to cope with potential interruptions in supply. Over the next few years this will mean initiating or completing a number of cross-border projects for gas pipelines, compressors to reverse flows if necessary, as well as methane terminals. At the same time, intra-European infrastructure will be needed to promote integration of the internal market and prevent bottlenecks from causing price discrepancies.

3.2. In addition, energy transition is unsettling the outlook for the gas industry in various ways by sending signals that can sometimes be contradictory. Gas infrastructure effectively relies on investment that is recuperated only over decades. The wish to reduce energy consumption or shift energy use from carbon-based to renewable energy sources consequently does little to encourage investment. In addition, the development of shale gas in the United States, plus imports of American coal to Europe, was not foreseen and has led to overinvestment in combined-cycle electricity generation, which was intended to counterbalance intermittent generation. On the other hand, energy transition entails developing biogas, which will require some adaptation of networks to take account of the dispersed nature and collection of this type of energy.

3.3. As far as natural gas is concerned, the direction of European energy strategy ought to be clear and comprehensible in view of the considerable investment required, which the European Commission estimates at EUR 70 billion and the ENTSO-G at EUR 90 billion by 2020.

4. **Electricity networks and energy transition**

4.1. Electricity transmission and distribution networks are the backbone of Europe's electricity system and a key asset in energy transition. They must be adapted to new power generation methods using renewable energy that are more widely dispersed geographically and intermittent, and to new consumer needs, in order to ensure a balance between electricity supply and demand. The first high-voltage and ultra-high-voltage electricity lines were developed to serve centralised generation systems — thermal, then hydro, then nuclear in many countries. Consumption needs in urban and industrial regions, where growth was very rapid from the 1950s, determined the siting of new lines. Today, Europe is criss-crossed by large flows of energy from renewable sources that traverse national frontiers, making interregional solidarity all the more necessary.

4.2. The EU's objectives for 2020 and 2050 — taking account of the climate and the environment, security of energy supply and competitiveness — are prompting a surge in investment in decentralised electricity generation from renewables. In France and Germany, and also Spain and Italy, some 95 % of such power plants are now connected to the electricity grid (low- and medium-voltage). This decentralised energy is essentially produced intermittently, i.e. when it is windy or sunny. The role and tasks of electricity distributors are therefore likely to change radically. In the past, the distribution network faced few 'electricity bottlenecks', and it distributed electricity generated centrally and routed through the transmission network (high- and ultra-high-voltage) to the end-user in a 'top-down' way. In future, the grid will be managed differently. The increasing proportion of decentralised renewable energy feeding into the grid, charging of electric vehicles and the greater role of customers who can be actively involved in the load management market will change the responsibilities and operations of electricity distributors, as well as the relationships between distribution and transmission networks. Thus distribution networks will in future be increasingly interconnected and complex, with multiple power generation sources and connecting increasingly diverse and fluctuating consumption patterns; electricity flows may even be reversed so that electricity moves from distribution to transmission networks when more power is generated than is consumed locally. The difficulties facing electricity transmission networks today, especially congestion management, can generally be expected to impact on the everyday management of electricity distribution networks in the near future.

Increased flexibility in power generation

4.3. This energy transition on which all European countries have embarked results in energy being generated in different locations: these new sites, which are more dispersed than 'traditional' power plants, do not coincide with the previous template. Wind or photovoltaic power tends to be generated in regions remote from the main consumption centres. In Germany, for instance, transporting wind energy produced in the North Sea or the Baltic Sea to southern consumption centres is a major challenge: since transmission capacity is currently inadequate, generation of renewable energy sometimes has to be restricted, which wastes material and financial resources. The network must therefore adapt quickly to be able to accommodate new power sources. National energy policies, e.g. concerning the speed and scope of implementation of renewables, should also take effects on energy systems in other Member States into consideration.

4.4. In addition to the issue of connecting to the grid, massive growth in these new fluctuating energy sources (in contrast to the controllable power production that has predominated until now), raises questions about the management of the electricity system and is causing new steering mechanisms to be devised.

4.5. When it is up and running, electricity storage will provide an excellent solution to the intermittency of renewable energy and the fluctuation (daily or seasonal) in its consumption. However, the technology is still limited, essentially to pumped-storage hydro, a method that has certainly been tried and tested (over almost 80 years) but which is constrained by the paucity of sites and by their environmental impact. Moreover, these are large-scale plants that require electricity flows to be bidirectional: pumping and generating. The ideal situation would be dispersed storage.

4.5.1. Other avenues are being explored, such as hydrogen storage, but none of these will lead to industrial, large-scale development within the next decade.

4.6. Given the current absence of adequate decentralised storage capacity that is effective, financially viable and environment-friendly, even if different self-consumption options can be combined, the best solution for receiving and using new renewable energy is still effective power-flow management. It is precisely this that is facilitated by a sufficiently connected and robust regional, national and European grid. By ensuring that generation capacity is pooled at different levels through interconnections, the system of energy networks provides substantial economies while guaranteeing electricity supply right across the European Union.

4.7. This economy of means is not related to the size of the network alone, but is also provided by the interplay of social, cultural, geographical and weather factors, or of course differences in power generation modes. Let us return to the example of interconnectivity between European grids. Evening consumption peaks are staggered owing to differences in lifestyle between neighbouring countries: people do not eat their evening meal at the same time in Belgium, Germany, France or Spain, and likewise in Romania, Bulgaria, Greece and Poland. In addition, electricity systems in different countries vary in their susceptibility to certain contingencies: high-demand periods in France correlate strongly with low temperatures (the consumption peak will occur on a particularly cold winter evening, at around 7 p.m., whereas Germany is very sensitive to wind power generation, and Spain will experience its consumption peaks at around 1 p.m. during the summer because of air-conditioning use).

4.8. Pooling electricity generation capacity through interconnections allows each country to share the risk associated with these contingencies and so decrease its capacity needs.

4.9. Electricity transmission networks allow large-scale development of renewable energy reserves and better management of the constraints imposed by their intermittent character; the network makes it possible to resort less to 'back-up' capacity, very often provided by power plants that rely on fossil fuels (coal, gas, oil) that are big greenhouse gas (GHG) emitters. Networks (transmission and distribution) ensure that occasional local over-generation, e.g. high photovoltaic power generation during the lunch break in a residential area, can be routed to areas where it will be used. These networks also make it possible to cover the needs of the same population during the night and on days when there is little or no sunshine.

The need to regulate consumption

4.10. Thus a well-managed European network based on infrastructure adapted to the new power-generation map is manifestly a key instrument for energy transition. But this is only part of the story.

4.11. In industrialised countries, the fully controlled types of power generation — such as hydroelectric or nuclear — deployed up to the beginning of the 1990s, led to the assumption that generation must be adapted to consumption (supply and demand) rather than the reverse. The network operator was to ensure that energy generation and supply were adapted to variations in consumption so as to guarantee a permanent balance between electricity generation and electricity use.

4.12. But the situation has changed, and changed irreversibly. The development of new uses for electricity (widespread use of air-conditioning, proliferation of electronic equipment, mobile telephony and applications, etc.) and switches to electricity taking place for instance in the transport sector (electric vehicles) mean that current consumption has to be managed in a way that does not saturate the generation system and electricity networks, in order to avoid excessive investment.

4.13. Consumption peaks associated with greater weather variability must be taken into account. In countries where electricity is used for heating, consumption peaks are becoming more frequent during harsh weather: in France consumption exceeded 102 GW at the end of February 2012, which is 30 % higher than 10 years previously. More frequent heatwaves combined with greater prevalence of air-conditioning systems are already triggering consumption peaks. This may create a problem for power generation. For example, in western Europe electricity consumption peaks reflect winter cold snaps as well as summer heatwaves, i.e. anticyclones with no wind. This does not matter too much when wind power represents only a minor percentage of total power generation, but the current increase in the share of this energy source is changing the game.

4.14. Load management is one useful way of controlling demand which allows consumption peaks to be reduced and the load curve to be evened out more generally. This consists in reducing the physical consumption of a given site or group of users at a given moment. The reduction will be dispersed in the residential sector, or will take different forms for industrial sites. The 'deferred consumption' effect must be taken into consideration.

4.15. Regulating consumption is one tool; others include the development of smart networks (less investment), forms of power generation and storage. Here network managers must play an active part and contribute to the development of new consumption management techniques. It is not just technology, but also real market mechanisms, that will allow the progressive transformation of consumers into 'prosumers'. Prosumers are now coming into their own, and managers of networks (transmission and distribution) are key players. In France, for example, calls for tender have now made it possible to substantially step up the amount of load reduction since load management was introduced in 2010: from 100 MW when the system was piloted to over 700 MW in late 2013. Here too, there is much that needs to be discussed between operators, local authorities, employees in the sector and consumer associations.

4.16. The new market mechanisms to be introduced over the next few years, such as the capacity mechanism, should underpin this trend in the medium to long term and so help to capitalise more on flexibility in the demand for electricity.

5. **From economic and social optimisation to environmental optimisation**

5.1. Pooling and optimisation of power generation on the one hand, and burgeoning consumer power and flexibility on the other, all bring us back to an essential purpose of the electricity transmission and distribution network, namely regional solidarity. The transmission network effectively makes it possible to reconcile differing regional or even differing national balances, disparate generation potential, and distinct and irregular consumption profiles. As well as providing flexibility between generation and consumption, the transmission network is a tool that can be used to optimise the electricity system from an environmental perspective.

5.2. Power flow management takes account of the technical constraints and economic and social 'hierarchy' of different electricity sources. So-called unavoidable energy (which would be lost if it is not used immediately, for example wind or photovoltaic power) is used first, then run-of-river hydroelectric, and then nuclear, whose marginal cost is low. These are followed by fossil sources: coal, gas and oil, depending on the fuel cost. Reservoir hydro-power tends to be used to 'regulate' the other sources; the same goes for other flexible conventional production facilities (e.g. gas-fired power plants).

5.3. This system should theoretically guarantee optimum and economical use of power sources. But the many factors that have to be taken into account place stress on the system, and the increasing role of renewables may contribute to destabilising it.

5.4. Apart from the technical injection of renewables into the electricity grid, their development in the context of support mechanisms, especially financial mechanisms, raises the issue of their interaction with classic market systems.

5.5. This must be seen in context: thermal generation systems, especially combined-cycle gas, are barely profitable owing to stagnation in consumption — which may be considered positive for society — and to the fall in coal and carbon prices in Europe. Against this background, feeding in power from renewables could produce imbalances on regulated markets. Thus negative prices have been observed in wholesale markets, and there is a risk of this paradoxical situation occurring in certain European countries for several hundred hours per year. Shutdowns over the past few years of over 70 000 MW of power generation from combined-cycle gas systems due to lack of economic viability, with massive technical, social and economic knock-on effects, evidences the lack of coordination between development of the new European energy model and conditions imposed by the internal energy market.

5.6. The decommissioning of many thermal power plants, in particular gas plants, all over Europe could become problematic. Apart from the associated social issues, current supply margins — which made it possible for instance to get through the cold snap experienced in Europe in 2012 — will narrow throughout the 2014-2018 period, with a pronounced contraction in 2015 and 2016. The various scenarios considered by several companies show that if a cold spell like that of February 2012 were to recur under the same weather conditions (wind, sun, cold), it will no longer be possible by 2016 to meet the security of supply requirement set by certain Member States, i.e. an average 3-hour cut in electricity supply.

5.7. The electricity market is now struggling to send efficient long-term signals, which are vital to stimulate the necessary investment and to achieve Europe's energy and climate objectives. In the European Union and most of its neighbouring countries there is an urgent need to devise a new model to guarantee security of electricity supply. This model must allow new technological and industrial options to be developed based on smart grids, while rethinking the economics of energy systems in their entirety so that they are compatible with the various objectives set for 2030 and beyond.

Brussels, 18 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

Opinion of the European Economic and Social Committee on the 'Role for sustainable development and civil society involvement in stand-alone EU investment agreements with third countries'

(2015/C 268/04)

Rapporteur: Mr PEEL

At its plenary session on 10 July 2014, the European Economic and Social Committee decided, under Rule 29 (2) of its Rules of Procedure, to draw up an own-initiative opinion on:

The role for sustainable development and civil society involvement in stand-alone EU investment agreements with third countries.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 24 February 2015.

At its 506th plenary session, held on 18—19 March 2015 (meeting of 19 March), the European Economic and Social Committee adopted the following opinion by 165 votes to 1 with 8 abstentions.

1. **Conclusions and recommendations**

1.1. In recent years the EU has successfully negotiated a number of Free Trade Agreements (FTAs), each containing a specific chapter on sustainable development, together with a joint civil society mechanism to monitor implementation. In each instance the Committee has a key role to play. The EU is also undertaking two separate negotiations for stand-alone Investment Agreements, and more may follow. The Committee considers it essential that these agreements should also contain a sustainable development chapter with an appropriate mechanism enabling civil society involvement.

1.2. Separate stand-alone investment agreements, rather than full FTAs, will be negotiated for differing reasons as circumstances dictate, but of necessity their scope will be more limited. The requirement to include a separate sustainable development chapter in these remains compelling, but the formal inclusion of civil society involvement will demand greater effort.. In a FTA, like that with Korea, many joint Committees are set up, but an Investment Agreement will have very few.

1.2.1. Greater ingenuity to involve direct civil society input will therefore be required. This should be developed either through using an existing dialogue mechanism, such as offered by the EU-China Round Table, or through encouraging inter-sectoral dialogue including greater use of the social partners. In any event, the Committee should be included in developing possible solutions.

1.3. Part of the EU emphasis on sustainable development of course stems from its overall desire to promote and strengthen the potency of its shared beliefs in democracy, the rule of law, human rights, transparency and predictability, not least in key areas such as IPR.

1.3.1. At the heart of this lies protection of the environment, combatting climate change, promoting decent work, health and safety at work and the wide range of issues addressed both by the core ILO Conventions and the key environmental conventions. The Committee believes the time has now come to stress actual implementation in such agreements through collaborative efforts involving capacity building both in human resources and technology transfers.

1.3.2. The Joint Declaration of the 27th ACP-EU meeting in October 2014 [1] sets out clearly the Committee's underlying principles and concerns, here shared with civil society from outside the EU. Its executive summary emphasises the importance of both sustainable development and the finalisation of the Sustainable Development Goals (SDGs) this year, together with the need to involve civil society (or non-state stakeholders) throughout such negotiations. Although set out here for Economic Partnership Agreements (EPAs), it is equally applicable to Investment Agreements.

(1) ACP EU Meeting_Oct 2014_Final Declaration-EN (2).

1.4. The Committee emphasises that any Investment Agreement reached by the EU must have full synergy with the work of the Open Working Group finalising the comprehensive set of 17 SDGs, the lead up to the Paris Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC COP 15) as well as with the current pluri-lateral negotiations to reduce tariffs on environmental (green) goods.

1.4.1. The Committee has previously stated that a better understanding is needed as to how the three dimensions of sustainable development interact 'in order to identify fair, moderate and effective solutions' ([2]). Nevertheless sustainability must play a key role in the current EU investment negotiations with China, not least as we understand that a key demand in China is for green, sustainable investment, through importing EU expertise and technology.

1.5. The Committee notes with regret that global investment levels have dropped by at least 5 % since 2000.

1.6. We also note that, especially given the Unctad ([3]) estimate that some USD 7 trillion will be needed for investment over the lifetime of the SDGs, and that at least a third of this will need to come from the private sector, the role of the private sector will be a key factor in any Investment agreement. Investment protection is a key issue, but is being covered by a separate concurrent Committee Opinion. The Committee nevertheless reaffirms that the right of the EU and other states to regulate and pursue legitimate public policy objectives (including health, safety and environment) is paramount.

1.6.1. The Committee strongly recommends that the Commission pay particular attention to supporting SMEs and more specialist companies in investment matters as elsewhere. These companies are prime instigators in innovation which is particularly important to maintain and develop sustainability; they make up 99 % of the economic fabric in the EU and also create 70-80 % of employment.

1.6.2. Government procurement will need to be covered by any investment agreement, along with public-private partnerships (PPPs), governments working alongside the private sector. The EESC policy on PPP was the subject of ECO/272 issued on 21 October 2010. Although the opinion was generally supportive of PPP, it also flagged up certain concerns, which are still very relevant. The Committee has also previously stated that PPPs 'could be an important instrument for implementing development strategies, assuming they are correctly calibrated and communicate with interested parties' ([4]). Any investment agreement must therefore enable the possibility of public investments and PPP. Both have to guarantee that the goals on sustainability are met.

1.6.3. The Committee recommends too that in the sustainable development chapter of any investment agreement the role of Corporate Social Responsibility (CSR) must also be covered, including reference to socially responsible investing, such as United Nations-supported Principles for Responsible Investment (UNPRI) ([5]). To this end, such agreements should encourage public and private financial institutions to voluntarily declare that environmental, social and governance impact data, known as 'ESG' criteria, have been factored into their analyses and responsible investment decisions. We note that a new Commission Communication on CSR is expected in early 2015, but full mutual recognition of wider international guidelines by both negotiating parties is essential. These include the OECD Guidelines for Multinational Enterprises ([6]) and the UN Guiding Principles on Business and Human Rights (UNGPs), which are in the process of implementation. The Committee stresses that any action at either EU or international level should not run counter to or jeopardise these.

([2]) OJ C 271, 19.9.2013, p. 144.
([3]) Unctad WIF Press Release, Geneva 14 October 2014.
([4]) OJ C 67, 6.3.2014, p. 1.
([5]) These issues may be covered more fully by a forthcoming Committee Information Report.
([6]) OECD Guidelines for Multinational Enterprises, 2011.

2. **Background**

2.1. Investment became an EU competency under the Lisbon Treaty as part of its common commercial policy (CCP), with the EU tasked to work towards the 'progressive abolition of restrictions on (international trade and) foreign direct investment' ([7]) (FDI). The Treaty also required that all relevant aspects of trade, investment, development, and enlargement be more closely integrated and mutually informed — not least to ensure much greater coordination.

2.2. The Commission at the time published its Communication 'Towards a comprehensive European international investment policy' ([8]). This, backed by ECJ judgments, described FDI as being 'generally considered' to include any 'foreign investment which serves to establish lasting and direct links with the undertaking to which capital is made available in order to carry out an economic activity', or 'capital flowing from an investor based in one country to an enterprise based in another'.

2.2.1. The Committee Opinion ([9]) in response stated 'We particularly welcome the reassurance … that the EU's trade and investment policy "has to fit with" and be consistent with economic and other policies of the Union, including "protection of the environment, decent work, health and safety at work" and development'.

2.3. However, the drive towards closer integration of each aspect of EU external policy did not originate at that time. In its 2006 Communication 'Global Europe', issued when progress with the WTO DDA (Doha) negotiations had effectively stalled, the Commission stated that it was essential to ensure that the benefits of trade liberalisation 'are passed on to citizens. As we pursue social justice and cohesion at home we should also seek to promote our values, including social and environmental standards and cultural diversity around the world' ([10]). In its response to this Communication, the Committee in turn called for the inclusion of a sustainable development chapter in each subsequent FTA, together with an active monitoring role for civil society ([11]).

2.4. Since then there have been a notable number of EU trade agreements in which a chapter on sustainable development has figured prominently. Starting with the EU-Korea Agreement of 2010, the first concluded EU FTA for several years, such agreements have also included the setting-up of a joint civil society mechanism to monitor the implementation of these sustainable development chapters, and these mechanisms are now starting to take effect. The EU-Korea Civil Society Forum has met regularly whilst the consultative bodies covering the EU-Central America FTA, the EU-Colombia/Peru FTA, and that for the EU-Cariforum EPA, have also started work.

2.5. In the recently signed, but not yet operational, Deep and Comprehensive FTAs with Ukraine, Georgia and Moldova, similar mechanisms exist, as they do in the EU-Canada (CETA) and EU-Singapore Agreements, and can readily be anticipated in other EU trade negotiations still in progress.

2.6. Investment in turn has formed a key part of the negotiating mandate in those negotiations starting after investment became an EU competency, including CETA and even more notably in the TTIP negotiations with the US, where the 'I' stands for Investment. The mandate agreed for the Korean and the other FTAs referred to in 2.4 above predated EU competency, but investment was later added to the mandate for Singapore, and since concluded separately.

2.7. Negotiations for a separate, stand-alone, Investment Agreement, were formally launched at the EU-China summit in November 2013, to be followed in March 2014 by the launch of negotiations for a similar agreement with Myanmar. These are the first 'stand-alone' EU investment negotiations in that they are not part of a wider FTA negotiation ([12]). This may also offer an attractive alternative route where long running EU FTA negotiations appear to have lost all momentum, whilst before the Ukrainian crisis possible separate EU investment negotiations with Russia had also been mooted.

(7) Article 206, TFEU.

(8) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions — Towards a comprehensive European international investment policy COM(2010) 343.

(9) OJ C 318, 29.10.2011, p. 150.

(10) COM(2006) 567 final, 4 October 2006, point 3.1.iii.

(11) OJ C 211, 19.8.2008, p. 82.

(12) Some wish to see full EU FTA negotiations with China.

2.8. This Opinion therefore looks at the possible role for a sustainable development chapter in such stand-alone Investment agreements, together with the scope for formal, active civil society involvement.

3. **The changing nature of investment**

3.1. Investment (as one of the 'Singapore issues' agreed in 1996) was originally due to form part of the multilateral WTO trade negotiations launched at Doha, but was subsequently dropped at the 2003 Cancun WTO Ministerial Conference. The OECD attempt to launch a Multilateral Agreement on Investment failed in 1998. The WTO Uruguay Round TRIMs (Trade-Related Investment Measures) Agreement, 20 years ago, applies only to measures that affect trade in goods, but does not include services or other key areas that have developed in the meantime.

3.2. Separation of trade and investment is becoming increasingly complex, needing an integrated approach. FDI plays a key and growing role in EU global business strategy. For many, depending on comparative costs of production, the ideal point of production is as close to the end market as possible, especially important as new markets open up, particularly in fast emerging and other developing economies. For others, the ready ability to switch sourcing and production from one country to another is important, as has already been shown due to differing degrees of acceptability in the use of biotechnology.

3.2.1. Currency movements and changing costs also affect supply chains, leading to fluctuations and short-term movements in production. High import barriers — once a positive for investment — are now also more likely to deter FDI.

3.2.2. Global supply and production chains too can stretch over many countries — for example a mobile phone destined for Europe may be built in China, incorporating advanced technology imported from elsewhere in East Asia. Before Chinese WTO entry these were usually imported into the EU direct. Indeed about one half of China's exports come from foreign-owned companies that have invested in China — in the electronics industry this has been as high as 65 %.

3.2.3. The 2010 Communication also pointed out that 'current ... research on FDI and employment shows that no measureable negative impact on aggregate employment has so far been identified in relation to outward investment' ([13]), although it did admit that 'while the aggregate balance is positive, negative effects may of course arise on a sector-specific, geographical and/or individual basis'. That is more likely to affect the lower skilled.

3.3. Trade and investment practices are developing very quickly. For example, the internet is bringing about radical change with exponential growth in buying goods internationally on-line, paying for these on-line and then tracking actual shipment to make sure the goods arrive. Changes brought about by the growing use of eBay/PayPal and equivalents (such as Alibaba) will revolutionise trade and investment. ICT is already a major factor in FDI.

3.3.1. This has enormous potential for SMEs and other more specialist companies, as it will enable them and local businesses to access markets hitherto inaccessible, especially for SMEs based in remoter areas. This could provide a significant boost for SMEs investing abroad — and in creating local jobs. Since SMEs make up 99 % of the economic fabric in the EU, are key drivers of innovation, key to maintaining and developing sustainability, and create 70-80 % of employment, the EESC calls on the Commission to pay particular attention to supporting such businesses in investment matters, as elsewhere.

([13]) 2010 Impact of EU outward FDI, Copenhagen Economics.

4. **Stand-alone Investment agreements**

4.1. The two current EU 'stand-alone' investment negotiations, with China and with Myanmar, will be very different, although we understand the basic mandates are similar. With China, all EU Member States (except Ireland) have individual Bilateral Investment Treaties (BITs); with Myanmar, none do so. For China, market access issues also form a core part of the negotiations; with Myanmar, those are only about investor protection. After its long period of isolation the Myanmar government now wants to attract and encourage foreign investment.

4.2. China and Myanmar are about as far apart as possible in development terms. One is a major superpower, now embedded in the world's trading system, the other is slowly emerging from decades of imposed and self-imposed isolation. Myanmar will need capacity building: China does not. Total EU trade in goods with Myanmar in 2013 was EUR 533 million, with China it was EUR 428 billion (and services a further EUR 49,9 billion in 2012) ([14]).

4.2.1. In 2012, EU inward investment into China nevertheless only totalled EUR 15,5 billion (EUR 5,3 billion in 2009), whilst Chinese investment in the EU was just EUR 7,6 billion (EUR 0,3 billion in 2009) ([15]) — or only about 2,6 % of inward investment into the EU that year. These figures are very low, emphasised by the fact that, compared with nearly 30 % to the US, less than 2 % of the EU's FDI goes to China (although this is about 20 % of all FDI into China). In turn China accounts for less than 0,7 % of overall FDI in the EU (there may also be indirect investment through Hong Kong or elsewhere), whereas the US accounts for 21 %.

4.2.2. Each Investment Agreement negotiation will have its own characteristics. For Myanmar it will be to set down principles and standards to build and encourage foreign investment; for China a much more ambitious agreement is being sought. In each case, however, a large proportion of the investment to follow will be by or in conjunction with the private sector.

4.3. A key area of competency for parties to an investment agreement will be to facilitate investment through the provision of necessary, sustainable infrastructure. Governments are responsible for providing a firm regulatory basis for infrastructure, whether at a regional level, or for securing effective, efficient grids for energy, water and transport, through effective systematic groundwork for these. Energy and water networks and grids need complex design and may require a decade or more to be put fully into place. The regulatory environment also needs to be planned long-term. Unctad ([16]) estimates that, of the USD 7 trillion needed for investment over the lifetime of the Sustainable Development Goals, at least a third will come from the private sector — including building new cities, and provision of schools, hospitals and roads.

4.4. Facilitating public-private partnerships (PPPs) here will be essential. Any investment agreement must ensure that the regulatory environment enables inward investment into government procurement and in PPPs, backed by long-term predictability and sustainability. Companies equally need to plan long-term, especially if their investments are to succeed. Failure on either side suits nobody. Robust government and private sector players need to develop new synergies and learn new forms of engagement. There should be a key role for civil society input here too, particularly at the level of the social partners.

4.5. A major benefit for China from such a Treaty is that it will replace and update the 27 MS BITs into one agreement. Rather than merely consolidate these, the EU (as it has with Canada) must aim to achieve a high standard, new generation agreement. As well as market access, these negotiations also cover a number of wider issues, including government procurement, competition policy, the role of State-Owned Enterprises (SOEs) and access to sectors hitherto closed as well as issues relating to sustainable development.

4.5.1. It is essential that an EU-China Investment Agreement brings added value. It should bring about an increased political dialogue, as well as a higher level of integration and technological exchange.

([14]) DG Trade figures.
([15]) Commission figures.
([16]) See footnote 3.

4.5.2. The Committee notes the set of investment principles agreed by the EU and US in 2012 ([17]). These underlined 'the critical importance of creating and maintaining open and stable investment climates and policies, which contribute to sustainable economic development and growth, job creation, increased productivity, technological innovation, and competitiveness'.

4.6. However, the overarching need for a sustainable development chapter in any investment agreement with China is clear, especially as a key demand in China is for green, sustainable investment. Most observers see as a major reason for Chinese interest in such an agreement their need for EU investment and technical know-how in helping expand existing cities whilst ensuring maximum sustainability, and in building new sustainable cities across China. China has seen the mistakes not only in the developed world, where inner cities have been a by-word for dereliction, but also the sprawl created by very fast, unplanned, uncontrolled growth of cities, notably in fast emerging economies. The growth of urbanisation in China is exponential: already over 50 % of Chinese live in cities — a level unthinkable only a few years ago. For example, Shenzhen, a city that did not exist 40 years ago, quadrupled its population to over 10 million people in the decade to 2010. The Chinese are determined to avoid as many of the pitfalls found elsewhere as possible.

5. **The role of sustainable development in investment negotiations**

5.1. The Committee welcomes the Commission commitment to a 'sustainable development' element in investment agreements. Any specific sustainable development chapter will be based on the principles set out in the first such chapter, Chapter 13 of the EU-Republic of Korea FTA of 2010 ([18]), and as subsequently developed, notably in recent EPAs and in the Agreements with Singapore and Canada (as yet unratified). Specific adaptation for investment will also be needed, not least to include emphasis on responsible investment, greater transparency, energy efficiency, promotion of environmental services and other relevant factors.

5.1.1. The Committee also welcomes the commitments made by both the European Commission and Council to ensure that investment policy does not cut across any of the specific aspects of sustainable development.

5.2. Annex 13 of the EU-Korea Agreement makes it clear that, to achieve the objectives of the sustainable development chapter, the parties will cooperate both on an exchange of views on 'the positive and negative impacts' of the agreement as well as cooperate 'in international fora responsible for social or environmental aspects of trade and sustainable development', including the WTO, ILO, UNEP and multilateral environmental agreements. Any update of this should also include recent relevant World Bank, FAO and other initiatives.

5.2.1. Article 13.4 of that Agreement makes clear that all the key social conventions (multilateral labour standards and agreements) are covered, and Article 13.5 the multilateral environmental agreements. Article 13.6 specifically refers to FDI in 'environmental goods and services, including environmental technologies, sustainable renewable energy, energy efficient products and services and eco-labelled goods'.

5.2.2. Also of major importance are Articles 13.7, preventing any weakening or reduction in laws to encourage investment, and Article 13.9, dealing with transparency.

5.2.3. Even though each agreement negotiated will have its specific footprint, a consistent approach with a readily recognisable and acceptable format is essential.

5.2.4. A formal sustainable development dialogue mechanism similar to that provided by Chapter 13/Annex 13 of the Korea Agreement will be as important as in a full FTA. In the case of Myanmar, the ability to discuss implementation of ILO Conventions will be critical: between 1997 and 2013 Myanmar was suspended from the EU GSP/EBA scheme due to violations of the principles of the ILO convention on forced labour.

5.2.5. With China a sustainable development chapter and specific discussion forum should look to build on both the existing EU-China dialogue on employment and social policy and the EU-China Environmental Policy Dialogue, developing since 2005 but most recently through the 2012 Joint statement on enhanced Environmental Policy Dialogue and Green Growth. This should cover air and water pollution, waste management and forestry.

([17]) http://trade.ec.europa.eu/doclib/html/149331.htm
([18]) OJ L 127, 14.5.2011, p. 62.

5.2.6. Any sustainable development chapter will need to look closely at the enhanced role played by the private sector in investment. Investor obligation will be key, balanced by a fully adequate form of investor protection. Investors' obligations towards sustainable development requirements, including socially responsible investing, must be taken into account as they strive to underpin and maintain their overall competitiveness. Some will have support for sustainable development as their primary investment purpose, but for others this will be tangential. The negotiating parties need to facilitate investment, but they cannot dictate what investment is made. Nevertheless an effective EU investment strategy has a crucial role to play in maintaining EU competitiveness at a time of rapid economic change and major shifts in relative economic power around the world, especially investment by more specialist companies and SMEs, prime sources of innovation.

5.2.7. Article 13.6.2 of the Korea Agreement refers to fair and ethical trade with regard to trade in goods, and also to schemes 'involving corporate social responsibility and accountability'. Annex 13 also provides for 'exchange of information and cooperation' on these points, including 'the effective implementation and follow-up of internationally agreed guidelines'. The Committee strongly recommends that this approach be extended to investment agreements. The role of Corporate Social Responsibility (CSR) in any investment agreement will be critically important.

5.2.8. Such a mechanism would be very valuable in addressing CSR issues together with our investment partners. It should place emphasis on cultural sensitivity, promoting transparency and an ethical approach, and combatting corruption. Incorporating consumer preferences will bring economic benefit as well as for example promote more efficient, cleaner energy. Awareness raising, exchange of good practices and constructive collaboration between companies and stakeholders are crucial, together with capacity building for SMEs, on which costs weigh disproportionally. Chinese investments abroad can fail all too easily due to a lack of full understanding of what is required of them. Facilitating a closer link between investors, societal needs and therefore consumer preferences would be a valuable service for all parties.

5.2.9. The Commission defines CSR as 'the responsibility of enterprises for their impacts on society'. CSR is business driven, consisting of voluntary initiatives over and above legal requirements. It is about creating new value through innovation. CSR covers economic, social and environmental considerations, consulting all relevant stakeholders, but above all any approach must be flexible and diverse. It cannot fit into one-size frameworks: each business has its own particular identity. CSR practices therefore vary widely but correctly used are a valuable tool to create business opportunities and improve a company's competitiveness.

5.2.10. A new Commission Communication on CSR is expected shortly; the key international guidelines referred to include the OECD Guidelines for Multinational Enterprises ([19]) and the UN Guiding Principles on Business and Human Rights (UNGPs), currently in the process of implementation. It is important that any action at either EU or international level does not run counter to or jeopardise these. It is important too to recall that whereas states have the duty to protect and fulfil human rights, companies' responsibility is to respect them.

6. **The role for civil society**

6.1. Civil society has a role in bringing government and the private sector together and to exercise both a continuing involvement and a monitoring role. However the issue of direct civil society involvement, including direct monitoring of any investment agreement, with both state and non-state stakeholders actively participating, will need different country-specific solutions based on existing levels of inter-society dialogue and understanding between the different social groups.

6.2. In the EU-Korea Agreement there are several mechanisms for dialogue between the two parties. The Civil Society Forum reports to the Trade and Sustainable Development Committee, which involves the Governments of both parties. For investment agreements only one such Committee is envisaged — it may not always be appropriate to raise investment issues at this level, especially where one party may not wish to make it a political or diplomatic issue. A new mechanism for a Civil Society Forum may have to be found.

([19]) OECD Guidelines for Multinational Enterprises, 2011.

6.3. In countries such as China or Myanmar very different, more closed perceptions exist about civil society, so the principle of involving civil society bodies in any monitoring body will also need far more persuasion. China has adopted partnerships in several African countries that concentrate on investment solely as business, rather than as aid for development. Those consultation mechanisms that exist are not readily interchangeable with those of the EU, but any growing dialogue between any appropriate bodies would be a very important adjunct to an agreement. In its turn, the EU has made social and civil dialogue a cornerstone of its social model by providing it with an institutional framework.

6.3.1. The Committee should be included in finding solutions. We therefore recommend that an extension of the principle of the EU-China Round Table, on which the Committee and the China Economic and Social Council are equally represented, or another dialogue mechanism tailored for the relevant country-specific social circumstances, should offer the best way forward.

6.3.2. Alternatively, a way forward may be found through the Commission’s considerable experience of capacity building programmes in trade and trade related issues. For example, programmes with third countries’ ministries to cope with the implementation of WTO rules have had a component dealing with civic society, including Employers Federations and Trades Unions, and these have collaborated with the UN bodies (e.g. ILO, Unctad, UNIDO) in delivering such programmes. The role of the social partners will also be important, not least given the large proportion of overall investment involving businesses and companies.

Brussels, 19 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

506TH EESC PLENARY SESSION OF 18 AND 19 MARCH 2015

Opinion of the European Economic and Social Committee on the 'Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank — An Investment Plan for Europe'

(COM(2014) 903 final)

and on the 'Proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013'

(COM(2015) 10 final — 2015/0009 (COD))

(2015/C 268/05)

Rapporteur: Michael SMYTH

On 19 December 2014 the European Commission, on 28 January 2015 the European Parliament and on 3 March 2015 the Council of the European Union decided to consult the European Economic and Social Committee, under Articles 172, 173, 175, 182 and 304 of the Treaty on the Functioning of the European Union, on the:

Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank — An Investment Plan for Europe

(COM(2014) 903 final)

and on the

Proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013

(COM(2015) 10 final — 2015/0009 (COD)).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 2 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 19 March 2015), the European Economic and Social Committee adopted the following opinion by 200 votes to 6 with 11 abstentions.

1. **Summary and recommendations**

1.1. The EESC welcomes the Investment Plan for Europe and appreciates the change of tone away from austerity and fiscal consolidation. The Commission now acknowledges that there is a lack of investment and of aggregate demand and that the financial sector is still not able to play a full role in boosting growth.

1.2. The Investment Plan is a step into the right direction but it does face a number of serious questions about its size relative to Europe's huge investment needs, about the high degree of leverage expected, about the potential flow of suitable investment projects, about the marketing strategy for attracting private capital from and outside Europe, about the involvement of SMEs, especially micro- and small enterprises, and about the Plan's timescale.

1.3. There is uncertainty about whether a pipeline of projects can be developed that offer returns that attract institutional investors. The EESC regrets that the EC has not adhered to the principles of its own Regulation (EU) No 1303/2013 of the European Parliament and of the Council ([1]) (Article 5), developed further in Commission Delegated Regulation (EU) No 240/2014 ([2]), in the current proposal and strongly recommends involving the social partners and organised civil society in the identification process at national level. This failure to involve the stakeholders in the ownership of proposals is evident in the December list of potential projects.

1.4. Much greater attention must be paid to establish a conducive and predictable investment environment. Without confidence of the investors, better regulation and adequate cost of doing business in the EU, there is hardly any hope to restart even moderate growth with the necessary new jobs.

1.5. The Plan proposes that contributions to the European Fund for Strategic Investments (EFSI) from Member States will not be included in budget deficit calculations and this is to be welcomed. The Commission should explain why ongoing strategic public infrastructure expenditures are not treated in the same way. What is the difference between a favourable budgetary treatment of Member States' contributions to productive investments under EFSI and a full-blown Golden Rule?

1.6. The EESC believes that it is time to recognise that Europe needs a sustained public and private investment programme in order to regain growth, jobs and prosperity. Strategic public investment such as that envisaged in the Plan which underpins present and future economic development should be incentivised by a more benign European fiscal framework. The EESC invites the Commission to open a discussion on a properly formulated fiscal rule for Europe in full recognition of its many definitional difficulties and in the setting of appropriate conditionalities.

1.7. The EESC calls on the Commission to take into consideration the ILO recommendations on focusing on attracting viable projects from the regions with the highest unemployment rates, with the active involvement of the national social partners and stakeholders. The EESC recommends that the macro-regional strategies are taken into consideration when identifying and assessing potential projects.

2. **Background**

2.1. The level of investment in Europe has fallen 15 % below its pre-crisis peak. At the same time there are high levels of savings rates across Europe; corporate balance sheets are bulging with liquidity; institutional investors are awash with money while at the same time the budgets of most Member States are either fully stretched or shrinking.

2.2. This low level of investment is all the more unacceptable when the cost of capital in both nominal and real terms is at rock bottom. The markets to bring together investment demand and the supply of investment finance are clearly not working properly across Europe. In the investment community there is a lack of trust in the economic environment. Uncertainty is seriously affecting business confidence. The Plan's third pillar aims to tackle regulatory reform and to simplify the framework for investment across Europe. This will not be easy to achieve.

([1]) OJ L 347, 20.12.2013, p. 320.
([2]) OJ L 74, 14.3.2014, p. 1.

2.3. What is the essence of the Investment Plan for Europe? There are three pillars of the Plan:

— the creation of a dedicated European Fund for Strategic Investments (EFSI) guaranteed by EUR 21 billion from the EU budget and EIB reserves which — according to the Commission's assumptions — can leverage an additional EUR 294 billion of investment finance over 3 years,

— an investment pipeline of strategic projects supported by a specialist investment hub of technical assistance,

— the removal of barriers to investment and improvements in the regulatory regime.

2.4. The EFSI is similar to a Special Purpose Vehicle (SPV) set up within the EIB in order to take on higher risk investments than the rest of the Bank and in doing so the EIB's AAA rating is secured. In this respect the EFSI is an innovation. It also marks a significant departure from orthodoxy in that funds from the EU budget will be used as a guarantee or backstop to cushion against potential losses on EFSI investments.

2.5. In terms of leverage, the initial EUR 21 billion seed funding will enable the EIB to lend EUR 63 billion using its normal business model. The Commission assumes that the EFSI will then seek private sector and other investors for suitable projects and potentially unlock a total of EUR 315 billion of capital investment. The key to this leverage is that the EFSI provides risk protection to the EIB enabling the Bank to invest in riskier projects.

2.6. The Committee acknowledges the fact that the Commission advocates a need for the removal of barriers to investment. The planned financial resources equal merely an annual average investment gap on a healthy investment rate; thus, such an additional investment would be needed every year. The business environment must be much more conducive to investment if the initiative is to meet its aim. For example:

— Better regulation and a more predictable regulatory environment which supports long-term decision-making are essential pre-conditions.

— The cost of doing business in Europe is too high. It is important to address high energy prices, among other factors.

— In order to establish the EU as a location from which businesses have the best global market access, an ambitious EU trade policy must be pursued.

3. **Comments on the Investment Plan for Europe**

3.1. While the initial reaction to the Investment Plan for Europe was favourable, there have subsequently been several criticisms levied against it. Some commentators have been unambiguously negative and others have welcomed it while pointing out some weaknesses. Much of the negative comment stems from a lack of understanding of the real-time context of the Plan. Ideally, a comprehensive European investment plan would be driven by publicly funded strategic projects aimed at boosting growth and job creation.

3.2. One of the main criticisms of the Plan is that it is too small, given the scale of underinvestment in Europe. A multiplier effect of 1:15 is expected under the Plan. Some argue that this scale of leverage is simply not credible ([3]). The Commission expects the initial EUR 21 billion to be leveraged twice, first with private sector bond finance to boost the size of the EFSI and second when projects are supported by EFSI capital which then attracts additional private investment. There is no doubt that the expected multiplier effect is very large but, according to the Commission, it is within the range of actual leverage achieved by the EIB historically. Notwithstanding the riskier nature of the projects to be funded by EFSI, the fact that the fund will be housed within and managed by the EIB should ensure that leverage will probably be quite high.

3.3. For larger infrastructure projects and especially for cross-border projects the lead-in time can be several years because of political, environmental, regulatory barriers or sometimes just plain NIMBY-ism ([4]). These barriers raise two further issues. Firstly, will there be sufficient numbers of big infrastructure projects in the pipeline that are both strategic and attractive to investors? Secondly, over 3 years, a EUR 315 billion investment implies about EUR 100 billion per annum which is 40 % above current EU investment levels and does not seem feasible. These criticisms are valid up to a point. Around 25 % (EUR 75 billion) of the EFSI funding will be targeted at SMEs and mid-cap companies and should be up and running reasonably quickly. The remainder of the Fund's investments will be earmarked for the types of projects outlined in the report of the Task Force on Investment in the EU. An examination of this comprehensive list would suggest that there is a substantial potential set of projects in the energy, transport, innovation and digital domains that could benefit from EFSI support.

3.4. A major criticism of the Investment Plan is that its impact will be medium to long-term when what is needed is a shorter term investment programme similar to the European Economic Recovery Programme during the recent recession. The budgetary consequences of this approach could be managed within a more flexible national accounts framework and this issue is developed further in section 4 of this opinion.

3.5. The capacity of the EIB to handle such an ambitious fund has also raised questions. In terms of funding for SMEs and mid-caps, especially for micro- and small enterprises, some believe that there will not be enough staff resource within the EIB to reach companies directly. There will therefore be a greater reliance on commercial banks to select micro-enterprises, SMEs and mid-caps and provide them with relatively cheap finance. The risk here is that banks will select their most favoured business clients which they would have funded anyway and this gives rise to a lot of what is termed 'deadweight'. The EESC insists that this type of situation should be avoided. This can be achieved, inter alia, in consultation with SMEs' representative organisations.

3.6. One possible solution to this risk is for Regional Development Agencies and business associations to be given a greater role in the identification of micro-enterprises, SMEs and mid-caps to be supported by the Fund. These Agencies and associations typically have better knowledge of, and are closer to smaller businesses and can make an effective contribution to risk assessments. While recognising that there are some moral hazard issues, the EESC has called for such an approach before and believes that it could be an effective measure in the implementation of the Investment Plan ([5]).

3.7. Parallels have been drawn between the Investment Plan for Europe and the Growth Initiative that was launched in 2012 ([6]). The Growth Initiative comprised a EUR 120 billion package of funding drawn from reallocated budgets, but very little of this has been delivered. This is a valid criticism and it makes it essential that the rollout of the Plan is both transparent and well communicated. The EESC welcomes the fact that the Plan and the EFSI will be monitored closely by the European Parliament and the Council. The EESC should also play its part in the scrutiny of the outworking of the Plan over the next 3 years.

([3]) See for example: *Europe's Great Alchemist*, The Economist, 29 November 2014; Daniel Gros, *The Juncker Plan: From EUR21 to EUR315 billion, through smoke and mirrors*, CEPS, 27 November 2014.
([4]) NIMBY is an acronym for 'Not in My Back Yard'.
([5]) See for example EESC opinion on *Finance for business alternative supply mechanisms* (OJ C 451, 16.12.2014, p. 20).
([6]) CEPS, November 2014, page 2.

3.8. It is regrettable that the European Commission does not have either the financial resources or the political support to raise substantial additional resources in order to seed a full-blown European investment plan. This particular budget constraint appears to be absolutely binding. In a situation in which there is very little money available in the EU budget, what is being proposed under the Investment Plan for Europe is a second best.

3.9. The Commission argues that the Plan represents real additionality to other structural policies because the EFSI will only come into play when alternative sources of finance are not available. Furthermore, it is claimed that the EFSI will be additional to other EIB investments because it has a higher risk appetite. The EFSI will also be more flexible in terms of the financial instruments that it uses. These could include equity, quasi-equity, venture capital, debt finance or guarantees for securitisation of loans. The EFSI will operate in collaboration, where possible, with National Promotional Banks. The Commission also proposes to support the Plan with the establishment of European Long-Term Investment Funds (ELTIF), together with moves to create new securitisation markets and vehicles to broaden the base of funding for projects and SMEs. These developments are welcome but long overdue.

3.10. The Commission envisages the Investment Plan being sufficiently flexible in terms of the EFSI, the project pipeline and the investment advisory hub, to enable further phases of investment to come on stream in the years ahead. The Plan has a tight governance structure within the EIB. Every project supported by the EFSI will also have to be approved by the board of EIB as required by the Treaty. The EESC recommends the close involvement of the social partners and stakeholders in the identification process for public investment projects at national level — one possible format is to use the Monitoring Committees of the National Partnership Agreements.

3.11. The EFSI will seek to promote higher risk projects that enhance growth, jobs and productivity. It is as yet unclear whether the co-investment platforms (comprising EFSI, National Promotional Banks and private financial institutions) will be sufficiently attractive to participants. In that respect the EESC recommends a proactive marketing strategy for attracting private investments to be implemented by providing more clarity on the set-up of the Investment Platforms and by giving the European Investment Advisory Hub a role for promoting the investment possibilities inside and outside Europe. The risk bearing capacity of the Plan (EUR 21 billion) is quite large. Even though risk levels will be higher under the Plan, it is highly unlikely that the whole of the guarantee will be called and certainly not at a single point in time.

3.12. The Commission estimates that, if the Investment Plan fully achieves its investment goal, an additional 1 to 1,3 million jobs will be created over the next 3 years. This is not inconsiderable, even in the context of a 25 million unemployment total across the EU. The ILO has recently published its own job creation estimates for the Plan. The main finding of this ILO report is that, if careful consideration is given to the design of the programme and its allocation, over 2,1 million net new jobs would be created by mid-2018. For example if funding under EFSI were allocated with consideration to unemployment levels, this would lead to the highest and most equitable employment increase ([7]). The EESC calls for the macro regional strategies' priorities to be taken into consideration when deciding on potential projects. It is clear therefore that the criteria to be used to select projects to be supported under the Plan must be made public as soon as practicable.

3.13. If the Investment Plan succeeds in attracting additional capital for the EFSI from Member States the Commission will look favourably on such contributions when assessing the debt and deficit criteria under the Stability and Growth Pact. On the face of it this represents something of a change of heart by the Commission but it does not go far enough. The EESC declares its readiness to participate actively in further discussion on the theme of how to promote better investments across Europe, including by providing greater flexibility under the Stability and Growth pact. The EESC invites the Commission to further explore the opportunities for creating a favourable fiscal environment for investments in Europe.

([7]) *An Employment Oriented Investment Strategy for Europe*, ILO, January 2015.

4. **Time for a new Golden Rule for Europe?**

4.1. The EESC welcomes the proposal that contributions to the EFSI from Member States will not be included in budget deficit calculations. This does however beg the question as to why ongoing strategic public infrastructure expenditures are not treated in the same way. What is the difference between a favourable budgetary treatment of Member States' contributions to productive investments under EFSI and a full-blown Golden Rule?

4.2. Proponents of a European Golden Rule argue that there is a major inconsistency here. Under the current European fiscal policy framework, adverse incentives have been the cause of the shortfall in public investment. Generally speaking public investment increases the public capital stock and generates growth for present and future generations. It follows that future generations should contribute to financing those investments because failure to allow for debt financing of future generations' benefits will place a disproportionate tax burden on the present generation and lead to underinvestment ([8]). This is currently happening in Europe.

4.3. It could be argued that the increased flexibility shown to investments under EFSI is in effect a 'mini' Golden Rule. The issue of a properly formulated fiscal rule for Europe should be discussed in full recognition of its many definitional difficulties. The discussion should also be about the setting of appropriate conditionalities. The EESC believes that it is time to recognise that Europe needs a substantial public and private investment programme in order to regain growth, jobs and prosperity. Strategic public and private investment such as that envisaged in the Plan which underpins present and future economic development should be incentivised by a more benign European fiscal framework.

Brussels, 19 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

([8]) For a thorough examination of the literature and modalities on the Golden Rule, see *Implementing the Golden Rule for Public Investment in Europe* by Achim Truger. http://blog.arbeit-wirtschaft.at/wp-content/uploads/2015/03/Endfassung.pdf, in: Materialien zu Wirtschaft und Gesellschaft Nr. 138, Working Paper of AK-Wien.

Opinion of the European Economic and Social Committee on the ‘Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions — Economic governance review — Report on the application of Regulations (EU) No 1173/2011, (EU) No 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013’

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Rapporteur: David CROUGHAN

Corapporteur: Carmelo CEDRONE

On 19 December 2014 the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the:

Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions — Economic governance review — Report on the application of Regulations (EU) No 1173/2011, (EU) No 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013

[COM(2014) 905 final].

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 2 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 19 March), the European Economic and Social Committee adopted the following opinion by 165 votes to 2 with 3 abstentions.

1. **Conclusions and recommendations**

1.1. The European economic governance rules, conceived in crisis, played an important role in fiscal consolidation, economic policy coordination and, with the introduction of draft budgetary assessment, the furtherance of fiscal integration. However, the EESC is concerned that the cost has been high in terms of growth and employment, and that the European Union has lagged behind the rest of the advanced economies in exiting the economic crisis, pointing to policy failures largely due to the incomplete nature of economic governance in an economic and monetary union.

1.2. The measures put in place under the European Semester began the process of fiscal consolidation and rebuilding credibility, but the rules-based approach, while appropriate for normal times, is now part of the problem. Member States in difficulties need greater resources to exit the dead-end road of recession and guarantee growth and job creation and, through growth, sustainable fiscal consolidation.

1.3. The EESC considers that the European Central Bank cannot be left to combat the current recession in the euro area on its own. The QE measures now being embarked upon by the ECB need to be matched by greater political initiatives by the Member States going beyond the Investment Plan for Europe announced by the Commission.

1.4. Differences in the relative competitiveness of Member States in an Economic and Monetary Union, which formerly would have been equilibrated through upward and downward currency adjustments, cannot simply be addressed by urging, under pain of penalty, recommendations and reforms only on those adjudged to be uncompetitive.

1.5. Concrete mechanisms and instruments for well-designed economic policy coordination leading to convergence and solidarity should be established urgently. This process should not involve Treaty change in the first instance but the EESC is of the opinion that in the long term Treaty change will be required.

1.6. In the review of the MFF in 2016, there is a need to **back urgent structural reforms** with a common EU interest, including macroeconomic rebalancing, **with some form of fiscal capacity** such as the Convergence and Competitiveness Instrument proposed in the Blueprint.

1.7. The EESC is concerned that the structural balance, a non-observable variable based on theoretical and disputed calculations of the output gap and prone to serious revisions, plays such a key role in the preventive and corrective arms of the Excessive Deficit Procedure.

1.8. In the Semester process, reductions in the government's annual deficit are given far more weight as a remedy to the high debt/GDP ratio than more fruitful measures to increase GDP growth. The Commission should monitor not only the implementation of CSRs but also carry out an *ex-post* analysis of its recommendations in achieving an increase in output, growth and high-quality jobs in the Member State in question.

1.9. The Committee welcomes the emphasis placed on the use of flexibility within the rules of the SGP, whereby the Commission will take into account certain public investments when calculating the fiscal deficit, but considers it a limited and partial measure. A reasonable deviation from the 3 % deficit parameter should be considered as a temporary exception for a given number of years and not be automatically liable to sanctions.

1.10. The democratic deficit of unelected bodies having an important say in the governance runs the risk of low ownership of recommendations and hostility to the European project. A lack of implementation of CSRs could be countered by real involvement of civil society and the social partners in drawing up CSRs.

1.11. The EP should have a strong role in establishing the economic priorities of each Semester and in the parliamentary oversight of CSRs. The Semester process should be more widely publicised by Member States and the Commission to ensure a better understanding by citizens.

2. **The Review of Economic Governance in brief**

2.1. The European Semester, introduced in 2011, was backed up by the reinforced Stability and Growth Pact (SGP) which came into force on 13 December 2011, with a new set of rules for economic and fiscal surveillance, which consisted of five regulations and one directive — together known as the 'Six-Pack'. On 30 May 2013 two more regulations, known as the 'Two-Pack', were added to further enhance economic integration and convergence amongst euro area Member States. This Review concerns the effectiveness of the seven regulations and the direction of future developments. It deals broadly with three strains of economic governance at EU level: fiscal surveillance ([1]), macroeconomic imbalances ([2]), and the monitoring and surveillance of euro area countries experiencing difficulties with financial stability ([3]).

([1]) Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, p. 1);
Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, p. 12); and
Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

([2]) Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8); and
Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

([3]) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

3. **Comments on existing Economic Governance**

3.1. *Fiscal Surveillance*

3.1.1. The Committee welcomes the focus in the Annual Growth Survey 2015, published contemporaneously with the Economic Governance Review, which points to a streamlined and reinforced Semester achieved by simplifying the various stages and their outputs as recommended by the EESC Opinion on the Annual Growth Survey 2014 ([4]).

3.1.2. The EESC believes that the Semester plays an indispensable role in the process of convergence and adjustment. The Committee has further called for the launch of a communication and simplification strategy as a joint effort by the Commission, European Parliament, Member States and civil society ([5]).

3.1.3. The Committee welcomes the furtherance of fiscal integration introduced by the establishment of a common timeline for Member States to submit and publish draft budgetary plans, monitored by national independent bodies, by mid-October each year for the Commission's comments prior to final adoption by Member States' governments. The process should become more democratic and transparent and be more widely publicised by the Member States and the Commission to ensure a better understanding by citizens. The Committee would welcome an assessment by the Commission of the role and quality of the national independent bodies.

3.1.4. The Committee notes, from the 2015 Draft Budget Plans, that the reduction in fiscal effort in 2015 will result in a broadly neutral stance in the euro area. It also notes that of the seven countries that pose a risk of non-compliance, three may face possible steps under the EDP in March. This procedure would also require greater transparency, consultation with national governments and civil society, in particular the social partners, and oversight by the European Parliament.

3.1.5. In the short period of review, the Committee believes that the reformed EU fiscal Rules under the relevant regulations on fiscal surveillance have undoubtedly played a role in addressing fiscal consolidation as evidenced by the deficit of the EU-28 falling from 4,5 % of GDP in 2011 to 3 % in 2014.

3.1.6. The cost, however, has been high for very limited success, pointing to EU policy failures in the contribution to economic growth and jobs. By contrast, in the same period the US deficit fell from 10,6 % to 4,9 %; US GDP growth **accelerated** from 1,6 % to 2,4 % (vs. EU **deceleration** from 1,7 % to 1,3 %); US unemployment **fell** from 8,9 % to 6,2 % (vs. EU **rise** from 9,6 % to 10,2 %) and importantly US employment **rose** by 6,3 % while that of the EU **stagnated** at — 0,1 %.

3.1.7. The EESC is much less sanguine than the Commission that the structural deficit targets under the EDP allow more precise and transparent policy advice. While the Committee accepts that this measure, stripped of the distortions of the economic cycle and one-off fiscal measures, offers the opportunity of a more transparent picture, it is nonetheless a non-observable variable based on theoretical and disputed calculations of potential output gaps, which is prone to substantial revisions, and likely in some instances to yield poor policy prescription.

3.1.8. The debt/GDP ratio is an important element of fiscal sustainability. It has two components: the amount of debt and the size of GDP, neither of which can be pursued without regard to the impact on the other. An approach which concentrates on too speedy a reduction in the deficit with the objective of further reducing the debt level will, if it results in stifling or reducing GDP, have a counterproductive effect in terms of the objective of reducing the debt/GDP ratio itself.

3.1.9. The Committee welcomes the emphasis placed on the use of flexibility within the rules of the SGP, whereby the Commission will take into account (when determining the soundness of a Member State's budgetary position): a) public investments in the Investment Plan for Europe; b) investments associated with co-financing under structural funds; c) reforms that have a long-term impact on public finance sustainability; and d) cyclical conditions ([6]). In the EESC's view, however, this represents a limited and partial measure.

([4]) OJ C 214, 8.7.2014, p. 46.

([5]) EESC Opinion on Completing EMU — the next European legislature (OJ C 451, 16.12.2014, p. 10).

([6]) COM(2015) 12 final.

3.1.10. The EESC warns that despite some enhanced engagement with the EP and increased engagement with national parliaments through on-site missions and in the euro area surveillance of draft budgets, the democratic deficit remains at the heart of the process with largely unaccountable EU institutions having a significant influence over national decision-making.

3.1.11. An input deficit (i.e. no real national involvement in decision-making) that is not offset by a good output legitimacy (i.e. good economic problem-solving) results in unenthusiastic ownership of economic programmes and increasing hostility to the European project as evidenced in the European elections ([7]).

3.1.12. The Commission should make *ex-post* assessments not only of the implementation of its policy recommendations by Member States, but also whether the recommendations effectively promoted the return of the economy to a sustainable path, not only in terms of financial and budgetary adjustments, but also in economic growth, development and the creation of high-quality jobs.

3.2. *Macroeconomic imbalance procedure*

3.2.1. The Committee recognises and supports the need for the MIP as surveillance of key non-budgetary variables can identify possible unhealthy trends before they become established. The crisis demonstrated only too well the failure of the SGP in monitoring only fiscal balances, while the questions of development and employment continued to be ignored or dealt with only marginally.

3.2.2. The EP should have a strong role in establishing the economic priorities of each Semester and in the parliamentary oversight of country specific recommendations ([8]).

3.2.3. Of great concern to the Committee is the one-sided approach to the correction of macroeconomic imbalances. The problem is viewed entirely as a national problem, with almost all the emphasis on the correction of harmful deficits and a benign view of surpluses. To be addressed meaningfully, an assessment of imbalances and their impact on the Europe-wide economy is needed.

3.2.4. To ensure that the MIP and by implication the Europe 2020 project is not a repeat of the failed Lisbon Agenda, the Commission needs to instigate a better method of assessment of the quality of implementation of the CSRs and be prepared to follow up the process and provide incentives to Member States (flexibility, golden rules, etc.) before using sanctions as a last resort.

3.2.5. In contrast with budgetary surveillance, which typically has short-term easily measurable outcomes, the policy recommendations that form a significant part of the CSRs refer to softer policies and outcomes such as competitiveness, or various aspects of the environment for doing business or welfare system reforms, the level of implementation or impact of which can be hard to measure.

3.2.6. In the review of the MFF in 2016, there is a need to **back urgent structural reforms** with a common EU interest, including macroeconomic rebalancing, **with some form of fiscal capacity.** The EESC urges consideration of possible instruments: the Convergence and Competitiveness Instrument to allow stressed economies to undertake urgent structural reforms of common EU interest, outlined in six pages of the Blueprint for a deep and genuine EMU, and then the subject of a communication ([9]); a revisiting of the Green Paper on Stability Bonds, which was called for in Regulation (EU) No 1173/2011, currently under review in this opinion; and some form of minimum social insurance scheme which would aid stressed economies.

([7]) CEPS Special Report No 98, Enhancing the Legitimacy of EMU Governance, December 2014.
([8]) Ibid.
([9]) COM(2013) 165 final.

3.2.7. The Commission says that in-depth reviews are at the core of MIP, the policy recommendations of which end up in CSRs. The EESC supports this practice which has the potential of producing more insightful analysis as it involves on-site missions, which add greatly to the knowledge of the economy under review, and also has the added value of Commission and national Finance officials establishing useful working relationships.

3.2.8. As the reforms under the MIP are of a longer-term benefit, there is concern that national governments may not regard them as priority and could pay only lip service to their implementation. A crucial part of the country specific recommendations to correct imbalances should focus on completion of the internal market.

3.2.9. Real involvement of civil society and the social partners in this area of the European Semester would be an important way of ensuring compliance as well as raising its political profile and ownership at national level.

3.2.10. The EESC suggests that lessons on how the Commission and Member States could best interact could be drawn from the experience of adjustment countries, where on-going and deep surveillance was carried out.

3.2.11. An ECFIN staff paper suggests that an unimpressive 41 % of CSRs were implemented over the two-year period 2012-13, and there was a minor deterioration between the years ([10]), which may sound some loud warning signals.. We need an evaluation of the reasons for the existing gap between the recommendations and their implementation.

3.2.12. The EESC warns that the scoreboard approach, which is backward looking and is a main tool for justifying In-Depth Reviews, does not necessarily identify the build-up of stock imbalances that might precipitate a future crisis. There is, therefore, a danger that policy makers may not be provided with solid bases to take effective action ([11]) and could even be distracted from a more crucial policy focus.

3.3. *Euro area countries experiencing difficulties with financial stability*

3.3.1. The EESC recognises the need to support, through focused surveillance, countries that 1) either experience or are threatened with serious difficulties with respect to their financial stability or to the sustainability of their public finances or 2) request or receive financial assistance from EU institutions, other Member States or the IMF.

3.3.2. The EESC fully supports that in the event of entering a macroeconomic adjustment programme all other obligations, including the European Semester, are suspended and such Member States are subject to ongoing post programme surveillance.

3.3.3. The process covering the period in which a Member State seeks to apply for financial assistance remains untested as this regulation only came into effect after the four programme countries had already entered an adjustment programme.

3.3.4. The EESC calls for the Commission to carry out and publish a study on the outcomes of the adjustment programmes in the four countries, in particular to discover if the apparently less successful outcome for one of them could have been mitigated by a different approach from the Commission.

4. **A more profound vision of EMU governance is needed**

4.1. The EU is one of the largest and most prosperous economic blocs in the world which so far has survived with a dysfunctional system of economic governance arising from the decision to form an economic and monetary union with a single currency and monetary policy while at the same time maintaining national fiscal and economic policies.

([10]) ECFIN Economic Brief, Issue 37, October 2014, Implementing Economic Reforms — are EU Member States responding to European Semester Recommendations.

([11]) Daniel Gros and Alessandro Giovannini, Instituto Affari Internazionali No 14, March 2014, The 'Relative' importance of EMU Macroeconomic Imbalances in the MIP.

4.2. The EESC considers that the European Central Bank cannot be left to combat the current recession in the euro area on its own. The QE measures now being embarked upon by the ECB need to be matched by greater political initiatives by the Member States. The Investment Plan for Europe announced by the Commission is a necessary but insufficient step in the right direction. Without further fiscal integration, the nationally-focused approach to economic coordination in the European Semester prevents the euro area from pursuing an appropriate fiscal stance.

4.3. The crisis exposed deep flaws posing an existential threat to the euro. The crisis forced major reforms to economic governance, hastily drawn up and brought into being through intergovernmental treaties rather than by the Community method. Differences in the relative competitiveness of Member States in an Economic and Monetary Union, which formerly would have been equilibrated through upward and downward currency adjustments, cannot simply be addressed by urging, under pain of penalty, recommendations and reforms only on those adjudged to be uncompetitive.

4.4. The measures put in place under the European Semester began the process of fiscal consolidation and rebuilding credibility, but the rules-based approach, while appropriate for normal times, is now part of the problem. The EESC considers that economic governance (particularly of the euro area) can no longer be entrusted solely to the regulations currently under review. Member States in difficulties need greater resources to exit the dead-end road of recession and guarantee growth and job creation and, through growth, sustainable fiscal consolidation.

4.5. The EESC shares the concerns triggered by the annual report on European social developments published recently by the Commission ([12]), which states that the measures implemented to tackle the crisis have 'increased financial distress and debt levels among households, exacerbated poverty and social exclusion' and that 'the deterioration of the social situation for a prolonged period of time had a negative impact on the public belief and trust in the ability of governments and institutions to address such problems'. The data set out in the Commission report on the quality of work (part time, insecure and unstable work) and unemployment, particularly among young people, are impressive.

4.6. The EESC asks that social indicators ([13]) feature more prominently in the scoreboard and be used to regulate budget policies, starting with the Semester, to avoid undermining the EU's fundamental principles — harmonious and balanced economic development, sustainable and environmentally-friendly growth, a high rate of economic convergence, high employment and social protection, economic and social cohesion, solidarity between Member States — as established by the Treaties of Rome and thereafter enshrined in the Maastricht, Amsterdam and Lisbon treaties but insufficiently taken into account by the Fiscal Compact and all related texts.

4.7. In order to give fresh meaning to the integration of the Member States, and particularly of the euro area countries, we need to propose a European governance approach which enables the countries with the heaviest debt loads and zero or negative GDP growth to carry out the investments needed to make their production systems competitive once again and kick start development. Such an approach should take in due consideration the principles of economic and social cohesion enshrined in the EU founding treaties.

4.8. A reasonable deviation in any Member State from the 3 % deficit parameter could be considered a temporary exception for a given number of years and thus would not automatically trigger sanctions. Under this new governance approach, the Commission must carefully examine the needs indicated by countries in difficulty, assess whether the investment plan proposed by the Member State is suitable and feasible in light of commitments undertaken (stability/convergence and national reform programmes) in the European Semester, and approve it with the oversight of the European Parliament.

4.9. Parameters used to develop budgets and interpret data must be uniform and aligned and must apply to all countries and their administrations, with a transparent, understandable and publicly-known procedure. One single regulation with clear, simple rules could suffice, ensuring the involvement of civil society, the social partners and national parliaments.

([12]) Employment and Social Developments in Europe, December 2014.

([13]) For example: GDP growth, unemployment, long-term unemployment, people at risk of poverty, public investment, the relation prices-wages, etc.

4.10. Following this approach, the Semester should be turned into a major opportunity for EMU with a view to restoring mutual confidence and launching a common process, both as regards structural reforms (which need to be agreed for all euro area countries) and for the budget. The regulatory framework should evolve towards a new euro area budget, testing a common development procedure with the greatest possible transparency and truthfulness as watchwords for European public opinion.

Brussels, 19 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1304/2013 of the European Parliament and of the Council on the European Social Fund, as regards an increase of the initial pre-financing amount paid to operational programmes supported by the Youth Employment Initiative'

(COM(2015) 46 final)

(2015/C 268/07)

Rapporteur-General: Pavel TRANTINA

On 12 February 2015 and 23 February 2015 the European Parliament and the Council respectively decided to consult the European Economic and Social Committee, under Article 164 of the Treaty on the Functioning of the European Union, on the:

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1304/2013 of the European Parliament and of the Council on the European Social Fund, as regards an increase of the initial pre-financing amount paid to operational programmes supported by the Youth Employment Initiative

(COM(2015) 46 final).

On 17 February 2015 the Committee Bureau instructed the Section for Employment, Social Affairs and Citizenship to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Mr Trantina as rapporteur-general at its 506th plenary session, held on 18 and 19 March 2015 (meeting of 18 March), and adopted the following opinion by 213 votes to 1 with 6 abstentions.

1. **Recommendations**

1.1. The EESC welcomes the efforts of the European Commission to substantially increase the initial pre-financing for the Youth Employment Initiative (YEI) as a good step forward. It should help the Member States with the highest levels of youth unemployment and, often, higher budgetary constraints to start efficiently implementing the YEI.

1.2. In spite of the doubts that it has been continuously expressing about the amounts and manner of funding secured for the Youth Employment and Youth Guarantee initiatives ([1]), the EESC agrees with the Commission about the need to adjust the Parliament and Council regulation on the European Social Fund (ESF) in line with the proposal that was put forward.

1.3. The EESC is convinced that this initiative should encourage Member States to prioritise the fight against youth unemployment in their national budgets. Bureaucratic procedures should neither prevent the efficient delivery of the EUR 6 billion allocated to the Youth Employment Initiative, nor slow down any other initiatives aimed at efficiently combatting current youth unemployment.

1.4. The EESC considers the YEI to be an opportunity to review the future of work in Member States — public employment services must become much more proactive, better synergies between education and training and actors of the labour market must be created, young people must be adequately and promptly informed about their rights and opportunities.

([1]) OJ C 271, 19.9.2013, p. 101.

1.5. The EESC strongly encourages the involvement of organised civil society in the design and monitoring of the national YEI programmes on a partnership basis. The EESC would like to recall its long-term commitment to the youth unemployment topic. It is convinced that involving the social partners in a growth strategy, labour market reforms, education schemes and reforms of public administration, and involving youth organisations in the implementation of the Youth Guarantee, will ensure the consent of large parts of the population and thus social stability ([2]).

1.6. The EESC calls on the European Commission to closely monitor the challenges to the implementation of the YEI and especially to the Youth Guarantee. The monitoring process should not only be based on quantitative analysis but also on more qualitative indicators.

1.7. Greater investment in education and training is needed to support the implementation of lifelong learning policies and ultimately be part of a holistic approach to education. Internships and apprenticeships should be quality schemes. Internships should be based on learning objectives and preferably part of the education curricula and should not replace the creation of new jobs.

1.8. The EESC is convinced that the European Commission, Member States and the European Parliament, in cooperation with the social partners and other civil society organisations, must play a key role in ensuring a sound EU budget to stimulate job creation for young people.

2. **Background**

2.1. The Youth Employment Initiative was proposed by the 2013 European Council with a budget of EUR 6 billion for the period 2014-20. It should particularly support young people who are not in education, employment or training in the Union's regions with a youth unemployment rate in 2012 above 25 % by integrating them into the labour market.

2.2. The money under the Youth Employment Initiative should therefore be used to reinforce and accelerate measures outlined in the 2012 Youth Employment Package. In particular, the funds are available for EU countries to finance measures to implement, in the eligible regions, the Youth Guarantee Recommendation agreed by the EU's Council of Employment and Social Affairs Ministers in 2013.

2.3. In December 2014, the youth unemployment rate was 21,4 % in the EU28 and 23,0 % in the euro area ([3]), while in certain countries youth unemployment remains unacceptably high — above 40 or even 50 %. Even if these rates are slowly decreasing, they are still much higher than pre-crisis levels and young people are not out of the crisis yet. More than half of young Europeans feel that in their country young people have been marginalised and excluded from economic and social life by the crisis ([4]).

2.4. One year after the ESF Regulation on Youth Employment Initiative was adopted, it has not lived up to its potential. Frontloading of the YEI commitments as such and the other specific measures for the YEI have not led to the quick mobilisation of the resources from the YEI that was expected. Among the main reasons identified are the ongoing process of negotiation of the relevant operational programmes and the roll-out of respective implementation arrangements in the Member States; the limited capacity of the authorities to launch calls for projects and to process applications speedily and the lack of sufficient pre-financing to launch the necessary measures.

([2]) OJ C 424, 26.11.2014, p. 1.
([3]) Eurostat figures on youth unemployment.
([4]) European Parliament (2014), Flash Eurobarometer of the European Parliament: European Youth in 2014.

2.5. The present proposal should respond to this and other challenges. According to it, the initial pre-financing made available from the specific allocation for the YEI in 2015 will be increased to about EUR 1 billion. This does not alter the overall financial profile of national allocations that have already been agreed upon, it merely proposes to bring forward the allocations that have already been secured in the EU budget for the YEI. The present proposal therefore increases the flexibility for the Member States to access this funding and mobilise it more thoroughly.

3. **Specific remarks**

3.1. *YEI and the Right to good quality opportunities for young people*

3.1.1. Measures financed under the Youth Employment initiatives should be based on a rights-based approach to youth and employment; particularly in times of high crisis, the quality of work for young people must not be compromised. Projects under the YEI should contribute to promote quality jobs. There is increasing evidence showing that temporary and part-time work in some Member States is becoming an obligation rather than an option for young people.

3.1.2. Internship and apprenticeship schemes are due to be extended further under the youth employment initiative. Internships should be quality ones. They should constitute valuable and useful work-based experience for young people. Internships should be based on learning objectives and preferably part of the educational curricula, helping the transition from education to work and not replacing the creation of new jobs. Companies should be encouraged to hire interns after the end of internships.

3.2. *The partnership principle*

3.2.1. The EESC would like to strongly emphasise that operational programmes (including those financed from the ESF and therefore financing the YEI) should be geared towards ‘partnership-friendly’ actions and measures. Equal treatment and pluralism in partnership, targeted partnerships for targeted programmes and enhanced capacity building should be major guidelines ([5]). The EESC believes that Monitoring Committees as a partnership instrument that also involves organised civil society should be used for proper discussions about, and monitoring of, how the YEI is implemented in Member States.

3.2.2. Decreasing youth unemployment can only be triggered by a real cross-sectoral approach and the development of efficient partnerships involving businesses, the youth sector, civil society organisations, public employment services, training and education providers, as well as local and regional authorities.

3.2.3. To deal with the heterogeneous nature of youth unemployment, to contribute to designing tailored services and to ensure a better outreach to young people, especially the most vulnerable ones who are far from the labour market, young people and youth organisations should be involved in the design, monitoring and, where applicable, implementation of the measures financed by the Youth Employment Initiative on a national, regional and local level.

3.2.4. Youth organisations and youth representatives could also facilitate communication: they can have a role in identifying young beneficiaries of measures under the YEI, tackling youth unemployment and informing young people about the possibilities of the schemes.

3.3. *The role of public employment services in the implementation of the YEI*

3.3.1. Labour market policies encouraging early interventions to help young people enter the labour market are beneficial for their whole career. However, it is also very difficult for young people to remain in the labour market after a first experience, therefore career guidance services should accompany young people in the long term.

([5]) OJ C 44, 15.2.2013, p. 23.

3.3.2. In order to be efficient, measures under the Youth Employment Initiative, especially the Youth Guarantee schemes, will have to be accompanied by an increase in the administrative capacity of public employment services. Re-labelling current failed systems is not enough. A fair and inclusive Youth Guarantee should ensure a quick school-to-work transition by offering tailored career guidance leading to good quality offers to all young people.

3.4. *The need for coherence*

3.4.1. Measures from the Youth Employment Initiative should not only be immediate measures to reduce youth unemployment but should also aim to reduce youth unemployment on a medium and long-term basis which necessitates long-term targeted investments.

3.4.2. Cuts to youth and social services contradict the ethos of the Youth Employment Initiative and undermine the potential of measures to address youth unemployment.

3.4.3. In order to address the different needs of all young people, especially the most vulnerable, projects financed under the YEI should be part of a coherent package of measures encompassing several support mechanisms. Access to social schemes should be guaranteed for young people and non-standard forms of employment should be regulated in order to counterbalance some negative effects of insecurity resulting from such jobs. Furthermore, specific attention is needed to tackle discrimination in the labour market on the basis of age, gender, migrant background and others.

3.4.4. The Youth Employment Initiative should not prevent Member States from using the European Social Fund to finance broader projects related to youth, especially on poverty and social inclusion. The EESC calls on the European Commission to monitor the use of ESF funds for youth-related projects.

3.5. *From education to work and from work to education*

3.5.1. Given the rapid changes predicted for the labour market, today more than ever strong investments in education and training are necessary. Having said this, skills policies should not only be seen as a means to fulfil labour market needs but should recognise competences acquired through non-formal education, support the implementation of lifelong learning policies and ultimately be part of a holistic approach to education.

3.5.2. The transition between education and work can also be helped by a smart dual system combining education and work which would give young people the opportunity to get their first professional experience in parallel to quality education.

3.5.3. Developing entrepreneurial and cross-functional skills can be useful for young people to be active and innovative citizens. Entrepreneurship must also be considered a viable path towards employment for young people. Measures must be put in place to address the barriers that young people face in setting up their own enterprise such as lack of access to credit, the lack of a minimum level of social protection for young entrepreneurs, as well as an absence of support from educational and governmental structures.

3.5.4. Social entrepreneurship must also be promoted through its ability to create jobs and contribute to community development, support environmental sustainability and produce social capital.

3.6. *Quality monitoring*

3.6.1. The EESC calls on the European Commission to closely monitor the challenges to the implementation of the YEI and especially to the Youth Guarantee, that have been identified in the 2014 Country-Specific Recommendations regarding the quality of offers, the lack of active outreach to NEETs, the administrative capacity of public employment services and the lack of effective engagement with all the relevant partners.

3.6.2. The monitoring process should not only be based on quantitative analysis but also on more qualitative indicators. This would make it possible not only to identify the measures that would not be efficient to bring young people into employment but also to identify the reasons for the failures of such measures.

3.6.3. The EESC welcomes the EMCO indicator framework for Monitoring the Youth Guarantee. These indicators are very ambitious and they will imply significant administrative work from national authorities. Member States will have to be responsible for ensuring the efficient collection of data.

3.7. *Extension of the YEI*

3.7.1. The Youth Employment Initiative gives Member States the possibility to extend the policy measures to young people up to the age of 30. Member States should take into account this possibility when monitoring and evaluating the YEI in their country.

3.8. *Job Creation*

3.8.1. Pro-employment macroeconomic policies to increase investment and growth are needed. Public investment in infrastructure and social protection can multiply employment opportunities, whilst investments in specific and innovative sectors, such as in the green economy and in the ICT industry, can ensure the sustainability of such growth and the creation of good quality employment for youth. Youth-friendly fiscal policies, particularly to support such targeted demand-side interventions, must be part of this broader approach to countering the impact of the crisis on youth.

Brussels, 18 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council protecting against the effects of the extra-territorial application of legislation adopted by a third country and actions based thereon or resulting therefrom (recast)'

(COM(2015) 48 final — 2015/0027 (COD))

(2015/C 268/08)

On 12 February 2015 and 4 March 2015 respectively, the European Parliament and the Council decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the:

Proposal for a Regulation of the European Parliament and of the Council protecting against the effects of the extra-territorial application of legislation adopted by a third country and actions based thereon or resulting therefrom (recast)

(COM(2015) 48 final — 2015/0027 (COD)).

Since the Committee unreservedly endorses the proposal and feels that it requires no comment on its part, it decided, at its 506th plenary session of 18 and 19 March 2015 (meeting of 18 March), by 165 votes to one with six abstentions, to issue an opinion endorsing the proposed text.

Brussels, 18 March 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE

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