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EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

529th PLENARY SESSION OF THE EESC ON 18 AND 19 OCTOBER 2017

Opinion of the European Economic and Social Committee on 'The potential of small family and traditional businesses to boost development and economic growth in the regions'

(own-initiative opinion)

(2018/C 081/01)

Rapporteur: **Dimitris DIMITRIADIS**

Plenary Assembly decision	26.1.2017
Legal basis	Rule 29(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	7.9.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote	199/0/1
(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. In a number of opinions, the EESC has consistently expressed its positive attitude towards EU polices that aim to support small and medium size enterprises (SMEs) ([1]). However, SMEs are an extremely heterogeneous category, meaning that a special effort is required to properly target the different subgroups and particularly small family and traditional businesses (SFTBs).

([1]) See EESC opinions: *Policy measures for SMEs* (OJ C 27, 3.2.2009, p. 7); *International public procurement* (OJ C 224, 30.8.2008, p. 32); *Small Business Act* (OJ C 182, 4.8.2009, p. 30); *OTC derivatives, central counterparties and trade repositories* (OJ C 54, 19.2.2011, p. 44); and *Access to finance for SMEs* (EESC-2014-06006-00-00-RI-TRA).

1.2. The importance of this subgroup lies in the fact that the vast majority of jobs in EU regions are provided by this type of business. While reaffirming its previous conclusions and recalling the recommendations made in in its previous opinions ([2]), the EESC aims to have a closer look at and provide an analysis of the challenges that SFTBs are facing. This is intended to provide an opportunity to influence policymaking constructively at EU, national and regional level.

1.3. The EESC encourages the European Commission (EC) to consider ways of supporting and promoting SFTBs, as these businesses are the key element in the creation of new activities and in income generation in resource-constrained areas. They are adding value in the process of regional development, particularly in less developed regions, since they are deeply rooted in the local economy, where they invest and maintain employment.

1.4. The Committee believes that there is a lot of potential for development in many regions which are still lagging and that this underutilised potential could be realised through local SFTBs. This challenge should concern not only the European Commission but also other players which should be intensively involved, including local governments and local intermediaries like business organisations and financial institutions.

1.5. The EESC calls on the Commission to pay attention to the fact that SFTBs have been negatively affected by recent economic and industrial developments and trends. They are losing competitiveness and are facing increasing difficulties in performing their operations.

1.6. The EESC is concerned that support policy instruments do not focus on SFTBs and it is unlikely that they will benefit significantly from them. In general support to SMEs is geared towards increasing research and innovation in SMEs and towards start-ups. Without calling the importance of these policies into question, the EESC wants to emphasise that a very small fraction of all SMEs will benefit from them and SFTBs are typically not among them. The EESC welcomes the EC's intention to revise the definition of an SME, which was initiated by DG Grow and has been provisionally scheduled for the beginning of 2019 ([3]).

1.6.1. The current definition of an SME is already outdated, and for this reason the Committee believes that the planned revision could be helpful in providing a more adequate understanding of the nature of SMEs and in designing better policies for them. The EESC invites the EC to include an assessment of how the current definition is applied when implementing SME policy measures at EU, national and regional level in the consultation process, with particular focus on SFTBs.

1.6.2. The EESC believes that as a minimum the revision of the definition should:

— cancel the 'staff headcount criterion' ([4]) as the leading criterion and provide SMEs with the flexibility to choose which two out of the three criteria to meet, using the most up-to-date approach set out in Directive 2013/34/EU ([5]),

— carry out a thorough analysis of the thresholds set out in Article 2 of the Recommendation and update them whenever necessary, including by converging them with those set up in Directive 2013/34/EU,

— reassess and revise the restrictions in Article 3 of the Annex to the Recommendation.

1.7. The EESC believes it is important that SFTBs be recognised as a specific subgroup since they typically suffer the most from market failures. Therefore the Committee recommends designing tailor-made support policies which target them. To address the most pressing problems such policies have to at least be geared to:

— assisting in attracting and training the labour force,

— training and retraining managers/owners,

— providing access to advisory and consultancy services,

([2]) See EESC opinions: *Family Business* (OJ C 13, 15.1.2016, p. 8); *Review of the Small Business Act* (OJ C 376, 22.12.2011, p. 51); *Diverse Forms of Enterprise* (OJ C 318, 23.12.2009, p. 22).
([3]) Inception Impact Assessment (2017)2868537 of 8 June 2017.
([4]) Article 4 of the Annex, Commission Recommendation 2003/361/EC.
([5]) Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013.

— improving access to finance,

— ensuring more information and better training for staff in local employers' associations and local bank offices,

— providing one-window services,

— revising local and EU administrative burdens,

— ensuring access to more and better information on regulatory requirements, local business environments and market opportunities.

2. **Small family and traditional businesses — background and importance**

2.1. A number of topical industrial developments and trends — digitalisation, Industry 4.0, fast-changing business models, globalisation, the sharing economy and more innovative sources of competitive advantages — are currently the focus of EU policy making. At the same time, it must be recognised that people should be able to live anywhere in the EU, including in many regions that Industry 4.0 is not likely to reach easily.

2.2. Without undermining the importance of these new trends and while supporting the political efforts aimed at promoting them, it is necessary to recall that the vast majority of jobs in EU regions are currently provided by very traditional SMEs ([6]) and small family businesses ([7]), most of them with a long history and their own traditions, experiences and many success stories from the past. This group of businesses typically includes the following subgroups:

— small, micro and mono-enterprises,

— very traditional SMEs, operating in historically and traditionally determined fields,

— SMEs in remote areas — like small towns, villages, mountain regions, islands, etc.,

— small family companies,

— craft-based companies,

— self-employed.

2.3. As stated earlier by the EESC, SFTBs are the backbone of many economies around the world and are growing at an impressive rate. They play a considerable role in regional and local development and play a distinctive, constructive role in local communities. Family businesses are better able to withstand difficult periods of recession and stagnation. These enterprises have unique stewardship characteristics since their owners care deeply about the long-term prospects of the business, largely because their family's fortune, reputation and future are at stake. Their stewardship typically manifests itself as an unusual devotion to the continuity of the company, and entails a more assiduous nurturing of their employee community, as well as seeking out closer connections with customers to sustain the business. The EESC previously called on the EC to implement an active strategy to promote best practices in family businesses among Member States ([8]).

2.4. In recent years, many SFTBs have faced increasing difficulties in performing their operations, because:

— they are not well equipped to anticipate and adapt to the fast-changing business environment,

([6]) Small traditional businesses are those which have maintained the same business model for long period of time serving relatively small communities — e.g. small restaurants and cafeterias, independent petrol stations, bakeries, family hotels, small companies in transportation and commerce, etc.

([7]) There is no one definition of a family enterprise, but rather there are several working definitions that have evolved over the years. They emphasise that family firms are those in which a family controls the business to a large extent through involvement in ownership and management positions. (Sciascia and Mazzola, *Family Business Review*, Vol. 21, Issue 4, 2008). Family-run businesses account in total for more than 85 % of all firms in OECD countries. Some of them are very large companies, but the present opinion focuses on small family businesses.

([8]) See EESC opinion *Family Business* (OJ C 13, 15.1.2016, p. 8).

— their traditional patterns of doing business are no longer as competitive as they used to be due to changing business models — i.e. digitalisation, more effective ways of running businesses, the development of new technologies,

— they have limited access to resources — e.g. financial, information, human capital, and market expansion potential, etc.,

— they face organisational constraints, such as a lack of time, quality and forward-looking ownership and management, and inertia when it comes to behavioural change,

— they have little ability to shape the external environment and less bargaining power, but are more dependent on it ([9]).

2.5. There are just under 23 million SMEs in the EU, with a higher share of SMEs as a proportion of the total number of enterprises in the southern countries of the EU ([10]). Not only do SMEs represent 99,8 % of the total number of enterprises in the EU's non-financial business sector ([11]), but they also employ almost 67 % of the total number of employees and generate almost 58 % of the total value added in the non-financial business sector ([12]). Micro-businesses, including one-person firms, are by far the most widely represented in terms of number of firms.

3. **Policy lines and priorities at the EU level**

3.1. A common rule is that support for SMEs is mainly streamlined to increase research and innovation in SMEs and SME development ([13]). While the capacity to innovate and the capacity to go global are recognised as the two most important drivers of growth, SMEs generally exhibit weaknesses in relation to both ([14]). Half of the identified typologies of instruments during the last financing period pursue objectives almost exclusively in terms of innovation. They are instruments that support technological and non-technological innovation, eco-innovation, the creation of innovative companies, support for R & D projects, knowledge and technology transfer.

3.2. During the period 2007-2013 ([15]), 'ERDF support to SMEs … amounted to approximately EUR 47,5 billion (76,5 % for business support and 16 % of total ERDF allocation for the period)'. Furthermore, 'around 246 000 beneficiary SMEs were identified' out of 18,5 million enterprises. The comparison between the number of beneficiaries and the total number of enterprises clearly indicates that this amount is completely insufficient and proves that the EU has failed to support this very important category of enterprises. The EC does not touch upon this important issue due to a lack of resources and the great diversity in the characteristics of these companies.

3.3. During the same period a relatively large number of policy instruments were applied with a high degree of variability, ranging from 1 to 8 000-9 000 beneficiaries. Creating instruments that are applicable to a very small number of beneficiaries is clearly inefficient. That poses the question of whether it is worth designing so great number of instruments. Moreover, their effectiveness and efficiency must be questioned, by weighing up the human and financial resources involved in their design against the effects produced (if any). At the same time case studies highlighted a process of self-selection or 'soft targeting', in which a specific set of beneficiaries (generally characterised by greater absorptive capacity) was targeted through the very design of a given policy instrument.

([9]) Various studies (e.g. European Parliament, 2011; CSES, 2012; EC 2008; OECD, 1998).

([10]) Commission Recommendation 2003/361/EC defines SMEs, which are further classified into three categories: micro, small and medium-sized firms, depending on the number of people employed and turnover. The main statistical sources do not provide data on enterprises defined as SMEs, due to a strict application of the aforementioned SME definition. Available data are based on the employment size criterion. Accordingly, the statistics reported in this opinion are based on this definition. It must be noted that, while including the turnover and/or total assets criteria should not change the statistics very much, applying the rules concerning the autonomy of enterprises could have a substantial impact on the results; in a study conducted in Germany, the application of this rule reduced the total number of 'SMEs' by 9 % (CSES, 2012).

([11]) The non-financial business sector consists of all sectors of the economies of the EU28 or Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing.

([12]) Annual Report on European SMEs 2014/2015, European Commission.

([13]) Final Report, Work Package 2, *ex post* evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), Contract: 2014CE16BAT002, http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/

([14]) Support to SMEs — Increasing Research and Innovation in SMEs and SME Development, Work Package 2, First Intermediate Report, Volume I: Synthesis Report, *ex post* evaluation of Cohesion Policy programmes, 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), Contract: 2014CE16BAT002, July 2015.

([15]) Same source as for footnote 13.

3.4. A comprehensive review ([16]) of a total of 670 policy instruments across the 50 operational programmes (OPs) implemented during the programming period reveals that the distribution between different policies is rather uneven. It shows that less than 30 % of all policy instruments targeted the needs of traditional businesses. The EESC has already expressed its support for innovative and high-growth firms ([17]). But at the same time the Committee regrets that the policy instruments are disproportionally and predominantly geared to SME innovation objectives, since the bulk of EU SMEs do not have — and will not have in the near future — any innovative potential, and their core business does not require them to have innovative potential. It is true that innovative products could be developed at extremely low cost and could have high growth potential, but this type of growth is clearly the exception and not the norm for traditional and family businesses, which work with a totally different philosophy. Some innovation is possible and advisable, and new generations are starting to innovate because they are open-minded. But in most cases innovation is only fragmented and is not part of the core business of these companies ([18]).

3.5. SFTBs are not the focus of support policy instruments, as is demonstrated by the fact that a minority of policy instruments (only 7 % of the total public contribution) are geared towards SMEs operating in particular sectors, the most common of which is tourism. This is also illustrated by the fact that about 54 % of beneficiary SMEs are from the manufacturing and ICT (10 %) sectors, with only 16 % from the wholesale and retail trade sectors and 6 % in accommodation and food service activities — which are considered traditional sectors. This is aggravated by the fact that during the last programming period support for SMEs was structured in the light of the deep economic crisis, taking into account the need to shift resources away from innovation to more generic growth.

3.6. At the same time, the data show that for the five years after the beginning of the crisis in 2008 the number of SMEs increased while value added and the number of employees declined ([19]). Such statistics suggest that during this period 'necessity entrepreneurship' prevailed over 'opportunity entrepreneurship'. Obviously people were trying to find a way through the crisis and companies were trying to survive, but support has not been sufficient or adequate ([20]).

3.7. Many recent studies have provided clear evidence that there are significant differences between the needs of SMEs in northern and southern Europe, with significant differences at national level. This view is also fully endorsed in the European Commission's Annual Report on European SMEs 2014/2015, according to which the group of countries with the lowest scores are mainly from southern Europe. These countries report extremely low success rates for projects, including the SME component of Horizon 2020.

3.8. An additional serious challenge to the provision of effective support for SFTBs is the fact that promotion policies are mostly formulated based on the size of the companies to be supported and not on more relevant characteristics that have a greater impact on their activities. This approach might be outdated and too broadly targeted, and it fails to consider the different needs of different groups like SFTBs. In its opinions, the EESC has therefore constantly stressed the need for better targeted and more precisely defined SME promotion policies in Europe, as well as the need to update the definition of SMEs so as to better reflect their variety ([21]).

3.9. The EESC is concerned by the fact that only a small share of ERDF support has to date generated documented effects ([22]) proving that it has a real effect on the economy. This calls into question the real impact of the funds invested to support SMEs, and the EESC insists that a real impact assessment be performed, including an analysis of the support granted to SFTBs.

([16]) Same source as for footnote 14.
([17]) See EESC own-initiative opinion *Promoting innovative and high growth firms* (OJ C 75, 10.3.2017, p. 6).
([18]) A good example is rural tourism, which nowadays relies a lot on digital platforms for marketing.
([19]) European Commission, SME Performance Review Dataset (2014 edition).
([20]) A 'necessity entrepreneur' is a person who had to become an entrepreneur because they had no better option. An 'opportunity entrepreneur' is a person who has actively chosen to start a new enterprise based on the perception that an unexploited or underexploited business opportunity exists. There is evidence to suggest that the effect on economic growth and development varies greatly between necessity and opportunity entrepreneurship. Generally necessity entrepreneurship has no effect on economic development while opportunity entrepreneurship has a positive and significant effect.
([21]) OJ C 383, 17.11.2015, p. 64.
([22]) According to the information available from the monitoring system and additional sources (e.g. ad hoc evaluation), only 12 % of all policy instruments provide robust evidence of their positive achievements. Policy instruments which can be assessed as ineffective represent up to 5 % of the total.

3.10. The ERDF is not the only source of support for SFTBs. Other sources like the European Maritime and Fisheries Fund (EMFF) ([23]), the European Agricultural Fund for Rural Development (EAFRD) ([24]) or the European Social Fund (ESF) ([25]), which can be used separately or through the Territorial Instruments (Community-Led Local Development (CLLD) and Integrated Territorial Investments (ITI)), also provide support for SMEs. But they are not targeted at SFTBs, and a very small fraction of funding goes to these enterprises. According to representatives of SFTBs, their needs are not well understood or properly met.

3.10.1. This could be explained by the fact that when designing the policy support instruments, EU, national and local policymakers and administrations are too rigid in some ways and have failed to take on board the viewpoints of businesses and the social partners, with a view to understanding the real needs of small and very small companies.

3.10.2. Of course, the blame should not be put only on the administration, but also on intermediary organisations for having failed to effectively communicate the real needs of SMEs. A good example of this is that SMEs seem to show a distinct preference for grants to enterprises, in contrast with the growing emphasis in the policy debate on equity finance, repayable support and indirect support.

3.10.3. Partnerships between enterprises and research centres and recourse to intermediary actors to provide assistance to SMEs also appear to be less developed than anticipated, despite the great attention these topics attract. It is argued that this mismatch could in part be explained by the crisis, but during an economic recession policy makers could have opted for more 'traditional' policy instruments to sustain local economies at a critical time.

3.10.4. The possibility of using various specific financial instruments is practically out of reach for SFTBs because of the difficulties in implementing them and the lack of experience and knowledge.

4. **The heterogeneity of SMEs needs to be addressed**

4.1. Small enterprises typically have lower exports as a percentage of turnover than medium and large enterprises, which suggests a relationship between firm size and exporting capabilities.

4.2. Access to financing is a serious problem for SMEs and start-ups. In an information report the EESC drew attention to the fact that inadequate supply of financing has been constraining SMEs' activities since 2008 ([26]). While the situation has been improving recently, progress has been slower the smaller the firm is, suggesting once again the importance of size in shaping firms' needs and performance. Furthermore SMEs rely mostly on bank loans for their financing, but the banking system is not well tailored for SMEs, particularly SFTBs.

4.3. Recently, financial support has focused mainly on start-ups — which represent a very small portion of the SMEs in the EU — but the pressing need for capital to finance scale-ups has still not been addressed adequately, nor has the need for the vast majority of traditional enterprises just to finance their regular operations, which have suffered from the recent crisis. There are reports of banking failures putting some small enterprises out of business because of simple cash flow problems.

4.4. Another very serious difficulty that SMEs experience — in contrast to large companies — relates to accessing information and new markets. It is also more difficult for them to hire and keep a highly skilled labour force and to comply with increasing regulatory and bureaucratic requirements. This disadvantageous situation is aggravated even further for SMEs in less developed EU regions, which face a lack of opportunities to cooperate with larger firms as part of their value chain, fewer opportunities to be part of competitive clusters, an under-provision of public goods, access to fewer facilities and supporting institutions, and often a declining population of customers. All of these factors may also result in greater costs in getting their goods to market.

([23]) https://ec.europa.eu/fisheries/cfp/emff_en
([24]) https://ec.europa.eu/agriculture/cap-funding_en
([25]) http://ec.europa.eu/esf/home.jsp
([26]) See EESC Information report *Access to finance for SMEs and midcaps in the period 2014-2020: opportunities and challenges*

4.5. Therefore, for traditional SMEs and those located in less developed EU areas, it is not policy instruments focused on promoting innovation, access to new markets, internalisation, access to capital markets, etc. which are of vital importance, but rather those which help SMEs improve and perform better at their core operations — such as those which facilitate better access to common bank financing, information, a skilled labour force and immediate business opportunities (improvement of daily operations). For these businesses, initiating behavioural change also does not make sense in the short term, because it is first necessary to change the overall context in which they operate.

4.6. While in some countries business incubators work smoothly, in others their positive effects are quite limited. The key success factor is a culture of sharing organisational resources and support networks, which in principle are not well developed in the less developed EU regions.

4.7. The increasing importance of knowledge content production as a competitive advantage further increases the heterogeneity of SMEs, discriminating between high growth SMEs and other SMEs whose development is hampered by obstacles traditionally linked to their small size, their location and customer base.

4.8. The EESC calls on the EC to endorse the 'Act Small First' approach and to pay special attention to SFTBs when designing policy instruments.

4.9. There were many lagging regions in Europe 30 or 40 years ago, regions removed geographically or functionally from the engines of economic growth. Some of these are now prosperous due to open, responsible and uncorrupt local governments, to the efficient work of the business organisations and to the establishment of local well-operating business networks.

5. **Challenges and ways to tackle them, with a view to better promoting the development of small family and traditional businesses**

5.1. *Access to financing is a notorious problem*. Compared to larger firms, SFTBs exhibit greater variance in profitability, survival and growth — which accounts for the particular problems they face in relation to financing. SMEs generally tend to be confronted with higher interest rates, as well as credit rationing due to a shortage of collateral. The difficulties in financing differ considerably between those companies which grow slowly and those that grow rapidly.

5.2. The expansion in venture funds, private equity markets — including informal markets and business angels — crowdfunding and development of the Capital Markets Union in general have improved access to venture capital for particular categories of SMEs, but SFTBs are unlikely to be able to benefit much from these developments and remain heavily dependent on traditional bank loans. Even for innovative companies, start-ups and mid-size companies these instruments are not always easy to use, and considerable differences remain between countries due to the level of development of local capital markets and the lack of proper legislation.

5.3. The EC policy to facilitate access to financing by providing guarantees is welcomed. However, the chosen scheme appears to create distortions on the guarantee market and ultimately unintended consequences for the activity of guarantee institutions. Empirical evidence is available (Spain being a case in point) that commercial banks are explicitly suggesting that their existing borrowers ask for a guarantee — to be directly issued to them from the EU in the form of a direct guarantee — so that the bank is able to cover current risks through the guarantee with no need to increase their risk class. 'Disadvantaged SMEs' (i.e. those struggling to obtain credit) are being left out. Greater deployment of public money, channelled through counter-guarantees, will increase efficiency in the use of public money and will generate a greater leverage effect in the market and the wider economy.

5.4. European and local regulatory burdens remain a major obstacle for SFTBs, which tend to be poorly equipped to deal with the problems arising from excessive regulation. This requires access to information on regulations to be made easily available to them and better provision of information on technical and environmental standards. Policymakers must ensure that compliance procedures are not unnecessarily costly, complex or lengthy. Also, there should be systematic and careful scrutiny of new regulations and their implementation by the relevant local business associations.

5.5. Access to better information is needed, and not only in relation to regulatory requirements. Information on the local business environment and on market opportunities at regional level is also of vital importance to traditional and family businesses. Modern technologies have great potential to narrow the information gap if they are designed in a user-friendly way. It would be very helpful to set up a one-stop shop where all the necessary information which affects firm strategies and decisions is made available in one place, as exists already in some countries. Measures to encourage information networks must seek to customise databases and avoid information overload.

5.6. Recent measures to ease access to markets have been focused primarily on international markets. Policy in this area seeks to tackle the disadvantages experienced by SMEs due to their lack of access to human resources, to external markets and to technology. But, as discussed above, for small traditional and family businesses this is often of little relevance. Therefore efforts should be geared towards better coordination between organisers of trade missions at regional level and towards providing better assistance in finding reliable business partners. Another possibility in the same area is to boost efforts to increase the 'share' which small firms obtain of government contracts in public procurement.

5.7. A very specific problem that small traditional and family businesses have faced recently is access to qualified labour. The demographic picture is deteriorating in remote areas and in many regions which are lagging in their development, and as a result in many places there is a significant lack of skilled labour. Therefore these enterprises need assistance in identifying and attracting human resources as well as in training them. Training programmes should be off-season and tailor-made. There should also be a system for offering these programmes regularly, since small companies may face high quit ratios.

5.8. In family businesses, it is common that children from the same family or not work for the company. This is traditional and is good for the business because it facilitates the smooth transition of the company from one generation to the next or to be familiar with the future work. In such cases owners/managers should always bear in mind that the labour conditions must be according to ILO Convention No 182 and ILO Convention No 138 on Child Labour.

5.9. Training is needed, but not only for the employees of SFTBs. In rural and remote areas bank employees and employers associations often do not have any knowledge of the different programmes and possibilities provided by the EC and the documents and procedures involved. This network of intermediaries is extremely important in terms of the efficiency of support to SFTBs. Information programmes and the exchange of best practices between these intermediaries should be promoted. A single point of contact for all types of financing and programmes should also be organised.

5.10. An important policy measure should be to enhance the 'quality' of owner/managers of SFTBs, since everything in these companies is directly related to this factor. This could be done either by encouraging training and/or by providing easy access to advisory and consultancy services. Lifelong learning should be promoted — online educational tools relating to areas like business planning, production standards, consumer legislation or other regulations could be a step in the right direction.

5.11. Another measure is to encourage SFTBs to reinvest their earnings. If they are incentivised to do so these enterprises will become more stable, less dependent on bank loans and less vulnerable to crises.

5.12. It would be very useful to summarise best practices from different countries in SFTB-intensive sectors like tourism, agriculture, fisheries, etc. and to present these to the Member States.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on 'Financing of civil society organisations by the EU'

(own-initiative opinion)

(2018/C 081/02)

Rapporteur: **Jean Marc ROIRANT**

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1. **Conclusions and recommendations**

1.1. Civil society organisations (CSOs) play a crucial role in promoting active citizenship in Europe. Participatory democracy needs intermediary bodies if it is to involve the public and encourage them to express their views in all civic spaces. A robust, independent and diversified organised civil society is underpinned by adequate public financing.

1.2. In addition to increasing difficulties in accessing public financing, the shrinking civic space noted in some EU Member States is the most dangerous factor for the functioning of CSOs and for European democracy.

1.3. In the EESC's view, a political and legal framework should be put in place at European and national level to nurture the development of European civil society, whose activities are an integral part of values anchored in fundamental rights.

1.4. Taking their cue from some Member States that have adopted 'charters of reciprocal commitment' or 'pacts' to this end, the European institutions could take steps to establish genuine European civil society dialogue. Discussions must be resumed on a statute for European associations and a statute for European foundations, and Article 11 of the TEU on structured dialogue with civil society must be implemented.

1.5. The EU should encourage Member States both to maintain or develop tax incentives for private donations, and to channel part of their tax revenue into CSOs. The EU should also remove obstacles to cross-border donations by coordinating tax laws and procedures, and invest in philanthropy across the EU.

1.6. The European institutions should promote a positive image of CSOs and preserve their independence, particularly by strengthening their capacity for action and engagement in social innovation and civic participation.

1.7. The EESC calls for a strategy facilitating the development of a strong and independent civil society in Europe and for the establishment of an EU Ombudsman on civic space freedoms to whom NGOs would report incidents related to any harassment or restriction of their work.

1.8. Concerning the future multiannual financial framework (MFF), the EESC calls on the budget authorities to increase funding for CSOs, including in the form of operating grants and multiannual financing.

1.9. The EESC calls on the Commission to propose a European fund for democracy, human rights and values within the EU ([1]), to be equipped with an ambitious budget, directly open to CSOs across Europe and managed independently, similarly to the European Endowment for Democracy ([2]), with the participation of representatives of the EESC.

1.10. In order to foster participatory democracy, the EESC believes that the Europe for Citizens programme should be endowed with a budget of EUR 500 million under the next MFF, as proposed by the European Parliament ([3]). Similarly, Erasmus+ actions targeting civil society should be increased.

1.11. The EESC calls on the Commission to monitor the implementation of the code of conduct on partnership with civil society within the Structural Funds. The Commission should also call on national and regional authorities to use the technical assistance provisions, designed to boost capacity-building, for civil society organisations.

1.12. The EESC calls for a more in-depth discussion on how to ensure further involvement of CSOs in research programmes by fostering links between researchers and civil society and by proposing a new strand on civic participation and democracy under the societal challenges pillar in the future research framework programme.

1.13. The Sustainable Development Goals and gender equality priorities should be mainstreamed in the future MFF.

1.14. The EU should maintain and further reinforce its leadership as donor of humanitarian assistance and international cooperation and proactively promote a fully-fledged civil society.

1.15. The EESC welcomes the suggestion made by the Commission in its proposed revision of the Financial Regulation to take into account as eligible expenses the hours spent by volunteers (a direct response to the EESC opinion on 'Statistical tools for measuring volunteering' ([4])) and facilitate the inclusion of contributions in kind as co-financing. It also welcomes the Parliament's report calling for simplification in the oversight of funds, such as cross-reliance on assessment and audits, speeding up responses to applicants and signing of contracts and payments. The EESC calls on the EU institutions to come to an agreement on the proposed text that will allow hours spent by volunteers to be fairly valued.

1.16. Strengthening civil society also means improving access to financing for the smallest organisations and the most disadvantaged sectors of society. With this in mind, the Commission should provide for a variety of financing arrangements and further simplify administrative formalities, providing training and guidelines on the implementation of contracts and financial obligations, while ensuring consistent interpretation by its departments of the Regulation on the financial rules.

1.17. The EESC calls on the European Commission to react promptly with relevant measures, including infringement procedures against Member States, when national administrative or legal provisions restrict the access of national civil society organisations to EU funds, including when funding conditions are imposed that restrict their advocacy.

2. **Introduction**

2.1. In a number of its opinions, the EESC has examined the issues of civil dialogue and participatory democracy, the definition of these concepts, the representativeness of the various stakeholders and the measures needed at European level. In particular, the EESC has stressed that implementing Article 11 of the TEU ([5]) was vital for the EU in its quest for democratic legitimacy in the eyes of its people.

([1]) This fund would pursue the same objectives as the European Instrument for Democracy and Human Rights: http://www.eidhr.eu/whatis-eidhr#

([2]) EED is an independent, grant-making organisation, established in 2013 by the European Union and EU Member States to foster democracy in the European Neighbourhood and beyond. All EU Member States are members of EED's Board of Governors, together with Members of the European Parliament and civil society experts.

([3]) European Parliament resolution on the Implementation of the Europe for Citizens programme

([4]) OJ C 170, 5.6.2014, p. 11

([5]) OJ C 11, 15.1.2013, p. 8

2.2. However, the question of how funding can help facilitate active citizenship and participatory democracy has not yet been addressed in a specific opinion.

2.3. There is now a pressing need to look into the distribution and effectiveness of EU funding in this sphere, at a time when the EU institutions are preparing to discuss the proposal on the post-2020 MFF and stand poised to take a decision on the revision of the Financial Regulation.

2.4. The issue of funding also has a bearing on granting the various stakeholders in European civil society dialogue a role and status of their own. The EESC has already discussed the need for a statute for European associations on a number of occasions ([6]).

2.5. For the purpose of this opinion, the term 'civil society organisations' (CSOs) refers to non-governmental, non-profit-making organisations independent of public institutions and commercial interests, whose activities contribute to the objectives of the Charter of Fundamental Rights, such as social inclusion, active participation of citizens, sustainable development in all its forms, education, health, employment, consumer rights, support to migrants and refugees, and fundamental rights ([7]).

3. **The role of civil society organisations**

3.1. Engaged, pluralist and independent civil society plays a crucial role in promoting active public participation in the democratic process and in governance and transparency at EU and national level. It can also contribute to policies that are fairer and more efficient, and support sustainable development and inclusive growth ([8]). Inasmuch as they have the ability to 'reach the poorest and most disadvantaged and to provide a voice for those not sufficiently heard (…)', CSOs make for greater participation and contribute to defining European policies ([9]).

3.2. Over and above their civic and social functions, some CSOs are also involved in what is referred to as the 'social and solidarity economy' and even make a significant contribution to job creation.

3.3. A distinctive feature of CSOs is their ability to bring together a combination of mostly highly motivated volunteers and dedicated employees around a range of projects. Volunteering, in the sense of active civic participation that strengthens common European values, such as solidarity and social cohesion, must benefit from an enabling environment ([10]).

3.4. Genuine participatory democracy needs intermediary bodies (trade unions, organisations of employers and SMEs, NGOs and other non-profit stakeholders, etc.) if it is to involve the public, promote popular and civic ownership of European challenges and build a Europe that is fairer, more inclusive and based on greater solidarity. A robust and diversified civil society is underpinned by adequate public funding and a framework facilitating access to different types of private funding.

4. **The different types of funding**

4.1. At EU level, there are numerous programmes in a range of sectors (education, cultural, social, citizenship, environment, fundamental rights, research, international cooperation, humanitarian assistance, health, etc.) that include specific objectives on the participation of civil society, particularly in the form of projects. The institutions have also introduced operating grants designed particularly to promote networking among the national organisations active in a range of sectors and societal issues. This financial support thus helps to shape 'European public opinion'.

4.2. As regards enlargement and external policy, including international cooperation and humanitarian assistance, the EU has developed a proactive policy to promote a fully-fledged civil society, including through targeted measures. The EU is also one of the world's major donors of development aid and humanitarian assistance, an approach which receives staunch backing from the European public ([11]).

([6]) OJ C 318, 23.12.2006, p. 163
([7]) OJ C 88, 11.4.2006, p. 41
([8]) White Paper on European Governance, 25.7.2001
([9]) COM(2000) 11 final
([10]) European Year of Volunteering 2011
([11]) See in particular the 2017 survey http://ec.europa.eu/echo/eurobarometer_en

4.3. However, as regards internal policy there has been no further reappraisal of relations between the EU and CSOs (in particular under Article 11 of the TEU) since 2000, when an initial Commission discussion paper was published, as part of the administrative reform process, highlighting the need to maintain a high level of public funding for the role of NGOs, devise a consistent approach across Commission departments and improve management of grants.

4.4. Funding for CSOs comes in the main from the areas of humanitarian assistance and international cooperation. According to 2015 figures, the sum of EUR 1,2 billion was allocated to funding NGOs (roughly 15 % of the 'Europe in the world' heading) ([12]), while appropriations for CSOs in other areas remained somewhat meagre: 0,08 % under the 'Sustainable growth: natural resources' heading, 2,5 % under 'Security and citizenship' and less than 0,009 % under 'Smart and inclusive growth'. It is therefore high time to assess these amounts, in addition to the effectiveness of the measures in place.

5. **The availability of public funding and shrinking civic space**

5.1. Recent studies and surveys, along with measures developed in some EU countries, also show that the status of civic space is deteriorating at national level in some EU Member States ([13]). The review of the post-2020 financial framework, and the ongoing revision of some funding programmes, cannot fail to take this new fact into account.

5.2. The recent Hungarian law on the transparency of organisations receiving overseas funding, passed in June 2017, was condemned by the European Commission, the European Parliament and the Council of Europe. This demonstrates why the Commission needs to ensure that measures to combat terrorism financing and money laundering cannot have unintended consequences for CSOs when it comes to accessing funding and loans.

5.3. In many European countries, we are seeing the emergence of measures designed to introduce conditionalities into CSO subsidies, which limit their advocacy role and their capacity to be party to legal proceedings ([14]).

5.4. In many countries, the financial and economic crisis has meant that public funding for CSOs has been cut back and/or made available in the form of short-term grants. Funding schemes that operate primarily on a project basis may force CSOs to adapt their priorities and distance themselves from their original mission and from societal needs. In some countries, governments have backed organisations that follow their strategic line (to the detriment of others) and fostered an atmosphere of political connivance, and we are seeing an increasing lack of transparency in how grants are awarded.

5.5. The EESC calls on the Commission to carefully monitor the implementation of *ex ante* conditionalities when assessing the programmes, as well as with regard to partnership agreements, in particular on employment, social inclusion and non-discrimination, the environment, gender equality and the rights of persons with disabilities, the involvement and enhancement of civil society organisations' institutional capacity ([15]) and the transparency of procedures to award contracts, and to suspend payments when these are not respected. The EESC also reminds the Commission to monitor the implementation of Article 125 on the obligation for managing authorities to apply selection procedures and criteria that are transparent and non-discriminatory. The EESC calls on the European Court of Auditors to assess compliance with these provisions as regards selection procedures for NGOs in its upcoming report.

5.6. The rise in extremism and populism and all anti-democratic acts are a challenge to the entirety of the democratic *acquis* and create a hostile climate for intermediary bodies. Therefore, there is a need to confirm the importance of the role of CSOs and to increase the EU's financial support for them.

([12]) EuropAid — Directorate-General for Development and Cooperation
([13]) 'Civic Space in Europe 2016', Civicus Monitor.
([14]) See the Lobbying Act in the UK which prevents NGOs from voicing their views during electoral campaigns or the recent Referendum on the EU membership and current reviews of the Electoral (Amendment) Act 2011 in Ireland, which aims to prevent third parties from influencing electoral campaigns but where interpretation of 'political aims' and thresholds for individual donations to NGOs has fuelled controversy, including in connection with the financing of a campaign in support of abortion.
([15]) OJ L 347, 20.12.2013, p. 320

5.7. The EESC calls for the establishment of an EU Ombudsman on civic space freedoms to whom NGOs could also report incidents related to harassment or restriction of their work.

6. **Possible responses at European level**

6.1. In the EESC's view, a political and legal framework should be put in place at European and national level to nurture the development of a diversified European civil society, whose activities are an integral part of values anchored in fundamental rights.

6.2. The European institutions should promote a positive image of CSOs and preserve their independence, particularly by strengthening their capacity for action and engagement in social innovation and civic participation which is often linked to funding.

6.3. Taking their cue from some Member States that have adopted 'charters of reciprocal commitment' or 'pacts' to this end, the European institutions could take steps to recognise and establish partnerships with representative civil society bodies, thereby creating the conditions for a genuine European civil society dialogue and implementing Article 11 of the TEU and other relevant international commitments ([16]).

6.4. There is also a pressing need to resume discussions on a statute for European associations — proposed by the Commission in 1992 ([17]) — together with a statute for European foundations. This would promote recognition of CSOs and cooperation between them at European level, complementing the European Company Statute adopted in 2004 ([18]).

6.5. The EESC believes that the EU should encourage Member States to maintain existing and develop further tax incentives for private donations and channel part of their tax revenue into CSOs, while removing obstacles to cross-border donations by coordinating tax laws and procedures, and investing in philanthropy across the EU.

6.6. Concerning the future multiannual financial framework (MFF), the EESC calls on the budget authorities to increase funding for CSOs, including in the form of operating grants and multiannual financing to ensure that initiatives flourish in the long term.

6.7. Since the adoption of the Charter of Fundamental Rights, there has been no real support programme for civil society in terms of human rights in the EU Member States. The vital support given to civil society in the countries of Central and Eastern Europe at the time of their accession to the EU has not been kept up through other funding mechanisms. Recent events that have occurred with the rise of terrorism and extremist and/or populist movements have demonstrated the need to invest more in civil society and ensure cohesion among countries as regards the development of civil society.

6.8. The EESC calls on the Commission to propose a European fund for democracy, human rights and values within the EU ([19]), equipped with an ambitious budget and directly open to CSOs across Europe, including human rights defenders aiming to promote and protect the EU's fundamental values. The fund should cover operational costs as well as litigation and watchdog activities, and be managed independently similarly to the European Endowment for Democracy ([20]), with the participation of EESC representatives.

6.9. The Europe for Citizens programme is the only European programme that specifically helps reduce the democratic deficit by allowing all Europeans to participate directly in building Europe, but its funding is too limited. At a time when European values and democracy are being called into question, the EESC believes that the programme should be endowed with a budget of EUR 500 million under the next MFF, as proposed by the European Parliament ([21]). Similarly, Erasmus+ actions targeting civil society should be increased.

([16]) See for instance obligations under the SDGs and the UN CRPD for structured dialogue supported by adequate funding.

([17]) OJ C 99, 21.4.1992, p. 1

([18]) European Company Statute

([19]) This fund would pursue the same objectives as the European Instrument for Democracy and Human Rights: http://www.eidhr.eu/whatis-eidhr#

([20]) EED is an independent, grant-making organisation, established in 2013 by the European Union and EU Member States to foster democracy in the European Neighbourhood and beyond. All EU Member States are members of EED's Board of Governors, together with Members of the European Parliament and civil society experts.

([21]) European Parliament resolution on the Implementation of the Europe for Citizens programme

6.10. The majority of CSOs encounter difficulties in accessing the Structural Funds, primarily owing to the co-financing requirements. The technical assistance provisions, designed to boost capacity-building, are consequently under-utilised and frequently reserved for public administrations. The code of conduct on partnership with civil society which is the key instrument has not been properly applied in most countries ([22]). Even when CSOs are invited to take part in supervisory committees, their role is limited.

6.11. The EESC calls on the European Commission to react promptly with relevant measures, including infringement procedures against Member States, when national administrative or legal provisions restrict the access of national civil society organisations to EU funds, including when funding conditions are imposed that restrict their advocacy.

6.12. Through their connections and ongoing contact with the public and grassroots activities, civil society organisations are aware of societal challenges and needs; nevertheless, they play a very marginal role in research. The EU programme for Employment and Social Innovation (EaSI) also includes barriers to access by CSOs. The EESC calls for a more in-depth discussion on how to foster links between researchers and civil society and proposes a new strand on civic participation and democracy under the societal challenges pillar in the future research framework programme.

6.13. Youth unemployment is still very high, and is one of the most urgent problems facing the EU, with a growing number of young people at risk of social exclusion. Against this backdrop, European funding should do more to support CSOs investing in the development of young people's skills and competencies through non-formal education.

6.14. Most funding in the field of culture is not adapted to the needs of CSOs operating in this field, thus barring them from access to the various financial instruments available, such as loans. No real work is being done on the European dimension of culture, at a time when identity-based and populist views are being increasingly voiced. Drawing partly on Creative Europe, the EU should also provide stronger support for independent cultural productions and invest in the development and sustainability of local, non-profit community media.

6.15. As regards development cooperation, the EU should invest more in cooperation initiatives focused on populations, including the aspects of gender equality, governance, human rights, environmental rights, resilience to climate change, education and social protection, for instance through a thematic approach by country with close involvement of civil society.

6.16. When designing the future MFF, account should also be taken of the Sustainable Development Goals and gender equality priorities.

6.17. Strengthening civil society also means improving access to financing for the smallest organisations and the most disadvantaged sectors of society. With this in mind, the Commission should provide for a variety of financing arrangements and make a more concerted effort to simplify administrative formalities. More systematic recourse should be had to sub-granting mechanisms (or cascade funding), as used under the European Instrument for Democracy and Human Rights and in the framework of EEA funding. Grants should be awarded by an independent national operator on the basis of a tender procedure ([23]).

6.18. CSOs in the countries of Central and Eastern Europe still have proportionally less access to funds. The Commission should step up its information drives on the various funds available to CSOs and provide more support for partnerships between organisations.

6.19. It would also be useful to establish more systematic follow-up and support for beneficiary organisations, and for the different directorates-general responsible for implementing the Financial Regulation, in the form of training courses on contractual obligations and audits.

([22]) AEIDL — Thematic Network Partnership

([23]) Mid-term NGO evaluation released — EEA Grants

6.20. Databases containing descriptions of projects that have already been completed and examples of good practice should be available to potential applicants as a means of promoting innovation and partnerships. The Commission should continue its endeavours to reduce the administrative burden imposed by the application process and financial management, including by introducing a single online application procedure for the different programmes.

6.21. The evaluation of programmes run directly by the Commission should be more transparent but also more detailed, in view of the large number of requests for European funding and the low success rate. Furthermore, feedback would enable CSOs that have been turned down to make improvements and would boost confidence in the selection process.

6.22. The deadlines for issuing notifications of contracts, signing contracts and making payments should be significantly shorter so as to limit the need to take out bank loans due to lack of cash.

6.23. The EESC also asks the Commission to re-evaluate co-financing amounts, particularly for very small organisations which find it very difficult to draw on other sources of funding and organisations engaged in advocacy, such as consumer protection organisations, environmental associations, human rights organisations and organisations working to promote citizenship. This is particularly necessary since co-financing rules increase the administrative burden on CSOs, with the attendant risks posed by the variations in contractual and financial rules on the part of donors.

6.24. The EESC warmly welcomes the suggestion made by the Commission in its proposed revision of the Regulation on the financial rules ([24]) to take into account as eligible expenses the hours spent by volunteers and facilitate the inclusion of contributions in kind as co-financing. This proposal is a direct response to the EESC's call, expressed in its opinion on 'Statistical tools for measuring volunteering' ([25]). It also welcomes the Parliament's report and the Council's proposal to introduce an exception to the non-profit rule for not-for-profit associations. The EESC calls on the EU institutions to come to an agreement on the proposed text that will allow hours spent by volunteers to be fairly valued.

6.25. Transparency in access and financial control should be improved by drawing up clear guidelines on Commission checks and, in the case of funding by several donors, taking into account *ex ante* evaluations and selections of partners, as well as *ex post* checks and audits carried out by the other donors.

6.26. Moreover, public access to information on the amounts and purpose of funding should be facilitated by reforming the Commission's financial transparency arrangements. This should include annual payments instead of multiannual commitments, and should be made more reliable by standardising the databases of the various programmes. At the same time, NGOs should continue to apply the highest self-reporting transparency standards.

6.27. Finally, the Commission should establish constructive dialogue and follow-up between the different directorates-general and CSOs for the purpose of assessing good and bad practice and developing a more consistent approach.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([24]) COM(2016) 605 final
([25]) OJ C 170, 5.6.2014, p. 11

Opinion of the European Economic and Social Committee on 'Villages and small towns as catalysts for rural development — challenges and opportunities'

(own-initiative opinion)

(2018/C 081/03)

Rapporteur: **Tom JONES**

Plenary Assembly decision	22.9.2016
Legal basis	Rule 29(2) of the Rules of Procedure Own-initiative opinion
Section responsible	Agriculture, Rural Development and the Environment
Adopted in section	3.10.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	129/0/1

1. **Conclusions and recommendations**

Conclusions

1.1. The EESC believes that despite the decline of balanced populations and traditional economic activity, in many villages and small towns, there is sufficient evidence of good practice to be optimistic about sustainable futures in many, if not all rural settlements. Such settlements can be catalysts for the wider renewal and sustainable development of rural areas.

1.2. However, this optimism depends on a sustained, holistic effort involving people and financial resources at all levels of government and across all three — private, public and civil — sectors.

Recommendations

1.3. The EESC fully supports the European Commission's Smart Villages Initiative, especially because of the promises made regarding cooperation between Directorates. The national and regional Rural Development Programmes (RDPs), which DG Agri is co-managing with the Member States, are vital but can never invest sufficient resources in the initiative without other national, regional or local public investments. The EESC notes and supports the emerging opinion from the Committee of the Regions on Smart Villages ([1]).

1.4. Fast broadband — mobile as well as fixed — is crucial for intelligently developed villages and towns to have any hope of economic and social development, and must be fully accessible, as guaranteed under the rural proofing highlighted in the Cork 2.0 Declaration of 2016.

1.5. Public services in education, training, health and social care, as well as child care, should be accessible, integrated and be innovative in using technological advances.

([1]) Revitalisation of rural areas through Smart Villages (not yet published in the Official Journal).

1.6. Planning authorities in rural areas should champion an enabling process for renewing redundant village and small-town buildings, ensuring low business rates for starter businesses and compensatory contributions from edge-of-town retail projects. When making such renovated buildings available, account should be taken of the needs of local NGOs as well as those of the private and public sector.

1.7. Poor transport connectivity is another challenge and transport sharing, community-owned buses and cars are recommended where the private sector withdraws.

1.8. Where possible, employers should be encouraged to support distance working, and to realise the potential benefits of rural/urban partnerships. The contribution of both agri- and rural tourism, health-related activities and the branding of local farm and craft products, as well as increasing the cultural and historical catalogue of events is very important in this context. Through the enabling support of the RDP, there is scope for business entrepreneurs to attract inward investment and to develop and market added-value products.

1.9. Governance at the most local level is a national or regional matter. However, villages and small towns need empowering with greater powers and access to financial resources to lead and support the wishes of their constituents.

1.10. LEADER and Local Action Groups should be fully supported in their efforts to promote local development — by encouraging businesses, both private and not-for-profit to start and grow — and to ensure an engaged and supportive community spirit. With improved cooperation, these efforts could be expanded through Community-led Local Development (CLLD).

1.11. Above all, people in villages and small towns should commit to a sense of community that encourages leadership from within. Schools and local mentors should promote leadership. Emerging leaders need the full support of advisory agencies and non-governmental organisations that have access to best practices and relevant similar ventures.

1.12. Emerging intelligently developed villages should be showcased at the regional, national and EU level. The EU institutions and their stakeholders should organise an annual celebratory day, to promote successful, cohesive village and small-town communities.

1.13. To strengthen and develop a real sense of partnership between cities or large towns and their neighbouring settlements the EESC supports the recommendations of the 2016 R.E.D ([2]) document, 'Making Europe Grow with its Rural Territories', and the Carnegie Trust's Twin Town pilot project. The principles of sustainable development and the circular economy, should apply to city/rural partnerships.

1.14. The Committee supports the call, made in the European Rural Manifesto adopted by the 2nd European Rural Parliament in November 2015, for 'increased cooperation between communities, organisations and authorities. in rural and urban areas to gain the full benefit of social, cultural and economic links which such cooperation can bring; and for vigorous exchange of ideas and good practise between those involved in rural and urban areas.'

1.15. The EESC recommends that the European Investment Bank constructs tailor-made support schemes for small rural businesses, both private and social enterprises, including cooperatives, as promised in its 2017-2019 programme.

1.16. The European Council of Young Farmers (CEJA) and other youth representative bodies should be supported to create a pathway for youth forums in local communities which will galvanise action on their needs and aspirations. They need a much stronger say in developing economic and social solutions; and training, mentoring and financial support needs to be tailored to their aspirations.

([2]) R.E.D.: Rurality — Environment — Development.

1.17. No 11 on the UN list of Sustainable Development Goals refers to cities and communities. Sustainable villages and small towns should be included under 'communities'.

1.18. The cultural values to be found in villages and small towns should be given a prominent place in the publicity for, and initiatives during, European Cultural Heritage Year 2018. Older residents can play an important role in promoting traditions and culture and the conditions should be created for them to actively carry out such work.

1.19. The Committee recommends 'good practices' to be shared at all levels. This is done already by ENRD, ELARD, Ecovast and ERP and to be found in the publication 'The best Village in the World' ([3]).

2. **Introduction**

2.1. Rural areas are an essential part of Europe, providing for the critical businesses of agriculture and forestry. The communities of small towns and villages lie within and are part of these rural areas, and have always been places where people both live and work.

2.2. Small towns in rural areas provide a centre for a surrounding hinterland of villages and hamlets. In turn, small towns lie in the hinterland of major urban areas. They are all inter-dependent upon each other. They are essential partners in rural/urban partnerships — a concept that has been promoted by DG Regio ([4]) and OECD — where both partners have equal status about managing and planning their futures. Villages and small towns across Europe have faced many changes — both economic and social — and they are continuing to face the need to adapt to modern-day circumstances.

2.3. Together with agriculture and forestry villages and small towns are the 'backbone' of rural areas and provide jobs, services and education to serve both themselves and their hinterland of villages and hamlets. In turn, small towns are part of the hinterland of larger towns and cities. This forms a relationship between rural and urban areas which is a feature of any region. Urban and rural areas provide services for each other — urban areas are dependent on rural areas for the provision of food and are a ready market for the products of the countryside while rural areas offer recreation and tranquillity for urban residents.

2.4. There is a strong tradition in many rural areas of a sense of 'belonging' to a community. This tradition is diminishing and in many of the remoter rural areas there has also been abandonment and dereliction.

3. **Specific challenges**

3.1. Rural communities have faced challenges over the last few decades due to the desire for the centralisation of many services for economies of scale, changes in transport and travel and the way people live in modern times. Local service businesses are moving out of rural communities; many shops, banking and postal services are disappearing and small rural schools are closing.

3.2. Rural areas conceal unemployment as the figures are small compared to those out of work in urban areas — yet they face an additional problem of access to help from job centres which are urban-based and often suffer from declining rural public transport. Unemployment may be low because so many young people have left in search of training, education or employment, while many who remain work for low wages.

3.3. The public purse, so important to support rural communities, is facing increasing demands on its budgets — due to the general rise in the cost of living and increases in the cost of service provision.

3.4. Investment in roads and motorways encourages the use of the private car as the easiest way to get to work. People are now much more prepared to travel longer distances but in turn this has led to people being less dependent on employment or service provision in their local community.

([3]) By Ulla Herlitz and Colleagues as a practical example of best practice — ENRD: European Network for Rural Development; ELARD: The European LEADER Association for Rural Development; Ecovast: The European Council for the Village and Small Towns.

([4]) Ecovast was part of the former DG Regio RURBAN network.

3.5. People's shopping patterns have changed. They often shop where they work which is usually in a large town or city rather that at their village or small town. And they shop through the internet, with goods delivered to their house. This has all added to the demise of local shops.

3.6. Young people are leaving rural areas to find training, education and work in cities. Without maintaining jobs in rural areas it is difficult to attract them back to rural communities. There is an urgent need to place the considered voice of young people at the heart of local democracy. Youth representative organisations should be supported to encourage participation in governance. Equally, economic and social agencies should youth-proof their advice and financial supports.

3.7. Intergenerational cohesion is challenged by the numerical imbalance between age groups. Availability of tailored employment measures, schools and child-care together with affordable housing in rural areas is crucial to enable young people and families with children to remain in or return to rural communities. People within communities sometimes have different views on local economic activity. There has to be dialogue and understanding for balancing tranquillity with suitable job creation initiatives.

4. **Opportunities**

4.1. The European Commission's Smart Villages Initiative is vital, especially because of the promises of co-working made in joint Directorates. DG Agri's Rural Development Programme can never invest sufficient resources into the initiative without other DG and national, regional or local public investment. This pilot initiative, after evaluation, needs to be included in any new Common Agricultural Policy and Regional Programmes and rolled out to include small towns as part of the 'rural renaissance'.

4.2. Broadband is essential for all rural areas. The improvement of broadband coverage — mobile as well as static — could help a wide range of activities, not only developing businesses and the ability to 'work from home', but also the quality of people's everyday lives. It could enable online learning, access to better health care and marketing of services available on line. Good practices are available where improved access to the internet in rural areas has benefitted communities. The basic learning to enable especially elderly citizens to use the internet should be made available.

4.3. Where possible, employers should be encouraged to support distance working, and to realise the potential benefits of rural/urban partnerships. Through the enabling support of the RDP, there is scope for business entrepreneurs to attract inward investment, to develop and market added-value products, such as food, drink, landscape and historical heritage, cultural and health and recreational activities, while ensuring continuity of rural craft and environmental skills.

4.4. Public services in education, training, health and social care should be integrated, clustered and be innovative in using technological advances, to avoid discrimination and exclusion especially of older and teenage rural dwellers. Dispersed governmental offices could set an example in reducing city/urban saturation and pollution, whilst promoting a sense of rural fairness. Local authorities have a key role to play in their planning for rural areas and to ensure positive action within rural communities to help their continued future to be encouraged and supported. Services may be able to share one building or unused buildings may be to accommodate new business uses, creating new jobs that can provide opportunities for more economic activity. When making such renovated buildings available, account should be taken of the needs of local NGOs as well as those of the private and public sector.

4.5. Work needs to be done to develop a real sense of partnership between cities or large towns and their neighbouring settlements to share on mutually accepted terms a sense of belonging, branding, and joint investment. Together with other organisations R.E.D. recommended in 2016 a European political strategy for rural territories by 2030 ([5]). Another example is the Carnegie Trust's Twin Town pilot project. The principles of sustainable development and the circular economy, should apply to city/rural partnerships.

([5]) 'Making Europe Grow with its Rural Territories'

4.6. The 2nd European Rural Parliament in November 2015 adopted the European Rural Manifesto. The ERP network with partners in 40 European countries are pursuing the themes defined in the Manifesto. The ERP works for: 'increased cooperation between communities, organisations and authorities in rural and urban areas to gain the full benefit of social, cultural and economic links which such cooperation can bring; and for vigorous exchange of ideas and good practice between those involved in rural and urban areas.' Work is carried out among all the partners on different themes such as: 'Small towns', 'Sustainable service and Infrastructure' and 'Integrated Rural Development and LEADER/CLLD', which will all result in a report to be presented and discussed at the 3rd European Rural Parliament in Venhorst, the Netherlands, in October 2017.

4.7. The European Investment Bank should construct tailor-made support schemes for small rural businesses, both private and social enterprises, including cooperatives, as promised in its 2017-2019 programme and exemplified by its support for Niki's Sweets in Agros in the Troodos Mountains of Cyprus.

4.8. The voluntary sector is very active in rural areas and they help coordinate actions and help people to work together. Social and community enterprises, such as the 300 socioeconomic companies in Denmark being allowed to use the label 'RSV', i.e. Registered Socioeconomic Company (Virksomhed) or the Cletwr cafe in mid Wales, are increasingly contributing to replacing lost public and private services. Their work is in line with the ideas of corporate social responsibility (CSR). The support and advice of organisations such as the Plunkett Foundation in establishing and maintaining sustainability of the social and community enterprises is important.

4.9. Those who live in villages and small towns represent all walks of life, and they all need to have a voice within their local community. The lowest level of public administration — parish councils or (small) municipalities — should be involved in local decision-making, and should be strengthened and empowered to meet this need. People take pride in their local communities and this can be recognised as a resource and be used to encourage others to get involved. Retired business people and those who have worked in the public or civil sectors have many skills to offer. European programmes and local programmes deliver projects which have encouraged local partnerships to develop in their village or small town and many community entrepreneurs have emerged from this process. They have come from all sectors and have developed into ambassadors for their community.

4.10. Villages and small towns are an important part of the culture of Europe. They often maintain their local customs and traditions. These rural settlements are usually 'historic' and their architecture reflects their local building materials and the styles over many centuries. Small town centres have usually retained more local businesses and have not been overwhelmed by the standard facades demanded by chain stores as have the larger town centres. Small rural settlements are also closely linked to the landscapes they are set in and this setting is very much part of the ambience of the village and small town reflecting their very diverse origins — hill top defence positions, river crossing points, spring lines, lakeside, islands or coast etc. The cultural values to be found in villages and small towns should be given a prominent place in the publicity for, and initiatives during, European Cultural Heritage Year 2018. Older residents can play an important role in promoting traditions and culture and the conditions should be created for them to actively carry out such work.

4.11. These villages and small towns have valuable assets which they can build on to help them maintain or improve their local economies. They are interlinked to local agricultural, forestry and energy producing output as well as agri- and rural tourism, health-related, cultural festivals and environmental protection and education. There are hundreds of examples across Europe, such as Kozard in Hungary and Alston Manor in England, which could be used for others to follow. The report 'The Importance of Small Towns' by Ecovast is also a valuable contribution to describing and understanding the importance of the roles played by villages and small towns.

4.12. Future rural policies enthusiastically agreed at the Cork 2.0 Conference in September 2016 should help the Member States and regions develop supportive rural policies and encourage projects under European programmes. Implementing the rural proofing described at Cork.2.0 is essential to the EU, the Member States and the regions.

4.13. The EU-sponsored LEADER methodology and Community-led Local Development (CLLD) provide tools to assist in strengthening and empowering rural communities. LEADER and Local Action Groups can support local efforts to develop businesses, both private and not-for-profit to start and grow, and to ensure an engaged and supportive community spirit. LEADER has until 2014 been supported by the European Agricultural Fund for Rural Development, but since 2015 also other Structural and Investment Funds can implement the methodology through multifunding working with CLLD. This does require improved cooperation, and good examples could be found in IRD Duhallow and SECAD in County Cork and PLANED in Wales, who have implemented bottom up CLLD for many years.

4.14. There are many rural projects under the European Programmes that ably demonstrate a huge variation of 'good practice' in small towns and villages. Good practice also demonstrates the need for and value of intermediaries to support entrepreneurs and small groups.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
George DASSIS

Opinion of the European Economic and Social Committee on 'Climate Justice'

(own-initiative opinion)

(2018/C 081/04)

Rapporteur: **Cillian LOHAN**

Plenary Assembly decision	23.2.2017
Legal basis	Rule 29(2) of the Rules of Procedure Own-initiative opinion
Section responsible	Agriculture, Rural Development and the Environment
Adopted in section	3.10.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	194/12/8

1. **Conclusions and recommendations**

1.1. The concept of Climate Justice frames global climate change as a political and ethical issue and not just a strictly environmental one. It's typically viewed in a global context of spatial and temporal interdependence and recognises that the most vulnerable and poorest in society often have to suffer the greatest impact of the effects of climate change. This despite those very groups being the least responsible for the emissions that have driven the climate crisis. More broadly, in this opinion, Climate Justice recognises the need to consider the fairness of the often disproportionate impact of climate change on citizens and communities in both developing **and** developed economies.

1.2. The EESC believes that all citizens have a right to a healthy clean environment, and to expect governments to take responsibility for their national commitments and NDCs — nationally determined contributions under the Paris Agreement on the drivers of climate change and the threats of climate change, with recognition of not only the more obvious environmental and economic aspects but also the social impact.

1.3. The EESC proposes to start a debate on an EU Bill of Climate Rights that would encapsulate the rights of EU citizens and nature in the context of the challenges of the global climate change crisis. While acknowledging the EU's leadership in advocating for a robust and fair international climate regime, the EESC encourages the EU institutions and National Governments to examine the application of the principles of Climate Justice at all levels, global, European, national and community. The Semester Process could be used as a tool to deliver on this ambition. Climate Justice is about justice for both people and for the environment on which we depend — both are interlinked. In this context the EESC recalls two recent initiatives: the Global Pact for the Environment and project of the Universal Declaration of the Rights of Humankind.

1.4. Production and consumption systems must change to adapt to and to mitigate climate change. This transition will have to take place globally and in the sectorial context and the EU can play a leadership role. The most vulnerable business sectors and workers need to be identified and adequately supported. In particular, food systems and their stakeholders need to be supported in the transition. Sustainable food consumption must start at the upstream stage of soil preparation and management of natural systems in order to provide the primary building block of food. The EU should provide clear leadership promoting sustainable management and protection of soils.

1.5. The power of consumers in achieving the transition can only be harnessed when consumers have the option of sustainable ethical alternatives that do not lead to a significant reduction in convenience or quality in terms of service, usage or accessibility. Viable alternatives for consumers can be developed through the new economic models such as the Digital, Collaborative, and Circular Economy and through the international cooperation on the global, sectorial transition to these models.

1.6. Support mechanisms, including public money, economic instruments and incentives should be used to ensure that infrastructure and appropriate supports exist for consumers wishing to choose a low carbon lifestyle, including assistance for meeting the higher costs of ethical/long life/sustainable goods and services, while at the same time ensuring that competitiveness is not undermined.

1.7. Mapping the displacement of jobs in a low carbon economy needs to take place, and opportunities identified as early as possible. This will allow the most effective policies to be designed and implemented to ensure that workers are protected, and their quality of life is maintained in a just transition.

1.8. The EESC repeats its call for a European Energy Poverty Observatory [1] that would bring together all the stakeholders to help define European energy poverty indicators. Justice for all citizens means ensuring that clean and affordable accessible energy is supplied to everyone.

1.9. The EESC calls for an end to fossil fuel subsidies and a shift to supporting the transition to renewables.

1.10. Effective sustainability policies are dependent on ensuring that supports for transition are clearly identified, prioritised, and adequately financed. At the same time the EU must start very comprehensive international negotiations towards a global agreement that can mitigate the drivers of climate change and support a more sustainable global economic model.

2. **Background/Reason for this opinion**

2.1. This own initiative opinion comes in the context of the Sustainable Development Observatory Work Plan for 2017. Climate Justice is a topic that affects us all and yet there is a lack of action at EU level on it. This is an opportunity for the EESC to take a lead role and to put forward some initial proposals, especially with regard to Europe. Many aspects of climate justice need to be explored in greater depth, such as the issue of the global and individual distribution of emission allowances.

2.2. The EESC wants to take an institutional position in order to provide the view of EU organised civil society in the debate on the impact of climate change and how best to address that impact in a fair and just manner.

2.3. In the context of the internationally adopted UN Sustainable Development Goals (SDGs), the Paris Agreement and that the impacts of climate change are already being experienced, there needs to be an increased sense of urgency in delivering climate justice with concrete actions.

3. **General comments**

3.1. The concept of Climate Justice frames global climate change as a political and ethical issue and not just a strictly environmental one. It recognises that the most vulnerable and poorest in society often have to suffer the greatest impact of the effects of climate change. The concept is typically viewed in a global context of spatial and temporal interdependence, namely with a focus on the responsibilities of countries who have developed based on the exploitation of natural resources.

3.2. The SDGs go beyond their predecessors (MDGs) recognising mutual accountability, ownership, collective action and the need for inclusive participatory processes. While acknowledging the EU's leadership in advocating for a robust and fair international climate regime, the EESC encourages the EU institutions and National Governments to take Climate Justice action at all levels, global, European, national and community. The Semester Process could be used as a tool to deliver on this ambition. Thus, in this opinion, Climate Justice recognises the need to consider the fairness of the often disproportionate impact of climate change on citizens and communities in both developing and developed economies.

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[1] Opinion on *For coordinated European measures to prevent and combat energy poverty*, OJ C 341, 21.11.2013, p. 21.

3.3. There is a problem of resistance to climate change policies, and the perception that they penalise the average citizen, specific sectors (e.g. agrifood or transport), or communities and individuals dependant on fossil fuels despite the benefits of such policies.

3.4. Different policy initiatives focus on sectors and areas that are greatly influenced by climate challenges, for example health, transport, agriculture, energy. Climate Justice can provide an overarching integrated approach to ensure that the transition to a low carbon economy is achieved in a fair and equitable manner.

3.5. It is important to note that Climate Justice is not just about those affected directly by the impacts of climate change but also those affected by the drivers of climate change through dependency on goods, services and lifestyles that are associated with high emissions and low resource efficiency.

4. **Specific comments**

4.1. *Social Justice*

4.1.1. The EESC believes that all citizens have a right to a healthy clean environment, and to expect governments to take responsibility for their national commitments and NDCs — nationally determined contributions under the Paris Agreement on the drivers of climate change and the threats of climate change, with recognition of not only the more obvious environmental and economic aspects but also the societal impact.

4.1.2. The EU Pillar of Social Rights is to serve as a compass for a renewed process of convergence towards better working and living conditions amongst Member States. It is based on 20 principles, many of which will be impacted either directly by climate change or indirectly by the need to transition to new economic models.

4.1.3. The EESC proposes to start a debate, in the context of Human Rights and Social Rights, on the drafting of a Bill of Climate Rights. This would encapsulate the rights of citizens and nature in the context of the challenges of the climate change crisis. In this context the EESC recalls the project of Universal Declaration of the Rights of Humankind drawn up by Corinne Lepage, with a view to the COP21 in 2015.

4.1.4. The rights of nature are now recognised in various countries around the world, through the legislative process. For example, in the Netherlands in 2015 an NGO, Urgenda Foundation, won a climate lawsuit against the government. The Dutch Supreme Court consistently upheld the principle that the government can be held legally accountable for not taking sufficient action to prevent the foreseeable harm resulting from climate change. Similar cases are being prepared in Belgium and in Norway. Moreover, initiatives such as the Global Pact for the Environment launched on 24 June 2017 address the need for a fair global environmental governance by supplementing the 'third generation of rights' via a general, cross-cutting, universal reference instrument.

4.1.5. There is a need to ensure the most vulnerable in society do not have to bear an unfair burden and that the cost of a transition to a climate responsive economic model is spread fairly across society. For example, the Polluter Pays Principle should be applied at the level of those creating the pollution and profiting from it, as opposed to the end user level in cases where no viable alternative exists. Careful and relevant application of this important principle has been previously examined by EESC ([2]).

4.1.6. There will be increased migration (including climate refugees) of all types due to displaced people ([3]). Already we have seen how ill prepared we are in the EU to deal with this, and the issue of disproportionate burdens across Member States. The EESC has already highlighted how unbalanced economic processes can add to destabilisation in this context ([4]).

([2]) Opinion on *The impact of the conclusions of COP21 on European transport policy*, OJ C 303; 19.8.2016, p. 10.
([3]) Opinion on *Integration of refugees in the EU*, OJ C 264, 20.7.2016, p. 19.
([4]) European *Consensus on Development*, OJ C 246, 28.7.2017, p. 71.

4.1.7. At EU level there is no distinct instrument applicable to 'environmentally displaced individuals' as found by a recent Climate Refugee study by the European Parliament. The Temporary Protection Directive is a politically cumbersome instrument to deal with any mass displacement, and the EESC supports the position that the Lisbon Treaty provides a sufficiently broad mandate to revise the immigration policy in order to regulate the status of the 'environmentally displaced individuals'.

4.2. *Agrifood sector*

4.2.1. Food production systems and diets will change to adapt to and to mitigate climate change. All citizens are dependent on the agrifood sector, (e.g. farmers, families, those along the supply chain, consumers) and so the transition to a low carbon society should ensure those affected will be facilitated and supported in the changes. Moreover, this transition will have to take place globally and in the sectorial context and the EU can play a leadership role.

4.2.2. Climate change brings enormous challenges for European agriculture both as a driver and as a sector on the frontline of the impacts.

4.2.3. The sector needs to be redefined for its contribution to natural absorptive systems, such as ecosystem services that can alleviate some of the impact of climate change. These should be recognised and public funding, through CAP, should move towards supporting these services provided by the agri sector, as a consequence of their objective of food production. This general concept is supported in the recently adopted opinion ([5]).

4.2.4. Sustainable food consumption must start at the upstream stage of soil preparation and management of natural systems in order to provide the primary building block of food. The EESC highlights the the necessity to begin a debate on the need for a Soil Framework Directive, and to provide clear leadership on the importance of promoting the sustainable management and protection of soils ([6]). Soil protection and its role in ecosystem services are a focus for the current Estonian Presidency of the Council of the EU ([7]).

4.2.5. The EESC promotes the concept of a of sustainable production and consumption. Achieving consensus on the need for a change in attitudes towards meat consumption will depend on identifying opportunities and supports required to ensure a just transition for those dependant on this sector of the agrifood industry.

4.2.6. This is a sector affected also by the drivers of climate change, in particular its dependence on fossil fuels from food production, through processing, to transport and packaging. Policies need to be formulated in recognition of the 'locked-in' nature of the existing agri-food model, and must map an achievable route to a sustainable, climate-friendly future for farmers.

4.2.7. Environmental policies need not be in conflict with the immediate needs of the farming sector, when considered as applications of support mechanisms to facilitate the transition to a low-carbon society.

4.3. *Consumers*

4.3.1. The power of consumers in achieving the transition can only be harnessed when consumers have the option of a sustainable ethical alternative that does not lead to a significant reduction in convenience or quality in terms of service, usage or accessibility. Viable alternatives for consumers can be developed through the new economic models such as the Digital, Collaborative, and Circular Economy and through the international cooperation on the global, sectorial transition to these models.

4.3.2. Too often the polluter pays principle is misapplied and levies are forced on consumers, when they have no viable alternative available. Consumers must have the option of an alternative before pricing can be an effective instrument to drive behaviour change in the required direction.

([5]) Opinion on *A possible reshaping of the CAP*, OJ C 288, 31.8.2017, p. 10.
([6]) Opinion on *Circular Economy — fertilisers*, OJ C 389, 21.10.2016, p. 80.
([7]) Opinion on *Land use for sustainable food production and ecosystem services* (see page 72 of the current Official Journal).

4.3.3. The plastic bag tax is a good example of consumers facing a small tax, but having alternative options available to them — namely to bring their own bag or to use a box provided by the retailer. When applied like this, large-scale behavioural change can be achieved.

4.3.4. In contrast, taxing of fossil fuels (petrol for example) at the consumer level can cause discontent and diversion of disposable income into fuel. It can further drive a secondary illegal market, while preserving the profits of the producer of the pollutant in the first place. This is made worse by the lack of ring-fencing of such taxes in most cases. Citizens feel that climate change policies are associated with unfair penalising of those who have no alternative but to operate within the fossil fuel economy.

4.3.5. Support mechanisms, including public money and economic instruments should be invested to ensure that infrastructure and appropriate supports exist for consumers wishing to choose a low carbon lifestyle, including assistance for meeting the higher costs of ethical/long life/sustainable goods and services. This may take the form of public-private partnerships. The automobile industry is a good working example of manufacturer back financing arrangements to improve access to new cars for consumers. Similar types of support systems could be offered for other sectors, for example white goods, retro-fitting a home or business.

4.3.6. There is a climate contradiction in using public money to support and invest in systems and infrastructures that increase end user dependency on the drivers of climate change, while concurrently working to limit and manage the impacts of climate change. Consumers are on the front line of the impact of this. A choice between paying more for the polluting options or going without is not a 'just' choice to offer to citizens.

4.3.7. There is a perception that a sustainable life style, and sustainable consumption choices are only compatible with a high disposable income. Ethical, climate friendly, sustainable choices are not accessible to all equally. Pricing that incorporates the climate costs (such as resource intensity) of goods and services should be supported by a policy framework that challenges this perception and increases accessibility for all consumers.

4.3.8. EU consumer protection legislation pre-dates the 1999 UN recognition of sustainable consumption as a basic consumer right, and therefore makes no mention of it ([8]) The EESC repeats its call for a policy on sustainable consumption. This is especially relevant in the context of the SDGs and the Circular Economy initiative.

4.3.9. Without the alternative choice the consumer is left with no option, but forced into poverty/poor decision making/ unhealthy choices/unsustainable choices and develops a dislike for 'environmental' policies that are seen to be penalising the end user. Meanwhile, those who profit from this system are not paying, but are making more money, and so the inequality increases — under the guise of environmental policy contradicting the principles of sustainability.

4.4. *Labour transitions*

4.4.1. It is critical to protect all workers in the transition, both those with either low or non-transferable skills and those in highly qualified positions. The most vulnerable sectors and workers need to identified and adequately supported. The automation of jobs, as part of the low carbon economy, might lead to eradication of certain jobs ([9]).

4.4.2. Retraining and education are some of the means to achieving this protection. Workers whose jobs disappear as a result of climate change or as a result of the need to end dependency on the drivers of climate change should not be the ones to pay the price for this change.

([8]) Opinion on *Collaborative or participatory consumption: a sustainable model for the 21st century,* OJ C 177, 11.6.2014, p. 1.
([9]) Opinion on *The transition towards a more sustainable European future — a strategy for 2050* (see page 44 of the current Official Journal).

4.4.3. Early identification of the skills needed to allow full participation in these new economic models is one part of the solution, but equally these should be mapped in the context of existing employment and dependencies on the current unsustainable model.

4.4.4. It is important to protect and preserve communities where possible, and to facilitate the transition with the least amount of impact on well-being, both socially and economically, of those affected.

4.4.5. New opportunities are clearly identifiable in the new economic models proposed, including the Functional, Collaborative and Circular Economy. In this regard, the EU should begin the necessary international negotiations to work towards the achievement of a global economic model.

4.5. *Health*

4.5.1. There is a cost to health created by climate change, and the drivers of climate change. This can be measured in death and illness associated with air pollution for example and represents a cost to society as well as a cost to public healthcare systems. Public healthcare systems need to consider the role that climate change and the drivers of climate change play in their sector.

4.5.2. There is a correlation between health and well-being and access to nature (IEEP). Many Member States face health and societal challenges such as obesity, mental health issues, social exclusion, noise and air pollution, which disproportionally affect socioeconomically disadvantaged and vulnerable groups.

4.5.3. Investing in nature not only addresses climate change in terms of divestment from pollutants, but also investment in carbon storage in natural ecosystems. The consequential health benefits are twofold: prevention of increased ill health and promotion of an active lifestyle leading to improved health of citizens and communities. Recognition of this aspect assists in ensuring policy decisions are balanced, informed and evidence based.

4.6. *Energy*

4.6.1. Renewable energy production in terms of a % of electricity consumption has more than doubled between 2004 and 2015 in the EU (14 % to 29 %). However, in heating, buildings and industry, and in transport the energy requirements are still enormous. Progress is occurring, but from a very low base, for example the share of renewable energy in fuel consumption in transport has increased from 1 % to 6 % in the same period.

4.6.2. Energy poverty is an issue across Europe and although its meaning and context can vary from country to country, it is another example of the need to ensure climate change policies are focussed on protecting the most vulnerable.

4.6.3. The EESC repeats its call for a European Energy Poverty Observatory ([10]) that would bring together all the stakeholders to help define European energy poverty indicators. Justice for all citizens means ensuring that clean and affordable accessible energy is supplied to everyone.

4.6.4. Policies that support addressing the energy poverty problem in EU can also be solutions for establishing a clean energy infrastructure and supply, by shifting subsidies and coordinating political will.

4.6.5. Policies that support fossil fuel subsidies, directly or indirectly, amount to a reversal of the polluter pays principle — the polluter is paid in these cases. Many of these subsidies are invisible to the end user but ultimately derived from public money. A recent opinion ([11]) has already set out the case for the cessation of environmentally harmful subsidies (EHS) in the EU, and a further opinion Mapping EU Sustainable Development policies ([12]) highlights the need for implementation of existing commitments to remove EHS and vigorous promotion of environmental tax reform.

([10]) See footnote 1.
([11]) Opinion on the *Market-based instruments towards a resource efficient and low carbon economy in the EU*; OJ C 226, 16.7.2014, p. 1.
([12]) Opinion on '*Sustainable development: a mapping of the EU's internal and external policies*, OJ C 487, 28.12.2016, p. 41.

4.6.6. Support should be available to all, subsidies should focus on renewables, whereas subsidies for the drivers of climate change should be phased out urgently, and exemptions should be applied in a more just manner, explicitly not to those who can most afford to pay, and not to those profiting from the pollutant. Fossil fuel subsidies are currently at a rate of $10 million per minute globally according to the IMF. Eliminating these subsidies would raise government revenue by 3,6 % of global GDP, cut emissions by more than 20 %, cut premature death by air pollution by more than half and raise global economic welfare by $1,8 trillion (2,2 % of global GDP). This figure highlights the unjust nature of the current system.

4.6.7. Effective sustainability policies are dependent on ensuring that supports for transition are clearly identified, prioritised, and adequately financed.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
George DASSIS

Opinion of the European Economic and Social Committee on 'EU development partnerships and the challenge posed by international tax agreements'

(own-initiative opinion)

(2018/C 081/05)

Rapporteur: **Alfred GAJDOSIK**

Co-rapporteur: **Thomas WAGNSONNER**

Plenary Assembly decision	26.1.2017
Legal basis	Rule 29(2) of the Rules of Procedure Own-initiative opinion
Section responsible	External Relations
Adopted in section	28.9.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	182/0/1

1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) supports a development policy that sees development as a process carried out between countries on equal terms, based on respect and sovereign decisions. Financing and implementing sustainable development goals (SDGs) agreed at United Nations (UN) level requires globally coordinated efforts. The EESC would point out that the UN's Economic and Social Council could play an even stronger role as a suitable forum for dealing with tax matters. This would ensure both the gearing of Agenda 2030 to the SDGs and the participation of all countries on an equal footing.

1.2. Against the background of international agreements on the reform of international tax law, e.g. through the OECD BEPS (Base Erosion and Profit Shifting) Action Plan, the effects of such international reform efforts on the SDGs should be assessed and taken into greater consideration when international tax policies are being further developed. The EESC notes that achieving the SDGs requires financial resources. However, many countries face major challenges when it comes to generating public revenue through tax receipts. This is due to developing countries' income tax and sales tax systems being difficult to implement; global tax competition relating to corporation tax, as well as the design of Double Taxation Agreements (DTAs), might also be part of the problem. Capacity constraints and inadequate information transmission are further factors.

1.3. The EESC warmly welcomes the fact that the European Union (EU) and its Member States have made considerable efforts in the context of international reform to address the weaknesses of the international tax system. These efforts are welcome and need to be supported and implemented effectively and then subject to regular monitoring. The reforms have been led primarily by the major developed countries within the OECD. It is worth examining whether the UN, because of its global membership, particularly of developing countries, would not be better suited as a forum for developing international tax policy worldwide. However, the EESC notes the lack of resources and staff at the UN Tax Committee. The UN should therefore be provided with sufficient means.

1.4. EU international tax transparency measures and the BEPS Action Plan will also have an impact on developing countries. The EESC welcomes the fact that the European Parliament (EP) and the European Commission have already issued their views on the points where tax and development policies intersect. The Platform of Tax Good Governance launched by the European Commission is to be welcomed. The toolbox presented on the platform as a Staff Working Document on the 'spillover' effects of DTAs is an excellent basis for Member States to use for reflection on the review of double taxation agreements with developing countries.

1.5. The EESC notes that a 2015 European Parliament report recommended a series of improvements, yet to be implemented. In this connection, the EESC would draw attention to its own earlier opinions with statements on, in particular, country-by-country reporting and the fight against money laundering, with recommendations on public ownership registers. The EESC points out that a list of uncooperative jurisdictions for tax purposes is being compiled. It calls for greater efforts to be made to carry out the European Parliament's recommendations and itself recommends that criticism from non-government organisations be addressed. It makes sense to promote the worldwide introduction of these measures through international tax agreements, so as to improve the information available to tax authorities in developing countries. The goal should be to be able to achieve the same standards worldwide, with developing countries having an equal say when these standards are being drafted.

1.6. The EESC calls for coherence to be ensured between Member States' international taxation policies and the objectives of development policies, so as to avoid conflicts between individual countries' taxation policies and joint development priorities.

1.7. The EESC sees impact assessments of Member States' international taxation policies as a way of testing the impact of DTAs and tax inducements on developing countries. This should be encouraged and made common practice. Where there are potential conflicts with European development policies, such analysis would also make sense for the European Union. Existing DTAs should be revised and new ones to be negotiated should be concluded while taking these considerations on board.

1.8. The OECD Model Tax Convention, which is currently most widely used, was developed first and foremost with a view to developed countries' interests. Therefore, the EESC recommends that, when negotiating DTAs with developing countries, EU Member States take more account of the needs of developing countries. The EESC notes that, based on the OECD convention, the UN also developed a Model Double Taxation Convention to regulate taxation between developing and developed countries in order to give source countries more taxing rights.

1.9. The EESC has been supportive of private investment fostering development, when such development is in line with the SDGs and when basic economic, environmental and social rights, core International Labour Organisation (ILO) conventions and the Decent Work Agenda are upheld. Legal certainty is a key factor in supporting an investor-friendly business climate, which is also conducive to foreign direct investment. Since taxation matters are tied in with sustainable development goals, businesses should duly pay their taxes in the country where their profits are made through the creation of added value during production processes, raw-material extraction and other such activities.

1.10. The EESC notes that the EU and its Member States, in the New European Consensus on Development, have committed themselves to cooperating with partner countries in making progressive taxation, anti-corruption measures and redistributive policies more widespread, as well as combating illicit financial flows. Taxation policy should, however, be a more important element of European development policy. The EESC welcomes the European Commission's commitment to regional forums and civil society organisations operating in the area of taxation in developing countries. Civil society organisations in these countries have a monitoring and supporting role to play, including in tax matters, and should therefore be more involved and be given more support. Support for appropriate tax capacity-building measures, including peer learning and South-South cooperation, would have a lasting impact on development projects.

1.11. Good governance in taxation should be an integral part of companies' corporate social responsibility (CSR) in the context of corporations' reporting obligations.

1.12. The EESC recommends that good tax governance clauses be enshrined in all relevant agreements between the EU and third countries and regions in order to promote sustainable development.

1.13. The EESC recommends that, when new and revised free trade agreements are being concluded between the EU and developing countries, the opportunity be taken to analyse bilateral tax agreements as well. This should entail impact assessments on the repercussions of Member States' international tax policies on development policy goals.

2. **General comments**

2.1. A number of studies ([1]) raise the question as to whether Member States' international tax policies, in particular many provisions in bilateral DTAs, are consistent with EU development policy objectives. In addition, developing countries are net exporters of capital to the developed world, which can to a considerable extent be put down to tax-dodging capital flows. This has the greatest impact on the lowest-income developing countries, because their domestic financing sources are virtually non-existent.

2.2. The EU and its Member States combined are the largest donors of official development assistance and carry considerable weight in the shaping of international taxation agreements. They have undertaken to achieve the UN SDGs, although only a few Member States have reached the foreign aid target of 0,7 % of GDP. The impact of Brexit on the future financing of European development cooperation is unclear. More action is planned to promote private investment in connection with development policy objectives. ODA (Official Development Assistance) resources are dependent on the policies of donors.

2.3. SDGs for developing countries include the mobilisation of domestic resources, international support for building up tax collection capacity, a reduction of illicit financial flows and participation in institutions of global governance. It follows that a stable public revenue base, efforts to combat illicit resource outflows, and an equal say for all countries in the design of global taxation rules are important pillars of sustainable development. Particularly children, women and other vulnerable groups in society in developing countries benefit a great deal from development ([2]).

2.4. Money from public development aid is not enough to fund sustainability goals. Domestic resources are needed to attain the goals, as was already the case with the Millennium Development Goals ([3]). In order to mobilise these resources, tax collection has to be improved and more tax revenue has to be secured through sustainable economic growth and a broader tax base.

3. **Challenges for developing countries**

3.1. Taxation is a more stable source of finance than other types of revenue, but many developing countries find it more difficult than developed countries to generate sufficient tax revenue.

3.2. In recent decades, liberalisation of global trade has been strongly pursued through the reduction of import and export tariffs, with the aim of fostering economic development, investment and the prosperity of the population at large. These effects, positive in principle, can also help broaden the tax base, insofar as tax authorities are able to make use of them. However, through this, developing countries' revenue from major, readily accessible sources has also been shrinking. Growth and investment also need to be reflected in the revenue structure of developing countries, however.

([1]) Eurodad, *The State of Finance for Developing countries, 2014*; Braun & Fuentes *Double Taxation Treaties between Austria and developing countries*, Vienna, 2014; Farny et al. *Tax Avoidance, Tax Evasion and Tax Havens*, Vienna, 2015.

([2]) EP Resolution on tax avoidance and tax evasion as challenges for governance, social protection and development in developing countries P8_TA(2015)0265, point 14.

([3]) Development Finance International & Oxfam, *Financing the sustainable development goals*, 2015.

3.3. To offset revenue losses, developing countries often introduce sales taxes, which may be regressive in effect. A tax system based on different types of taxes reduces dependence on individual tax types and guarantees stable domestic revenue.

3.4. Taxation of land and property is often difficult to implement in developing countries. However, income taxes only yield relatively little tax revenue in developing countries because of incomes being low. Income tax is collected above all from public sector employees and people working for international companies. Moreover, there is often a large informal economy.

3.5. The Mbeki Report counted revenue from tax avoidance as illicit financial flows ([4]). They appear to exceed the inflow of resources from development cooperation ([5]). Greater international cooperation between authorities, fostering transparency as well as strengthening legislative and regulatory measures, is important to stem these illicit flows. Strengthening property rights in developing countries is also an important disincentive for capital outflows.

3.6. Corporation tax plays a more important role in developing countries' tax revenue structures than it does in developed countries. As a consequence the former are harder hit by tax avoidance strategies. At the same time, both nominal and actual corporation tax rates have been falling worldwide since the 1980s so as to attract investors. For companies, corporation tax is an important indicator of the business climate. Thus international tax competition has developed, which is more problematic for developing countries because of their tax revenue structures than it is for developed countries. The spillover effects of tax competition are an issue that has already been raised by the International Monetary Fund (IMF) ([6]). In addition, many of the developing countries see few big firms investing in their countries which represent a significant share of overall corporation tax receipts.

3.7. It is difficult for tax authorities to calculate transfer prices using the arm's length principle for cross-border transactions between companies within a group. Authorities in developing countries have limited capacity to do this, and tax-induced transfer price manipulation remains an important problem.

3.8. DTAs set taxing rights between signatory countries, regulate information exchange between their tax authorities and thus provide legal certainty. They can therefore attract foreign direct investment and ultimately promote growth. DTAs can, however, have an impact on the taxing rights of source countries. Withholding tax rates for royalties, interest and dividends are generally lower than the source country's domestic tax rates. Some provisions, such as a restrictive definition of permanent establishment, can limit taxing rights. Developing countries are, of course, interested in further investment, but may lose taxing rights. Tax Information Exchange Agreements may therefore be a better option if a country predominantly seeks to obtain tax information from other jurisdictions.

3.9. The starting point for negotiations is most often the OECD Model Tax Convention, which is geared more towards the interests of industrialised countries ([7]). The UN Model Convention is designed to be an alternative for developing countries, better reflecting their interests ([8]). In general, this makes provision instead for giving source countries more taxation rights than the residence country of the producing company.

([4]) AU/ECA, *Illicit Financial Flows — Report of the High Level Panel on Illicit Financial Flows from Africa* (p. 23 onwards).

([5]) EPRS: *The inclusion of financial services in EU free trade and association agreements: Effects on money laundering, tax evasion and avoidance*, EP 579.326, p. 15.

([6]) IMF *'Spillovers in international corporate taxation'*, 2014.

([7]) Owens & Lang, The Role of Tax Treaties in Facilitating Development and Protecting the Tax Base, in Bloomberg Daily Tax Report, 1 May 2013.

([8]) Lennard (2009): *The UN Model Tax Convention as Compared with the OECD Model Tax Convention — Current Points of Difference and Recent Developments*, Asia-Pacific Tax Bulletin, Vol. 49, No 08; V. Daurer and R. Krever (2012): *Choosing between the UN and OECD Tax Policy Models: an African Case Study*, EUI Working paper RSCAS 2012/60.

3.10. Developing countries may be deprived of tax revenue when companies establish special-purpose entities in different countries in order to play off a number of DTAs against one other so as to reduce taxes. It may also prove difficult for the source country to tax services and indirect transfers of assets on the basis of DTA provisions. The desire for opportunities for technology transfer aimed at promoting sustainable growth in developing countries should be taken into account.

3.11. There have been studies on revenue losses for developing countries. The Dutch non-governmental organisation SOMO has estimated the annual revenue losses from withholding tax on interests and dividends resulting from DTAs between the Netherlands and 28 developing countries at EUR 554 million ([9]). An Austrian study concluded that impact assessments of DTAs should be carried out because they can lead to revenue losses even if investment is increasing ([10]). According to estimates by the Unctad in the 'World Investment Report 2015', multinational corporations bring around USD 730 billion into developing countries' budgets. It nevertheless states that when inward investment is channelled through offshore investment hubs, an estimated USD 100 billion annual tax revenue is lost for developing countries ([11]). Such revenue losses are at odds with the SDGs outlined above.

4. National, regional and international measures — the contribution made by the European Union and its Member States

4.1. More efforts are being made to support developing countries in tax matters, such as through the Addis Tax Initiative. International taxation policy falls within the remit of the Member States. DTAs are concluded bilaterally; EU legislative initiatives are essentially limited to instruments to complete the internal market. There is cooperation between the European Union and its Member States on Policy Coherence for Development (PCD) ([12]). The impact of the international tax system on development has also been recognised by the European Commission, and it is likewise looking at this issue ([13]). To ensure policy coherence for development, it is necessary to examine the effects on developing countries of tax policies in the EU that are incompatible with development policy objectives and, where appropriate, to take proper action.

4.2. At United Nations level, work is being done on taxation issues through the Financing for Development process, Ecosoc and the UN Tax Committee, as well as specialised agencies such as Unctad. At the request of the G20, far-reaching reforms were agreed on within the OECD with the project to combat BEPS. Key concerns here included eliminating 'treaty shopping', harmful tax practices by governments (such as 'patent boxes' and opaque 'rulings'), hybrid mismatches in the tax treatment of debt, and inefficient transfer pricing and reporting. Given the importance of corporate income tax for developing countries, the BEPS Action Plan is expected to have a positive impact for them.

4.3. Numerous non-OECD countries, including African states, have committed to the Inclusive Framework of the OECD BEPS Action Plan. 103 countries have committed to a new Multilateral BEPS Convention adopted in June 2017, which simplifies the interpretation of bilateral tax conventions within the meaning of the BEPS Action Plan. A 'Platform for Collaboration on Tax' was launched by the United Nations, OECD, IMF and World Bank with the intention of stepping up international cooperation on tax issues. This initiative can help create greater consistency between OECD work and UN forums. Whether the desired effect is achieved is a matter to be monitored.

(9) Mc Gauran, *Should the Netherlands Sign Tax Treaties with Developing Countries*, 2013.
(10) Cf. footnote 1 Braun & Fuentes.
(11) Unctad, *World Investment Report 2015*, p. 200.
(12) COM(2016) 740 final; cf. also EESC's opinion on a new European Consensus on Development (OJ C 246, 28.7.2017, p. 71).
(13) C(2016) 271 final, COM(2016) 24 final, EC, *Collect More Spend Better*, 2015.

4.4. The EESC recognises the OECD's efforts in the further development of a better international tax regime. However, civil society organisations [14] are critical of the fact that developing countries do not have voting rights in the OECD. They were only invited to participate after the BEPS Action Plan had been drafted. The European Parliament has made a similar remark; it has called for the relevant UN bodies to be strengthened so as to allow international tax policy to be designed and reformed on equal terms [15]. In an IMF Working Paper, experts also expressed misgivings about the repercussions of the BEPS Action Plan on developing countries [16].

4.5. In order to assess the impact of the reform and make any adjustments necessary, the relevant UN bodies, in particular the UN Tax Committee, should be strengthened and given more resources. In any case, the European Commission should monitor the effective implementation of the Multilateral BEPS Convention signed in June 2017 and pursue the commitment to step up international cooperation on tax issues between the UN, the OECD and international financial institutions.

4.6. *Current EU measures have an impact on developing countries*

4.6.1. The package of measures to combat tax avoidance addressed issues relating to international tax policies, i.e. going beyond the scope of the EU [17]. Information contained in the country-by-country reporting framework [18] adopted by the EU, G20 and OECD constitutes an important tool for tax authorities. A worldwide publication of country-specific data may put the general public, including workers and responsible investors, in a better position to assess to what extent companies pay taxes in the countries in which they make their profits. The EESC notes that a 2015 European Parliament report recommended a series of improvements, yet to be implemented. In this connection, the EESC would draw attention to its own earlier opinions with statements on, in particular, country-by-country reporting and the fight against money laundering, with recommendations on public ownership registers. The EESC points out that a list of uncooperative jurisdictions for tax purposes is being compiled. It calls for greater efforts to be made to carry out the European Parliament's recommendations and itself recommends that criticism from non-government organisations be addressed. It makes sense to promote the worldwide introduction of these measures through international tax agreements, so as to improve the information available to tax authorities in developing countries. The goal should be to be able to achieve the same standards worldwide, with developing countries having an equal say when these standards are being drafted.

4.6.2. Automatic exchange of tax-related information was provided for in the European Union through changes to the Mutual Assistance Directive [19]. However, developing countries still have to conclude bilateral mutual assistance agreements with European countries. Doing this requires reciprocal data exchange and data security, often posing a capacity problem for developing countries.

4.6.3. The Commission Communication on an External Strategy for Effective Taxation [20] addresses the issues raised in this opinion. A common EU list of uncooperative jurisdictions for tax purposes is currently being compiled [21]. This EESC has welcomed this step. Non-governmental organisations, however, have been more sceptical about such a list [22]. The EP is likewise calling for a worldwide definition of tax havens which also includes EU Member States and their overseas territories [23].

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(14) Christian Aid, Press release of 19.7.2013, *OECD Action Plan on tax dodging is step forward but fails developing countries*; Oxfam, Press release of 13.11.2014, *Oxfam reaction to OECD's roadmap to include developing countries in international tax reform*.
(15) Cf. EESC's opinion on a new European Consensus on Development (OJ C 246, 28.7.2017, p. 71), point 13.
(16) Crivelli, Ruud De Mooij, Keen, *Base Erosion, Profit Shifting and Developing Countries,* IMF Working Paper WP/15/118.
(17) COM(2016) 25 final — 2016/010 (CNS), COM(2016) 26 final — 2016/011 (CNS), see the EESC's opinion on the anti-tax-avoidance package (OJ C 264, 20.7.2016, p. 93).
(18) See the EESC's opinion on public tax transparency (OJ C 487, 28.12.2016, p. 62).
(19) See the EESC's opinion on the action plan on a capital markets union (OJ C 133, 14.4.2016, p. 17).
(20) See the EESC's opinion on the anti-tax-avoidance package (OJ C 264, 20.7.2016, p. 93).
(21) Available at: https://ec.europa.eu/taxation_customs/tax-common-eu-list_en (as at 29.8.2017).
(22) E.g. Tax Justice Network v. 23.2.2017, *Verdict on Finance Ministers' blacklist: 'whitewashing tax havens'*.
(23) Cf. footnote 2, point 10.

4.6.4. The Recommendation on Tax Treaties [24] addresses important issues relating to DTAs and urges the Member States to strengthen their tax treaties to combat treaty abuse and treaty shopping. On the other hand, it does not call for any impact assessment of DTAs, in particular as regards their implications for development policy coherence or spillover effects. The Platform of Tax Good Governance, which is to be welcomed and which is working on issues of international taxation with the involvement of civil society organisations, has submitted a working paper to this end [25]. Member States should take this into consideration.

4.6.5. Tax avoidance strategies are often related to opaque property ownership. Following the amendment of the Fourth Anti-Money Laundering Directive [26], no publicly accessible registers of ownership have been created for trusts or other companies carrying out investments. Such registers would help developing countries to investigate cases of suspected money laundering and tax fraud.

4.6.6. The proposal on a Common (Consolidated) Corporate Tax Base (C(C)CTB) is the subject of another EESC opinion [27]. In relation to participation in international tax conventions and the relevance thereof for tax authorities in developing countries, such an agreement — and the resulting information — can serve as a good example, with an impact on DTAs with third countries. Figures for within Europe would also provide reference points for comparative calculations in developing countries. The goal should be to achieve the same standards worldwide, with developing countries having an equal say when they are drafted.

4.6.7. The EESC recommends that good tax governance clauses be enshrined in all relevant agreements between the EU and third countries and regions in order to promote sustainable development.

4.6.8. The EESC recommends that, when new and revised free trade agreements are being concluded between the EU and developing countries, the opportunity be taken to analyse bilateral tax agreements as well. This should entail impact assessments on the repercussions of Member States' international tax policies on development policy goals. Doing so could also contribute to implementation of the recommendations set out in the European Parliament's report.

5. **Further action recommended by the EESC**

5.1. In line with the anti-tax-avoidance package and for the purposes of Member States' and the EU's Policy Coherence for Development (PCD), the international tax policies and DTAs of Member States are to undergo regular impact assessments [28]. To ensure better coordination of the EU's development policy with Member States' tax policies, the European Commission should ensure that Member States which are negotiating a DTA with a developing country take due account of coordinated EU development policies. Accordingly, the European Commission's recommendation on the implementation of measures against tax treaty abuse is to be welcomed [29]. With a view to development objectives, greater consideration should be given to the needs of developing countries. Here the EU's commitment at UN level, namely to the UN Tax Committee, should be strengthened and steps taken to promote capacity-building in relation to a global forum with equal involvement of all countries.

5.2. Transition periods must be provided for to allow developing countries to be included in measures enabling automatic information exchange while capacity is still being created.

5.3. Good governance in taxation should be an integral part of companies' CSR in the context of corporations' reporting obligations.

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(24) See the EESC's opinion on the anti-tax-avoidance package (OJ C 264, 20.7.2016, p. 93).
(25) European Commission discussion paper on the 'Platform for Tax Good Governance', *Toolbox spill-over effects of EU tax policies on developing countries*, June 2017, Platform/26/2017/EN.
(26) COM(2016) 450 final — 2016/0208 (COD), see the EESC's opinion on the Anti-Money-Laundering Directive (OJ C 34, 2.2.2017, p. 121).
(27) OJ C 434, 15.12.2017, p. 58.
(28) Cf. footnote 2, point 15.
(29) See the EESC's opinion on the anti-tax-avoidance package (OJ C 264, 20.7.2016, p. 93).

5.4. With plans for private investors to be more closely involved in European development policy, issues of tax concessions for development engagement are more pertinent ([30]). Since taxation matters are tied in with sustainable development aims, businesses should duly pay their taxes in the country where their profits are made through the creation of added value ([31]). This should be ensured when encouraging private sector commitment.

5.5. Moreover, in general, care should be taken to ensure that the implementation of sustainable development objectives is not undermined by granting tax concessions.

5.6. The EESC reiterates its comments on public beneficial ownership registers of bank accounts, businesses, trusts and transactions ([32]) and considers it makes sense for the introduction of these measures to be promoted worldwide through international tax agreements. Moreover, these measures should in particular be taken into account through efforts to build up capacity in order to support moves to counter illicit financial flows from developing countries. Since there is a concern that many European companies operating in developing countries might not fall within the scope of country-by-country reporting, the EESC would refer to its remarks on this subject ([33]). It would recommend that there also be an assessment of the impact of other relevant rules on developing countries, particularly of rules whose scope is defined by annual turnover.

5.7. The EU and its Member States, in the New European Consensus on Development, have committed themselves to cooperating with partner countries in making progressive taxation, anti-corruption measures and redistributive policies more widespread, as well as combating illicit financial flows ([34]). While technical and personnel capacity for this is being built up in developing countries so they can fully participate in international conventions, there should already be opportunities for reciprocal information exchange in order to secure the goals defined in any consensus reached. The European Commission's commitment ([35]) to promote regional forums ([36]) through the UN Tax Committee has been recognised and should be stepped up. An effort should be made to ensure that these forums adopt strong stakeholder participation and consultation practices. Civil society organisations in developing countries have a monitoring and supporting role to play, including in tax matters, and should therefore be given support.

5.8. More account should be taken of a country's tax system in development cooperation. Capacity-building is designed to help the beneficiary countries do more to help themselves and to foster the efficiency of tax systems as well as state legitimacy. Experience has been particularly positive with direct exchanges between tax authorities with similar challenges (peer-learning) and with cooperation from countries with similar development requirements (South-South cooperation). This creates opportunities for coordination on similar challenges and allows for the exchange of best practice suited to capacities.

5.9. The EESC emphasises the need for policy coherence for development in tax matters, since measures taken within the EU have international effects on developing countries. Therefore, these effects must be taken into consideration and the developing countries affected must be involved.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([30]) See the EESC's opinion on establishing the EFSD Guarantee and the EFSD Guarantee Fund (OJ C 173, 31.5.2017, p. 62).
([31]) Cf. footnote 2, recital A and point 6.
([32]) See in particular point 1.5 of the EESC's opinion on the Anti-Money-Laundering Directive (OJ C 34, 2.2.2017, p. 121).
([33]) See in particular point 1.11 of the EESC's opinion on public tax transparency (OJ C 487, 28.12.2016, p. 62).
([34]) Cf. COM(2016) 740 final; cf. also EESC's opinion on a new European Consensus on Development (OJ C 246, 28.7.2017, p. 71).
([35]) Cf. European Commission, *Collect More — Spend Better,* 2015.
([36]) Such as the 'African Tax Administrations Forum' (ATAF), the 'Inter-American Center of Tax Administrations' (CIAT) and the 'Global Forum on Transparency and Exchange of Information for Tax Purposes' (Credaf).

Opinion of the European Economic and Social Committee on the 'Economic, social and cultural rights in the Euro-Mediterranean region'

(own-initiative opinion)

(2018/C 081/06)

Rapporteur: **Helena DE FELIPE LEHTONEN**

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Section responsible	External Relations
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Outcome of vote (for/against/abstentions)	123/0/1

1. **Conclusions and recommendations**

1.1. As early as the Barcelona Declaration of 1995 ([1]), economic and social organisations and civil society as a whole were highlighted as playing a key role in fostering the gradual construction in the Mediterranean of an area of peace and stability, shared prosperity, and dialogue between the cultures and civilisations of the various Mediterranean countries, societies and cultures. At present, civil society organisations in the Mediterranean are forums for inclusion, participation and dialogue with public authorities, including local authorities, with the aim of promoting economic, social and cultural rights in the Mediterranean region. The EESC considers it necessary to **strengthen the role of ESCs** where they exist and to **encourage countries without ESCs to set them up** by intensifying synergies between the various actors involved. In order to promote these rights, the ESCs and economic and social organisations need to develop partnerships so as to make them more realistic and effective.

1.2. Women are victims of gender stereotypes which reproduce political, economic and educational barriers with serious consequences for society's development. The EESC calls for steps to be taken to narrow the enormous gaps between legislation and reality. To this end, the Committee believes there is a pressing need to provide resources to train and educate those responsible for ensuring that this legislation is implemented effectively. In order to strengthen rights, the EESC recommends involving local authorities in the various activities carried out by organisations, economic and social actors, civil society and their gender equality networks working in the relevant societies. This work should be backed up with contributions from universities and specialist research centres.

1.3. The threat of violent extremism must be countered by addressing its multiple causes that go beyond security. Economic and social organisations must play a leading role in this endeavour in collaboration with institutions and networks dedicated to intercultural and interfaith dialogue with a view to achieving a greater impact and including **cultural heritage, artistic expression and creative industries** in their activities. The EESC urges the European Commission and the Member States of the Union for the Mediterranean to promote these intercultural dialogue activities among social partners as well, thus strengthening specialised bodies that have worked in the Mediterranean for many years, such as the Anna Lindh Foundation ([2]). In terms of heritage, the EESC calls for increased cooperation in the protection of cultural heritage that is under threat because of armed conflict and violent organisations.

([1]) http://ufmsecretariat.org/barcelona-declaration-adopted-at-the-euro-mediterranean-conference-2728-november-1995/
([2]) http://www.annalindhfoundation.org/

1.4. **Economic, labour and social rights** are essential for economic development and a democratic society. These rights include free enterprise, freedom of association and of industrial action, collective bargaining, and social protection in areas such as health, education and old age. As already pointed out by the ILO when it was set up and in the Declaration of Philadelphia in the sense that it was necessary to subordinate economic organisation to social justice. And that this should be the central aim of national and international policies. The Declaration of Philadelphia stresses that economics and finance are resources that serve people.

1.5. The media play a crucial role in shaping mutual perceptions and views and are a key driver for improving intercultural dialogue and fostering respect, tolerance and mutual understanding. The EESC therefore welcomes the launch of projects that seek to ensure respect for diversity and promote information that is free of bias, stereotypes and distorted perceptions. At the same time, it encourages greater use of tools for monitoring, training and awareness-raising in order to tackle racism and Islamophobia in the media, and urges the promotion of cooperation mechanisms and joint platforms for professional development relating both to professional ethics and defending freedom of expression.

1.6. Education is the main vehicle for socioeconomic mobility and as a result for potential improvements in quality of life. By contrast, unequal educational opportunities put the region's stability and security at risk. The EESC therefore calls for joint efforts to improve the quality of primary and secondary education, higher education and vocational training through the exchange of experience on curriculum development and innovative methodology. Furthermore, the EESC considers it essential to close the knowledge gap between the two shores of the Mediterranean and, to this end, proposes the promotion of joint knowledge and research networks to facilitate the transfer and circulation of knowledge and the mobility of teachers, students, academics and researchers as well as support for the translation of their work, especially from and into Arabic.

1.7. Non-formal education is a vital additional element given the valuable role it plays in shaping more inclusive and pluralistic societies. The EESC believes that the synergies between formal and non-formal education should be stepped up and that this type of education should be promoted as a tool for developing a culture of peace and lifelong learning. The EESC therefore calls for more resources to be earmarked for non-formal education and for the transfer of experience and know-how between Europe and the Southern Mediterranean to be promoted.

1.8. With a view to developing an inclusive and competitive economy, support is needed for the digital and technological integration of people. To this end, the EESC underlines the need to promote local and regional projects that empower citizens with regards to the use of new technologies, entrepreneurship and digitalisation, together with the need to strengthen initiatives aimed at citizen participation, promotion of digital training and the creation of decent jobs, such as urban initiatives on social and digital innovation (Labs).

2. **Background**

2.1. In 2011, political systems were shaken by a hope for change among young Arabs. Unexpectedly, these systems were fundamentally called into question. Tunisia, Egypt, Libya and Yemen deposed their political leaders but the concrete political circumstances would end up taking them in very different directions: from the steadfast transition in Tunisia, sustained by its dynamic civil society, to the change of regime in Egypt, through the open conflicts in Libya and Yemen. Syria has remained embroiled in a bloody war, which has now taken on a regional and international dimension. For example, there have been tragic population displacements and unprecedented migratory movements that have destabilised the entire Euro-Mediterranean area.

2.2. Beyond a change of regime, the aim was to create a fairer and more inclusive system, offering political freedoms, social justice, opportunities and dignity. Expectations were frustrated because they were not translated into the social sphere. Specific political circumstances, both inside and outside these countries, helped to frustrate them. Six years on, legitimate calls for economic, social and cultural rights remain valid but unheeded, and continue to be a potential source of instability for the region.

2.3. The EESC therefore considers achieving peace and democracy throughout the region, as well as respect for the fundamental and human rights of all its citizens, to be an absolute priority.

2.4. Fundamental rights: unwaivable and inalienable

2.4.1. The EESC encourages all countries of the southern and eastern Mediterranean to sign up to the International Covenant on Civil and Political Rights ([3]) and the Charter of Fundamental Rights of the European Union ([4]). At the same time, it stresses the importance of the principles and values of secularism, as well as the protection of the rights of persons belonging to national or ethnic, religious and linguistic minorities ([5]).

2.4.2. The EESC underlines the crucial importance of advocating a decent quality of life for all. The EESC stresses the need to ensure that people have access to sufficient food and drinking water at affordable prices and sufficient access to energy in order to prevent the energy exclusion of individuals and communities. It also underlines the need to promote a decent environment and to develop healthcare provision.

2.4.3. Given the special circumstances in the region, the right to adequate housing should be ensured at both national and international level or, in the absence thereof, to decent refuge/shelter for individuals and families. At the same time, the EESC believes that the right to the inclusive and proper reconstruction of devastated areas should be guaranteed, regardless of whether this is the result of natural disasters or armed conflict.

2.5. The right to decent work: a way of ensuring social stability and progress

2.5.1. The EESC believes that societies in neighbouring countries need to pool efforts to promote greater inclusiveness and cohesion. Likewise, their economies should undergo reform and innovate in order to create decent jobs — a key element of sustainable development.

2.5.2. At the same time, the EESC stresses the need to guarantee the rights which must underpin these principles. In this respect, the right to decent work in these countries must be safeguarded, regardless of social background, religion and nationality.

2.5.3. The EESC believes that steps must be taken to promote decent work as a way of ensuring social stability, as advocated by the ILO Declaration on Fundamental Principles and Rights at Work and its follow-up ([6]) and in the International Covenant on Economic, Social and Cultural Rights ([7]) as a means of avoiding poverty and encourages the signing of these documents. It is therefore essential to safeguard fundamental labour rights such as the right of association, the right to set up a trade union or to join a trade union of one's choosing, the right to strike, effective recognition of the right to collective bargaining, as well as the right to certain health and safety conditions at work and to receive an income.

2.5.4. Likewise, as proposed by the ILO, the right to housing should be developed in order to protect the whole population, and especially the most vulnerable segments of the population. It is also essential to combat violations of basic rights such as child exploitation or forced labour, as well as to promote access to work for women and people with disabilities.

2.6. Entrepreneurship: a key driver of economic development

2.6.1. The European Union believes that the five key factors for ensuring peace, stability, security and prosperity in the Euro-Mediterranean area are: economic development through modernisation and diversification of economies; strengthening the business eco-system and innovative entrepreneurship; creation of jobs through skilled training especially for young people; development of the private sector, especially SMEs; and energy and environmental sustainability ([8]). Attention is drawn to the creation of quality jobs as a basis for economic prosperity and the enhancement of female entrepreneurship and entrepreneurial synergies on both shores of the Mediterranean.

In turn, the EESC considers that such factors are inseparable from social development, as stability, security and prosperity are always based on integration and social cohesion.

([3]) http://www.ohchr.org/EN/ProfessionalInterest/Pages/CCPR.aspx
([4]) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012P/TXT&from=EN
([5]) http://www.ohchr.org/EN/ProfessionalInterest/Pages/Minorities.aspx
([6]) http://www.ilo.org/declaration/thedeclaration/textdeclaration/lang–en/index.htm
([7]) http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx
([8]) http://eeas.europa.eu/archives/docs/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf

2.6.2. As a key element in the development of these economies, the joint communication advocates the need to allow for private entrepreneurship and ensure that it can operate under fair conditions. A legal framework must therefore be safeguarded that provides guarantees for the right to private property and its inviolability, subject to the legal framework.

2.6.3. The Committee also attaches importance to efforts by the public authorities to protect free and fair economic competition, which ensures that entrepreneurs can work under equal conditions. It is therefore essential to ensure equal treatment in access to finance and the availability of microfinance services as well as a public administration that is free from corruption and has a public-service remit.

2.7. The right to create and innovate: the guarantee of a diversified economy with added value

2.7.1. The ministerial declaration of the Union for the Mediterranean on the digital economy ([9]) suggests promoting the inclusive and cross-cutting effects of new technologies in the fields of culture, society, the economy, government and security.

2.7.2. The EESC also supports the approach of the joint communication on the need to diversify and develop the economies of the Mediterranean region in a sustainable and inclusive manner.

2.7.3. When it comes to designing new programmes, the EESC stresses the need for the EU to set up programmes for the Euro-Mediterranean area in order to encourage innovation that enables the region to make progress economically, while also preserving the individual and collective right to create and innovate. This implies the recognition of the right to intellectual property, the right to share and disseminate innovation and the right to have access to new technologies.

2.7.4. The EESC recognises digital inclusion and free internet access as both an individual and collective right, which is inherent in innovation.

2.8. The right to high-quality education: a pillar of human development

2.8.1. Education is the main vehicle for socioeconomic mobility and for potential improvements in quality of life. The United Nations Programme for Development (UNDP) ([10]) has highlighted that, although primary education has reached universal standards and significant progress has also been made in secondary education in many countries in the region, the quality of such education is poor. The World Bank has implemented programmes for this region in cooperation with other agencies, and the European Commission should also carry out work in this area. At the same time, it is pointed out that the significant inequality of opportunity in education is harming the social contract in Arab countries.

2.8.2. The roadmap of the Union for the Mediterranean ([11]) stresses the need to strengthen education as a key tool for creating sustainable and skilled jobs, especially for young people who are out of work and are at risk of developing bad work habits; research and innovation as a basis for modern economies; and sustainability as a cross-cutting approach to ensure inclusive social and economic development.

2.8.3. Strengthening social capital is crucial for the stability and security of the region. There is therefore a need to promote primary and secondary education, higher education, access to science and to scientific knowledge, employability, health, youth empowerment and mobility, gender equality, discussion forums and social inclusion.

2.8.4. Notwithstanding some problems in accessing education and making it universally available, and despite the need to improve the quality of primary and secondary education, the overriding issue is bridging the gap between training and employment. In this regard, it is vital to promote structures that link up the labour market and the education system, with a view to ensuring that young people are fully integrated into society. To this end, the EESC believes that the exchange of experience on curriculum development and innovative methodology must be encouraged, promoting the transfer of experience and practices in order to develop competences and skills suited to working environments. It is also essential to promote and attach greater value to vocational education and training given the challenge of creating 60 million jobs in Arab countries over the next decade.

([9]) http://ufmsecretariat.org/wp-content/uploads/2014/09/UfMMinistersDeclarationEN.pdf
([10]) http://www.arabstates.undp.org/content/rbas/en/home/library/huma_development/arab-human-development-report-2016–youth-and-the-prospects-for-/
([11]) http://ufmsecretariat.org/wp-content/uploads/2017/01/UfM-Roadmap-23-JAN-2017.pdf

2.8.5. The social partners and other specialist organisations have highlighted the central role of non-formal education (NFE) as a key tool and long-term solution for combating radicalisation and extremism, and for its contribution to the integration of at-risk groups, particularly young people and women.

2.8.6. The EESC welcomes the recognition that non-formal education (NFE) is an important way of complementing formal education, and believes that synergies between them should be stepped up. For example, it believes that there should be greater political commitment to NFE and that it should be provided with a bigger budget, given that it promotes mature and socially integrated young people, teaching them about active participation and the development of democratic values, and is an effective instrument for strengthening a culture of peace.

2.9. Academic and educational mobility: bridging the knowledge gap

2.9.1. The mobility of young people is a key element of meeting the challenges facing the Mediterranean. As a matter of fact, migration in Arab countries is an indication of the social exclusion of young people with high-level qualifications. There is therefore a need to promote migration that is beneficial for both countries of origin and destination. This will require greater recognition of diplomas and qualifications and steps to facilitate academic mobility and improve the legal framework for conditions of entry and residence in the EU applicable to nationals of neighbouring countries, for the purposes of research, study, pupil exchanges, training and voluntary service.

2.9.2. At the same time, one of the biggest gaps that currently exists between the two sides of the Mediterranean is the knowledge gap. The EESC therefore believes that measures should be taken to promote the production and circulation of scientific and academic knowledge, and proposes the creation and promotion of joint Euro-Mediterranean knowledge and research networks. It is also essential to promote the translation of any relevant academic and scientific work, especially from and into Arabic.

2.9.3. At the same time, the EESC is keen to encourage mobility of students, teachers, researchers, academics and scientists through placements, exchanges and practical experience, as a crucial way of promoting academic quality, employability of young people, and strengthening the effective implementation and the achievement of results by the Erasmus Plus Programme in the countries of the Euro-Mediterranean region, as well as the circulation of knowledge and intercultural dialogue.

2.10. The media and intercultural dialogue: the key to tolerance

2.10.1. The pluralism, independence and professionalism of the local media ensure social progress and help the media act as a catalyst for change in the neighbourhood countries.

2.10.2. The EESC underlines the need to promote dialogue and cooperation amongst the media in the Euro-Mediterranean area, with a view to improving and strengthening professional standards and their legislative frameworks. It is also crucial to help guarantee and protect freedom of the press and freedom of expression.

2.10.3. The role of the media in improving intercultural dialogue and encouraging respect, tolerance and mutual understanding must be recognised. Given the increasing prevalence of anti-Western speech in the South and populist xenophobic speech in Europe, it is more vital than ever to take steps to combat this type of narrative in a way that can counter the views that pit peoples, cultures and religions against one another on the basis of a binary, black and white approach that is non-inclusive.

2.10.4. In this connection, the EESC welcomes the launch of projects that seek to ensure respect for the diversity that exists in Europe and advocate tolerance and information free of bias, stereotypes and distorted perceptions, such as the Islamophobia media observatory in Spain ([12]), which promotes information free of racism. It in turn encourages the launch of cross-cutting projects to this end.

2.10.5. Beyond the security sphere, lack of opportunity, particularly for young people, may be one of the underlying reasons for instability and can be added to the causes of radicalisation. There is clearly a need to prevent and combat extremism and racism by promoting intercultural dialogue. For example, synergies between the institutions and networks dedicated to intercultural and interfaith dialogue should be stepped up and complementarities found in order to achieve a greater impact.

([12]) http://www.observatorioislamofobia.org/

2.10.6. Mediterranean ESCs, economic and social actors and civil society must all be involved in preventing radicalisation and violent extremism. Mechanisms are therefore needed to support exchange and cooperation with an allocated budget, as well as to tackle issues relating to justice, gender inequality, hate speech, youth unemployment and illiteracy, as part of a wider de-radicalisation effort that also includes the promotion of intercultural dialogue. In this connection, the work of the Radicalisation Awareness Network (RAN) ([13]) and its Centre of Excellence should be underlined.

2.10.7. The EESC believes that exchanges between intellectuals, artists and cultural operators in the region must be encouraged, since they are key agents of social change, promoting shared projects that help develop dialogue and shared knowledge. At the same time, the Committee calls for increased coordination and cooperation to protect cultural heritage and to highlight and promote awareness of the different cultural and artistic disciplines and sensitivities that coexist in the Euro-Mediterranean area, as a valuable part of cohesion and mutual understanding.

2.11. Civil society and synergies between social stakeholders: forums for inclusion and debate

2.11.1. The economic crisis and xenophobia in the northern Mediterranean, but also the demand for freedom of expression and the fight for human rights in countries on its southern shores, impact decisively on efforts to secure economic, social and cultural rights in the societies of Euro-Mediterranean countries.

2.11.2. In this regard, the European Parliament's human rights report of November 2015 ([14]) states that greater support for civil society is needed. However, civil society organisations in the countries of the South still have low visibility, in spite of their efforts and the risks they occasionally take as well as the role they play in promoting social change. The Mediterranean ESCs can play a role in this regard by providing a space to meet, discuss and disseminate information.

2.11.3. The EESC notes that the voluntary sector is a sphere that contributes to inclusion. At the same time, the EESC believes that the European Commission should increase support for projects carried out by organised civil society through its economic and social organisations, its associations, and the networks that these comprise, and that partnerships and synergies between the different stakeholders involved should be stepped up.

2.11.4. The EESC believes that the Euro-Mediterranean ministers should cooperate with the Euromed Summit of Economic and Social Councils and Similar Institutions on specific projects, without prejudice to the provision of support for civic and cultural associations.

2.12. **Women:** at the centre of economic, social and cultural rights

2.12.1. During the three Euro-Mediterranean Ministerial Conferences on Strengthening the Role of Women in Society held in Istanbul ([15]) (2006), Marrakesh ([16]) (2009) and Paris ([17]) (2013), governments promised to implement the commitments adopted: equal rights for men and women when taking part in political, economic, civil and social life; tackling all forms of violence and discrimination against women and girls; and working on changing attitudes and behaviour to achieve gender equality so that women are empowered, not only in terms of rights, but also in reality.

2.12.2. Despite the legislative changes adopted in southern Mediterranean countries, the UNDP believes that we are still far from achieving women's equality with regard to economic, social and cultural rights.

2.12.3. The EESC notes the significant disparity between official declarations, proposals from institutions and even current legislation, and the everyday reality as experienced by women in their communities, and underlines the need to bring national laws into line with constitutions and to close legal loopholes that still allow discriminatory practices against women.

([13]) https://ec.europa.eu/home-affairs/what-we-do/networks/radicalisation_awareness_network
([14]) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2015-0344+0+DOC+XML+V0//EN
([15]) https://www.euromedwomen.foundation/pg/en/documents/view/4224/ministerial-conclusions-on-strengthening-role-of-women-in-society
([16]) https://www.euromedwomen.foundation/pg/en/documents/view/4756/second-ministerial-conclusions-on-strengthening-role-of-women-in-society
([17]) https://www.euromedwomen.foundation/pg/en/documents/view/4226/third-ministerial-conclusions-on-strengthening-role-of-women-in-society

2.12.4. In this connection, the EESC emphasises the need to provide resources to train and educate those responsible for overseeing the effective application of legislation: judiciary, security forces, businesses, educators, media, institutions such as the ESC, etc.

2.12.5. In order to strengthen rights and obtain better results, the EESC recommends bringing together local authorities and civil society organisations working in the field of gender equality, given that they have at their disposal better data on the problems and needs of the population. This joint work by different stakeholders could be supported with contributions from academia (universities and specialist research centres). One example is the Euro-Mediterranean Women's Foundation ([18]) (FFEM), which, together with the Federation of Leagues of Women's Rights, the regional authority of Marrakesh, Cadi Ayyad University, the regional committee on human rights and other local bodies, has carried out an awareness-raising campaign against child marriages.

2.12.6. The EESC therefore calls on ministers of the Union for the Mediterranean's Member States to ensure that these areas are taken into account at the next ministerial conference and that sufficient funds are provided for these initiatives and campaigns.

2.12.7. The EESC maintains that failing to take the above points into account will have a major impact. Child marriages, early interruption of education and hence the devaluation of women in the labour market and in politics, are some of the factors that have a negative impact on efforts to secure rights, especially those of women and girls.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([18]) https://www.euromedwomen.foundation/

Opinion of the European Economic and Social Committee on 'The transition towards a more sustainable European future — a strategy for 2050'

(own-initiative opinion)

(2018/C 081/07)

Rapporteur: **Brenda KING**

Co-rapporteur: **Lutz RIBBE**

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(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. Like all other parts of the world, Europe is facing three major issues: (1) the depletion of the earth's natural resources, including climate change and biodiversity loss; (2) social inequalities, including youth unemployment, people left behind in regions with declining industries; and (3) public loss of trust in government, the political establishment, and the EU and its governance structures, as well as other institutions.

1.2. These three major issues need to be understood against the background of digitalisation (a major megatrend) and globalisation, as these have substantially impacted Europe's labour markets, and will continue to have an even stronger impact in the future. Digitalisation especially can either facilitate addressing the three issues or exacerbating them. Whether digitalisation will have a positive or negative impact depends how it is politically managed.

1.3. Based on a thorough analysis of the interplay between these three major issues and digitalisation, the EESC calls on the Commission to prepare a long-term strategy for Europe's sustainable development, with the aim of fostering measures that strengthen its economy in order to realise social and environmental benefits. This opinion aims to put forward issues and input to be considered in the preparation of the long-term strategy.

Some people resist change. In the midst of continual technological breakthroughs, some people have vested interests in maintaining the status quo. Other people may feel insecure about trying to adapt to an ever changing society. For others, the changes are not fast enough (e.g. proponents of green energy). Policy-makers should take these fears into account and directly address the problem, instead of resorting to the status quo. The first step would be to start an open debate on the issues and strengthen participatory democracy, including the European Citizens Initiative.

1.4. 'No action' is not an option. Political will is needed to steer change in the right direction. There is a need for stronger interlinkages between economic development, environmental protection and social policies. The European Economic and Social Committee (EESC) maintains that implementation and realisation of the Sustainable Development Goals (SDGs), together with the Paris Agreement, and well-managed transitions to the low carbon economy and the digital economy, will resolve the major issues facing Europe and make Europe a winner of this new industrial revolution. We recommend that the Commission as a matter of urgency develop the policies outlined in its 'Next Steps' (Commission Working Document) ([1]), and focus more on integrating the SDGs and the Paris Agreement fully into the European policy framework and current Commission priorities with the objective of setting out a vision for a fair and competitive Europe to the year 2050.

1.5. The need for strong political input must not be misunderstood. While an appropriate regulatory framework is indispensable to shape the transition, Europe needs an agenda that affects the whole of society by: aspiring to fair globalisation; aiming to increase competitiveness and making Europe a leader in the new technologies; aiming not to leave anyone behind; eradicating poverty and creating an environment which restores people's trust in political systems as well as multilateral forms of governance ([2]). Apart from leading the way in various policy areas, policy approaches must also strive to activate the huge potential of civil society. Social entrepreneurship, citizens' initiatives and community work are only some examples of how sustainable development can be realised via a bottom-up approach, especially when it comes to the necessary shift towards a low-carbon or circular economy. The case of decentralised renewable energy is the best benchmark in this context.

1.6. In the near future, the Commission and the EESC should carry out further work together on the key strategic policy areas analysed in this opinion, for instance:

— EU competitiveness in a changing world;

— impact of digitalisation on the labour market (including decent work) and the environment;

— sustainable finance and taxation;

— challenges of the development of new economic models;

— barriers to decentralisation of energy production;

— lifelong learning in a new digital age and in the context of transition to the low carbon economy;

— promotion of multi stakeholders coalitions;

— democratic deficit in the EU legislative process and renewed challenge of civil society participation;

— integration of independent expertise in policy making with the need to strengthen civil society participation;

— a new European mechanism to serve a sustainable development strategy.

1.7. A comprehensive and coherent strategy is needed to realise this policy mix. The EESC recommends that such a strategy be geared to the long term, and that it be explicit, horizontally and vertically integrated, manageable and participatory. Therefore the EESC considers it crucial to ensure that the transition to 2050 is designed and conducted with the full involvement of civil society representatives. In order to strengthen participatory democracy, the Commission should reflect on its right of legislative monopoly.

([1]) SWD(2016) 390 final.
([2]) Remarks by the UN Secretary-General at the July 2017 High-level Political Forum on Sustainable Development.

2. **Introduction**

In 2016 the Commission issued its communication of the Next steps for a sustainable European future. In its opinion, the EESC contributes its recommendations for a strategy which addresses the challenges facing Europe. The opinion calls for a people-centred approach that takes into consideration the economic, social and environmental dimensions of development from a long-term perspective. This approach should overcome the short-termism and silo-thinking prevalent in current EU strategies.

3. **One megatrend and three global issues**

In the context of the digitalisation (megatrend), a sustainability strategy will have to give answers to three major issues referred to in chapter 1 that are global in scope and that affect Europe as much as all the other continents:

(1) How to deal with planetary limitations and the overall ecological challenge, including climate change and biodiversity loss?

(2) How to respond to increasing social inequalities in a globalised world?

(3) And how to overcome the erosion of public support for governments and institutions?

Solutions to these problems will require a joint effort from policy-makers, politicians and civil society. Moreover, special attention needs to be paid to the risks and opportunities of digitalisation. In this section, we present issues to consider when it comes to finding solutions to the three major issues ([3]).

3.1. One megatrend: the global transformation of the economy and society through digitalisation

3.1.1. The platform economy, artificial intelligence, robotics and the internet of things — global developments in these areas are wide-ranging and accelerating, and will sooner or later affect all areas of the economy and society. Digital technology is becoming available for large parts of society, but some groups may not have access to these extremely powerful digital tools.

3.1.2. The convergence of digital technologies with nanotechnology, biotechnology, materials science, renewable energy generation and storage, and quantum computing has the potential to create a new industrial revolution ([4]). In order to bring Europe to the lead in the new worldwide technological and economic competition, massive investments and new initiatives are needed.

3.1.3. Digitalisation has many benefits. It gives rise to new products and services that benefit consumers. It has the potential to help achieve some of the Sustainable Development Goals (SDGs) by raising global income levels, improving people's quality of life, creating opportunities for more inclusive democratic models and increasing the number of quality jobs as well as the EU's overall competitiveness — just as the previous industrial revolutions did. There are also threats — studies point out the possibility that digitalisation may destroy many more jobs than it will create.

3.1.4. Digital technology will bring production and consumption much closer together, minimising over-production. This has the potential to reduce the EU's environmental footprint. The direct trading of economic goods — be it through peer-to-peer-transactions or a sharing economy — can decrease resource consumption. For example, digital technology supports the diffusion of shared transport services and driverless vehicles, which can increase the environmental sustainability of our mobility systems.

3.1.5. However, digitalisation is not sustainable *per se*. There are barriers to market entry and economies of scale that may prevent citizens from harnessing its potential. Digitalisation could increase inequality, particularly given its potential to disrupt labour markets and its propensity to create polarisation with many low and middle-skilled jobs susceptible to

([3]) First Vice-President Frans Timmermans at the EESC plenary session on 15 December 2016.
([4]) EESC opinion on *An inclusive digital internal market*, OJ C 161, 6.6.2013, p. 8.

automation. Robotisation and the platform economy may pose a serious threat to many European workplaces, and they create new risks as most of the relevant technologies operate on the basis of data, including especially personal data.

3.1.6. The new opportunities to generate wealth often only benefit a certain category of people: the well-educated with good social skills and high risk tolerance. The main beneficiaries of digital innovations tend to be the providers of intellectual, financial and physical capital: innovators, shareholders, investors and highly-skilled workers. It is feared that digital technology will become one of the main reasons for stagnating or even decreasing incomes.

3.1.7. An active and encompassing policy is needed for seizing the opportunities of digitalisation, with reference to the three major problems described above. The risks derived from digitalisation must also be monitored and managed. The EESC should continue working actively on these issues.

3.2. Planetary limitations and the overall ecological challenge

3.2.1. Being committed to the global fight against climate change (i.e. the Paris Agreement) and in favour of natural resource protection, Europe urgently needs to fundamentally reduce the environmental footprint of its economy. The ecological crisis is already hitting us. Globally, population growth, long-term economic growth based on fossil fuels, and the unsustainable use of resources and land are putting increasing pressure on the environment. A key challenge, also reflected in the SDGs, is to ensure that economic development and growth respect the planet's limitations, be that in relation to climate protection, resource use and management, and air and water quality, or to the protection of terrestrial and marine biodiversity.

3.2.2. Deep decarbonisation of the economy necessitates the urgent transformation of many economic sectors. The shift from fossil fuels to renewables requires more energy flexibility and know-how. The general development of 'prosumer' ([5]) energy should also form an important and sustainable part of EU energy policy ([6]). Transport systems require structural changes through electrification and car-sharing. Housing and infrastructure need to be revamped. An advanced bioeconomy may be a major factor that will drive the greening of the economy.

3.2.3. Europe needs to shift away from the current linear economic model of 'take, make, consume and dispose' towards a circular model that is restorative by design, relies where possible on renewable natural sources, and keeps the value of products, materials and resources in the economy for as long as possible. Digitalisation can be important in this context (see 3.1.4).

3.2.4. The transition to a low-carbon, circular and eco-friendly economy is an opportunity for the EU to increase its competitiveness and resilience. It can improve the quality of life and well-being of Europe's citizens. It also decreases dependence on imports of fossil fuels and critical raw materials and creates a stable basis for economic prosperity.

3.2.5. However, decarbonisation and the ecological transition will involve social challenges ([7]), since workplaces in industries with a high ecological footprint will decrease. It must be accepted as a strategic political task to fully seize the potential that decarbonisation and the ecological transition imply for creating new jobs and improving social security, so that the net balance is as positive as possible.

([5]) Active energy consumers who both consume and produce electricity.
([6]) EESC opinion on *Prosumer Energy and Prosumer Power Cooperatives*, OJ C 34, 2.2.2017, p. 44.
([7]) EESC opinion on *Climate Justice*, NAT/712 (see page 22 of the current Official Journal).

3.2.6. The shift towards a low-carbon and circular economy has been driven by bottom-up initiatives led by citizens, local authorities, consumers and innovative enterprises, in relation to both energy and food. However, instead of relevant initiatives being promoted and critical mass being generated across Europe, with a positive outcome for the labour market and social security, further progress is often hampered by administrative and regulatory systems. It is not widely realised that bottom-up initiatives can be a powerful tool to overcome the social problems of decarbonisation and the ecological transition. In order to reveal this potential it is necessary to remove the structural barriers that prevent resource-poor people from accessing the resources they require (especially capital and relevant information).

3.3. Increasing social inequalities

3.3.1. While globalisation and technological progress have dramatically increased global trade and global wealth, the combination of globalisation and technological progress has also contributed to an increase in social (and environmental) inequality. According to Oxfam, just eight individuals, all men, own as much wealth as the poorest half of the world's population.

3.3.2. In Europe, the inequality gap is widening. According to a recent OECD study, income inequality remains at an all-time high in Europe. In the 1980s, the average income of the richest 10 % of society was seven times higher than that of the poorest 10 %. Today it is 9,5 times higher. Wealth inequality is even greater: 10 % of the wealthiest households hold 50 % of total wealth, whereas the 40 % least wealthy own a little over 3 % ([8]).

3.3.3. One reason for worsening inequality in Europe is the decoupling of growth from net income. While euro area GDP grew by more than 16 % between 2008 and 2015 (more than 17 % in the EU-28), the disposable net income of households stagnated, growing by just 2 % for the EU-28.

3.3.4. In the 24 OECD countries productivity has increased by 27 % since 1995, while average labour compensation has fallen behind, rising by only 22 %. Even worse, the increase in labour income has been significantly smaller for the social group with lower net wages. This wage inequality has worsened over the past 20 years in all European countries except Spain. The trend is most pronounced in Hungary, Poland, the Czech Republic, and the United Kingdom ([9]).

3.3.5. There is a risk that this gap will widen with the changing nature of work. For instance, the automation of complex industrial processes through robotics threatens to reduce demand for medium-skilled and even lower levels of high-skilled white collar workers, who currently perform these complex tasks. This is likely to contribute further to labour market polarisation as the new jobs created will fall into either the (even) higher-skilled bracket (developing and maintaining these products/services) or the more service-oriented low-skilled bracket. According to the OECD, 9 % of jobs are at risk of being automated, while for another 25 % the tasks will change significantly.

3.3.6. Government responses to the impact of digitalisation tend to be reactive rather than proactive, and are largely directed towards mitigating the side effects of digitalisation instead of aiming to harness its potential benefits. Government responses need to better take into account the challenge of workers representation and participation as an important aspect of investment in human capital in an evolving labour market. The EESC could continue analysing thoroughly the impact of digitalisation on the nature of work.

3.4. Governments and institutions losing public support

3.4.1. The rise in inequality, only partially resulting from globalisation and technological progress has contributed to a loss of trust in governments, the political establishment, international organisations, institutions and global governance. Furthermore, it has fuelled a rise in populist movements and decline in traditional political parties. Youth abstention (not to speak of anti-system votes) is especially worrying: only 63 % of Europeans aged 15-30 voted in an election in 2015 ([10]).

([8]) OECD: Understanding the Socio-Economic Divide in Europe. Background Report 2017.
([9]) Schwellnus, C., Kappeler, A. and Pionnier, P.: OECD Working Papers. *Decoupling of Wages from Productivity: Macro-Level Facts.*
([10]) Eurobarometer.

3.4.2. Many European citizens feel disconnected from political decision-making at national and European level. They believe that traditional democratic processes do not allow them to have an impact on fundamental decisions. The multi-stakeholder approach (e.g. under the UN 2030 Agenda for Sustainable Development) is an inclusive democratic model and a way of overcoming this mistrust.

3.4.3. The transformation to sustainability cannot and must not be imposed 'from above'; it will only be successful if it is based on broad support and active participation of a majority of businesses, local and regional authorities, workers and citizens. It must be 'bottom-up and top-down' cooperation. Multi-stakeholder alliances were used in framing the 2030 Agenda and are emerging in the area of climate action ([11]). These can serve as a blueprint for an inclusive democratic governance model which could be applied across policy sectors and facilitate transformational change and innovation.

3.4.4. The younger generation in particular is demanding non-traditional forms of political engagement, as opposed to conventional political parties and bodies. Energy communities, partnerships between citizens and municipalities to foster energy efficiency (e.g. through contracting models) or waste management, transition town initiatives, community-supported agriculture, political blogs and other online formats, or even local currency initiatives, offer alternative forms of political engagement. These will certainly not replace traditional political work, but they can make an important contribution to political socialisation and social integration.

3.4.5. Using the potential of the internet is another promising approach to break political logjams. Never has information been more freely available than in a decentralised network without a classical gatekeeper. This results in new challenges for society, as seen with the post-truth or fake news phenomenon. Yet we are also witnessing a boom of alternative, non-hierarchical forms of activism as well as a high use of online social networks among citizens, particularly young people.

3.4.6. E-government can lead to governance models featuring an unprecedented level of public participation in policy-making. The EU should look to Member States like Estonia, where considerable progress has already been made. Digitalisation enables citizens to participate in decision-making processes at relatively low cost. However, evidence shows that 'middle-class bias' (higher representation of members of the middle class in participation forums) also exists in respect of e-participation. The EESC is well placed to engage in a dialogue at civil society level on this issue.

4. **The Europe we want**

Confronted with the three global issues and the megatrend of digitalisation presented above, the EU must succeed in:

— getting the best out of the digital revolution to build a new, competitive and sustainable economy;

— shifting towards a low-carbon, circular and eco-friendly economy while ensuring a fair transition for all;

— building a robust European social model;

— ensuring a more citizen-driven and more decentralised democratic system while using the advantages of fair economic cooperation at a global level.

4.1. The EESC believes that the SDGs, together with the Paris Agreement (COP21), will reinvigorate the vision of 'the Europe we want' ([12]) ([13]). The Commission needs to create momentum for implementing these agreements by developing the policies outlined in its 'Next Steps' communication and fully incorporating these into the European policy framework and current Commission priorities. 'The Europe we want', like the 2030 Agenda (i.e. SDGs), places the individual at the

([11]) EESC opinion on a *Coalition to deliver commitments of the Paris Agreement*, OJ C 389, 21.10.2016, p. 20.
([12]) Building the Europe We Want, study by Stakeholder Forum for the European Economic and Social Committee, 2015.
([13]) Common appeal to European leaders by European Civil Society Organisations and Trade Unions, 21 March 2017.

centre of society and the economy, and would give everyone the chance to decide how they want to fulfil their needs in harmony with the social and ecological environment. This concept is not utopian. In reality, Europe now has the technological and economic wherewithal to realise this vision: the internet of things and big data, control of complex processes through mobile applications, 'prosumption' though the down-scaling of production and fall in production costs (e.g. renewable energies, 3D printing), new transaction and payment modes (blockchain, bitcoins and smart contracts), cooperatism and the sharing economy as new business concepts, and other innovations.

4.2. All of these innovations have the potential to make the vision a reality, but this presumes a strategy that provides solutions to three innovation-related challenges. That strategy entails a new concept of well-being 'beyond GDP', where economic prosperity, social inclusiveness, environmental responsibility and civic empowerment are pursued in an integrated way.

4.3. 'No action' is not an option: If the EU is not willing or able to develop and implement a comprehensive strategy, Europe will not only fall short with regard to the 2030 Agenda and the vision of 'the Europe we want'. With no action, there is a high risk of failure on each of the major challenges: Europe's labour order will be destroyed, decarbonisation and protection of resources will cease because the social costs of ecological transition are considered to be too high, and social inequalities plus alienation will increase, posing a risk to democracy.

4.4. It is critically important that the strategy encompass precise policy recommendations to help address the three major challenges that Europe faces and so make 'the Europe we want' a reality.

5. **Six policy approaches to achieve the Europe we want**

Here we propose key policy approaches that provide answers to three global issues (planetary boundaries, social disparity, loss of public support) and the megatrend of digitalisation. Each of these approaches encompasses a policy mix that consists of up to six elements:

— innovation

— regulation/governance

— social policy

— open access

— education/training

— research

This policy mix should be applied in at least four policy areas: a fair, digital and green economy (5.1), new forms of governance (5.2), sustainability and the financial sector (5.3), and promoting sustainability through international trade (5.4). We provide issues and input that should be further explored by the EU institutions and stakeholders over the long term.

5.1. **A fair, digital and green economy that generates prosperity and welfare**

5.1.1. Innovation: the new industrial revolution is an opportunity for Europe to become a technological leader and to increase its competitiveness in globalised markets. Economic value generation without high external costs must become the standard business model. We need innovative and profitable companies and enterprises to invest in sustainable production, to create high-quality jobs and to generate economic ground for welfare. For innovation to contribute to a more sustainable Europe, a framework must be developed that rewards economic activities with zero, or a radically reduced, external footprint or limited resource consumption. This will allow sustainable innovators (be they citizens, businesses, cities or regions) to compete effectively with business models with high resource exploitation and/or a large environmental footprint. Pro-active support — e.g. making micro-credit accessible to SMEs, citizens, private households, community initiatives, social businesses and micro-enterprises — must also be provided for innovators offering novel solutions to tackle environmental and social challenges and who act as early adopters [14]. A single European patent could help here, provided the filing costs are not prohibitive [15]. In relation to SMEs, second-chance measures should be reviewed to reduce the current high level of risk aversion in the EU [16]. Policy must also open up room for experimentation right across Europe, especially in the mobility, waste, energy, agriculture, education, or health sectors. New markets can be found by shifting public procurement to digital, low-carbon, circular and eco-friendly services delivered in a socially inclusive way.

5.1.2. Regulation: a regulatory framework must fulfil three objectives. Firstly, external effects need to be costed as accurately as possible so that business models can be developed that help achieve sustainability goals [17]. Secondly, regulations must guarantee that well-developed digital infrastructure is implemented all over Europe, including in rural areas, and provide everyone with access to them (including smart heat, smart electricity grids and electric mobility networks). These should be treated in the legal sense as public services. Lastly, since digitalisation tends to favour platforms there is the risk of monopolies in major digital markets. Active anti-trust policies are therefore necessary [18]. The EESC has also suggested that the Commission consider ways in which European platforms can be promoted so that added value remains in local economies [19]. An independent European rating agency for digital platforms could play an important role in balancing their market power, operating with the same remit in all the Member States to assess the governance of platforms with regard to competition, employment and taxation [20].

5.1.3. Social policy: the change brought about by decarbonisation and digitalization (see section 3) challenges social security systems in terms of managing the problem of job losses and the decrease in fiscal revenues. New approaches and models should thus be examined and developed with the aim of ensuring the sustainability of social security systems in Member States, responding to the different circumstances of the future work and supporting workers and communities in sectors and regions affected by the transition. The EESC has considered the challenges of the future of work in its opinion on the European Pillar of Social Rights, and called for a coherent European Employment Strategy addressing: investment and innovation, employment and quality job creation, fair working conditions for all, fair and smooth transitions supported by active labour market policies, and the involvement of all stakeholders, especially the social partners. Also, public investment should support communities, regions and workers in sectors that are already being affected by this transition, as well as anticipating and facilitating future restructuring and transition to a greener and more sustainable economy [21].

5.1.4. Open access: harnessing the potential of digitalisation for a green and fair economy requires above all a general openness in the economy that allows people to actively participate in and benefit from the opportunities of technological progress (e.g. combining digital energy data with decentralised energy generation). It is therefore of critical importance to eliminate barriers to economic participation through open markets, open data, open-source models, and open standards. Each of these elements is to be regarded as a guiding principle for policy programmes in strategic sectors: energy, transport, logistics and production processes. The concept of data sovereignty needs to be developed and implemented through European law: European citizens must have the right to use their own data for their own purposes, to determine which personal data are used by third parties, to decide how data are used, to be informed about and have full control over data usage, and to delete data.

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(14) EESC opinion in preparation on *New sustainable economic models*, SC/048 (see page 57 of the current Official Journal).
(15) EESC opinion on an *EU Action Plan on intellectual property rights*, OJ C 230, 14.7.2015, p. 72.
(16) EESC opinion on *Europe's next leaders: the Start-up and Scale-up Initiative*, OJ C 288, 31.8.2017, p. 20.
(17) EESC opinion on *Sustainable development: a mapping of the EU's internal and external policies*, OJ C 487, 28.12.2016, p. 41.
(18) EESC opinion on the *Digital Single Market Strategy*, OJ C 71, 24.2.2016, p. 65.
(19) EESC opinion on *The changing nature of employment relationships and its impact on maintaining a living wage*, OJ C 303, 19.8.2016, p. 54.
(20) EESC opinion on the *Collaborative Economy*, OJ C 75, 10.3.2017, p. 33.
(21) OJ C 125, 21.4.2017, p. 10.

5.1.5. Education/training: both the green economy and the digital economy require specific skills, especially since in future digital technology will be an important tool for achieving decarbonisation of European economy (see 3.1.4 and 3.2.3). Training to develop the necessary formal and informal skills, including in areas such as collaborative/community work and entrepreneurship ([22]), needs to be integrated into general education and lifelong learning policies. More dialogue and analysis need to be conducted on the issue. Targeted use of the Structural Funds is recommended to ensure effective support for addressing the current gap in green and digital skills, especially in regions that are already in transition or will be affected by transition in the future. Resources in European education systems will need to be directed at education and skills development in areas where human skills cannot be replaced by AI systems or where humans are necessary to complement those systems (i.e. tasks in which human interaction is vital or where humans and machines cooperate, and tasks we would like human beings to continue doing) ([23]).

5.1.6. Research: a digital, green and fair economy will be the benchmark for future-proofed economic models. A well-targeted research policy, one that is based on an analysis of the environmental and social impact of innovations, especially digital innovations, will be the route to this economy. In this context R & D spending must be available for innovators developing new digital technologies and services that address environmental and/or social challenges. A network of incubators must be developed to support them.

5.2. **New forms of governance**

5.2.1. Innovation: participation is a key element of democracy. Elections and representation are one method of organising participation, but new, innovative approaches are needed to organising participation, including e-participation. It is important to open up traditional policy-making to non-hierarchical, socially fluid, and less formal forms of political activity and to foster civil-society-driven and bottom-up initiatives.

5.2.2. Governance: the changes require transparent and freely accessible multi-stakeholder dialogues for all EU legislative processes at EU and local level. 'Civil society' should not be reduced to organised civil society, but should include all citizens. New alliances are of particular importance for climate action and resource protection ([24]). In order to strengthen participatory democracy, the European Commission's near-monopoly on the right of legislative initiative has to be abolished in favour of more initiatives from the European Parliament, combined with bottom-up legislative initiatives, for example by removing technical, legal and bureaucratic problems in the European Citizens' Initiative ([25]).

5.2.3. Open access: crowd-sourcing methods for all EU legislation are an appropriate approach to overcoming structural barriers that make citizen participation in EU decision-making process difficult. When designing this approach special attention should be paid to accessibility, inclusivity and accountability. Open access to policy and politics can be further increased through web-based and user-friendly publication of all EU activities and data.

5.2.4. Training/education: citizen empowerment programmes are needed to overcome 'middle-class bias' (see 3.4.6). Such programmes should be designed to engage those parts of the population that tend to abstain from active participation in politics, the economy and society. Awareness of and opportunities for participation as a basic principle of democracy need to be stressed in general education. It should be pointed out that active participation in political will-building processes is of mutual benefit to society and to the individual citizen, whose interests and points of view are taken into account. More funding is needed for civil society organisations that target these disengaged parts of the population and follow sustainability goals.

5.2.5. Research: social science needs to focus more on alternative democracy practices. One example is the possible application of prototyping methodology to politics. With this approach, policy solutions would be designed within a

([22]) EESC opinion on *Fostering creativity, entrepreneurship and mobility in education and training*, OJ C 332, 8.10.2015, p. 20.
([23]) EESC opinion on *Artificial intelligence*, OJ C 288, 31.8.2017, p. 1.
([24]) EESC opinion on the *Coalition to deliver commitments of the Paris Agreement*, OJ C 389, 21.10.2016, p. 20.
([25]) EESC opinion on *The European Citizens' Initiative (review)*, OJ C 389, 21.10.2016, p. 35.

reduced time frame, then implemented in a 'test market', and their impact assessed soon after on the basis of feedback from citizens and other relevant stakeholders. The impact assessment would serve as the basis for relevant changes to policy solutions before rolling them out.

5.2.6. More generally speaking, further research is needed on how to review the nexus between (scientific) expertise and policy-making and how to combine the integration of fully transparent, independent expertise into policy-making with the need to strengthen civil participation.

5.3. **Sustainability and the financial sector**

5.3.1. Innovation: a digital, green and fair economy entails enormous investment both in private facilities (e.g. in renewable energy installations or electric vehicle charging stations) and in public infrastructure (e.g. digitalisation of electricity and mobility systems). The financial sector will thus have to play a central role in making this innovation possible. Financial resources, including public resources, need to be allocated to investments that support sustainable transformation. To meet climate and energy objectives, a stable and predictable investment environment is needed and innovative financial instruments need to catalyse private finance for investments that would not otherwise happen ([26]) ([27]).

5.3.2. Regulation: policy must aim at building a more sustainable private financial system by including sustainability factors in financial risk assessment, extending the responsibilities of financial institutions to the non-financial impacts of investment decisions, and increasing transparency around the environmental and social impacts of investment decisions ([28]). Policies should also encourage investors to make voluntary commitments to invest in objects that follow sustainability principles. Greening of banking standards is essential to shift private financing from conventional investments towards low-carbon, climate-resilient investments. Central banks should guide the allocation of capital through monetary and micro- and macro-prudential policies, including sustainability standards.

5.3.3. Social policy: households will come under pressure as a result of digitalisation and decarbonisation. Fundamental fiscal reform is therefore needed in order to increase the disposable income of households and to combine this objective with the requisites of decarbonisation. The EESC calls for a fiscal system based on internalising environmental costs and using the additional revenue to lower the tax burden on labour. Shifting taxation from labour towards resource use helps to correct market failures, create new sustainable and local jobs, increase households' disposable incomes, and incentivise eco-innovative investments ([29]).

5.3.4. Research: up to now, the impact of digitalisation and reduced fossil-fuel consumption on public finances (fiscal erosion) is still widely unknown. Research should focus on this aspect as well on the general contribution a strategic finance policy can make to sustainable development.

5.4. **Promoting sustainability through international trade**

5.4.1. Innovation and business opportunities: given the global dimension of the three major issues, it will not be enough to make Europe more sustainable through a clear innovation policy. In cooperation with trading partners, Europe must develop innovation concepts that are transferable to other regions of the world. Trade can help here as long as sustainability aspects are key criteria in international trade policy, including multilateral and bilateral trade agreements. A special role should be assigned to the World Trade Organisation (WTO), which should take more account of international environmental policy, such as the Paris Agreement or the Aichi Biodiversity Targets. Once respective standards are in place,

([26]) OJ C 75, 10.3.2017, p. 57.
([27]) EESC opinion on *Market-based instruments — towards a resource-efficient and low carbon economy in the EU*, OJ C 226, 16.7.2014, p. 1 (point 3.9.4).
([28]) UNEP report on *Building a Sustainable Financial System in the European Union*, UNEP Inquiry and 2° Investing Initiative, March 2016; see also other reports on sustainable finance at http://web.unep.org/inquiry.
([29]) EESC opinion on *Market-based instruments — towards a resource efficient and low carbon economy in the EU*, OJ C 226, 16.7.2014, p. 1 (point 1.3).

European businesses, citizens, community initiatives, municipalities and regions can develop important innovations (products and services) that can be exported in response to the need for decarbonisation and using the opportunities provided by the megatrend of digitalisation. These have the potential to become export successes. Above all, the European Commission should work with the WTO and its key partners to make use of trade agreements to enhance the pricing of CO_2 and any other externalities that harm sustainable innovation.

5.4.2. Regulation: one of the sources of the increased environmental footprint in our economies is the growing distance between places of production, transformation, consumption and, sometimes, disposal/recovery of products. Making international trade compatible with sustainable development requires a smart regulatory approach to liberalisation which takes into account and strengthens local, small-scale production systems. The promotion and support of circular economy policies should ensure that systems are durable, small, local and clean. For specific industrial activities the size of the loops can be large ([30]). Regulation needs to provide an answer to this problem through bilateral and multilateral trade agreements.

5.4.3. The EU should urge the World Bank and the International Monetary Fund to play an important role in promoting fiscal and financial system reforms so that an environment is created that helps developing countries to mobilise more of their own resources. This should involve domestic tax reform, but it also means mobilising the international community to fight together against tax evasion, money-laundering, and illicit flows of capital that are resulting in more money coming out of developing countries than the amount that goes in through official development assistance. Specifically, the European Commission should use the 2030 Agenda, informed by the 17 Sustainable Development Goals, as the framework for all EU-funded external policies and programmes ([31]).

5.4.4. Social policy: one of the routes for implementing SDGs and for promoting a progressive trade policy that benefits all, is through the implementation of multi stakeholder approaches on responsible business conduct. In these approaches businesses, NGOs, trade unions, and governments define together how the responsibility to respect human rights can be met in practise. There is increasing concern about human rights violations in supply chains especially with regards to 'conflict minerals' such as cobalt which is used to make the rechargeable batteries found in cell phones, laptops, electric vehicles, aircraft and power tools. Given the commitment to transition to a low carbon economy, the continued march towards digitalisation and the complexity of responsible business conduct in international supply chains, multi-stakeholder collaboration is key. The EESC therefore welcomes, and is happy to be a partner to, the initiative by the Dutch Government to raise awareness on how multi stakeholder actions can build understanding on meaningful responsible business conduct, especially in complex supply chains that are mined using child or slave labour or in dangerous conditions.

5.4.5. Open access: new trade agreements must be based on approval achieved via new democratic processes, with increasing citizen participation in joint decision-making. Trade and Sustainable Development (TSD) chapters in existing EU trade agreements are not functioning as well as they should. First, TSD Chapters should incorporate global multilateral agreements (2030 Agenda and Paris Agreement). Second, the civil society monitoring mechanisms should be strengthened and an analysis from a civil society perspective should be included. Third, enforcement mechanisms must also apply to the TSD chapters themselves ([32]).

5.4.6. Research: more empirical evidence is needed to assess the impact of the rapid emergence in international trade of new modes of consumption and production that are progressively extending to transnational services, especially with regard to their impact on transnational taxation. This should be the basis for a decision on whether to include them in the general WTO rules or to make them part of bilateral and regional agreements, as has been the case for the Decent Work Agenda.

([30]) EESC opinion on the *Circular Economy Package*, OJ C 264, 20.7.2016, p. 98 (point 1.3).
([31]) EESC opinion on *The 2030 Agenda — a European Union committed to sustainable development globally*, OJ C 34, 2.2.2017, p. 58.
([32]) EESC opinion on *Trade for All — Towards a more responsible trade and investment policy*, OJ C 264, 20.7.2016, p. 123 (point 1.9).

5.4.7. We remind the Commission of our previous recommendation that it undertake a full impact assessment on the likely effects that implementation of the SDGs and the Paris Agreement will have on EU trade policy.

6. **Framing a strategy for a sustainable European future** — four criteria

6.1. In section 5 we identified some areas where policy measures are needed to build a more sustainable Europe within a radically changing socioeconomic context. Four criteria can be identified for Europe's sustainability strategy. It must be:

— geared to the long term;

— explicit;

— horizontally and vertically integrated;

— manageable.

These four criteria are expanded on below.

6.2. Long-term focus

6.2.1. Strategic thinking means developing a long-term perspective based on the vision of 'the Europe we want' described in section 4 and establishing the path Europe needs to follow in order to make this vision a reality. It will take up to three decades for the social changes brought about by the global problems and the megatrend of digitalisation described in section 3 to become manifest. Many relevant decisions, including investment decisions, need time to take effect. Three decades therefore looks like an appropriate time frame for Europe's sustainability strategy. The relevant objectives and corresponding policy measures must be projected on the basis of that time frame ([33]). This backcasting approach would mean that the reference point is taken as a best-case scenario for 2050 and that all steps that are necessary to realise this best case are to be deduced from this scenario. A best-case scenario focus allows for the development of a positive narrative. Shifting from the carbon- and resource-intensive economy and from the twentieth-century centralised society must not be seen as punitive or as the end of progress, but as a new, positive age offering attractive opportunities for citizens.

6.3. Explicitness

6.3.1. The long-term focus of the sustainability strategy does not imply that there are no policy measures that need to be taken in the short run. Rather, a central element of the sustainability strategy should be to develop the chain of policy measures that are needed to reach the projected objectives for 2050, beginning with political programmes that take effect over the long run, policy plans with medium-term effects, and specific measures geared towards the short term. In order to achieve the highest degree of effectiveness possible, the hierarchy between policy programmes, policy plans and policy measures needs to be clearly identified. In former approaches to sustainability, especially those developed under the Lisbon Strategy and the Europe 2020 strategy, there was a clear lack of explicitness when it came to specific policy measures. In this respect, the European sustainability strategy should take the Gothenburg Strategy for Sustainable Development ([34]) as a reference, with its clear focus on policy measures that was renewed in the Commission's Communication *A platform for action* ([35]).

6.4. Horizontal and vertical integration

6.4.1. When it comes to realising the policy approaches described in section 5 and to implementing the different policy measures set out in section 5, one thing has to be taken very seriously: the close intertwining of the three global problems with the megatrend of digitalisation. A successful strategy must therefore avoid silo-thinking and be horizontally integrated, encompassing all six policy areas. Such an overarching long-term strategy could serve as a successor to the current Europe 2020 strategy, combining implementation of the 17 universal Sustainable Development Goals, reflecting a strong commitment to the Paris Climate Agreement, with the work priorities of the European Commission ([36]).

([33]) The UNFCCC decision accompanying the Paris Agreement mentions 'mid-century, long-term low greenhouse gas emission development strategies' (paragraph 35).
([34]) Communication from the Commission on *A Sustainable Europe for a Better World: A European Union Strategy for Sustainable Development*, COM(2001) 264.
([35]) Communication from the Commission to the Council and the European Parliament *On the review of the Sustainable Development Strategy — A platform for action*, COM(2005) 658 final.
([36]) EESC opinion on *Next steps for a sustainable European future*, OJ C 345, 13.10.2017, p. 91.

6.4.2. A successful sustainability policy must also be vertically integrated. Sustainable development will need support at all relevant policy levels (local, regional, national, European and global). It is therefore necessary to clearly define at which policy levels the relevant steps set out in the strategic framework should be taken. The EESC recommends introducing a framework for governance and coordination alongside the strategy in order to ensure coherence between centralised and decentralised measures, and to involve organised civil society at national and regional levels. The European Semester should be further developed in order to incorporate a mechanism for vertically coordinating the implementation of SDGs.

6.5. Manageability

6.5.1. Sustainable development needs political management. Based on the measurable objectives projected to 2050 (see 6.2), intermediate targets should be set that serve as milestones. Continuous evaluation is needed in order to monitor whether the chain of explicit policy measures (see 6.3) is producing the intended results. Should the results fall behind the objectives and targets, immediate alignment of policy measures must be ensured.

6.5.2. In order to assess progress in terms of the long-term strategic framework and the best-case scenario for 2050, a broad scorecard is needed that reflects the complex, multi-sectoral approach described in this opinion. This scorecard should include indicators from all six policy areas in order to reflect the interconnectedness of the three global problems and the megatrend of digitalisation described in section 2. A genuine strategic sustainability approach will only be possible if the highly analytical task is carried out of setting appropriate indicators and including them in a 'holistic scorecard'. The vertical and horizontal coordination of sustainability policy (see 6.4) also needs to be managed. These three tasks (monitoring and evaluation, alignment of policy measures and coordination of horizontal and vertical integration) require administrative bodies that can be held accountable. One solution could be a directorate-general at EU level and similar bodies at national level.

6.5.3. The EESC also recognises that in a fast-changing world there is a need to evaluate communities on indicators other than economic growth. The EESC has therefore suggested using a new benchmark: 'the progress of societies'. This measure considers factors other than economic growth to assess a community's progress. The progress of societies should be seen as a complementary benchmark to economic growth, providing a broader picture of the situation within a community ([37]).

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([37]) EESC opinion on *GDP and beyond — the involvement of civil society in choosing complementary indicators*, OJ C 181, 21.6.2012, p. 14.

Opinion of the European Economic and Social Committee on the 'New sustainable economic models'

(exploratory opinion)

(2018/C 081/08)

Rapporteur: **Anne CHASSAGNETTE**

Co-rapporteur: **Carlos TRIAS PINTÓ**

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Subcommittee	New sustainable economic models
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Outcome of vote (for/against/abstentions)	187/3/4

1. **Conclusions and recommendations**

1.1. The economic model of 'extract, produce, own, discard' is being called into question by the huge increase in economic, social and environmental challenges facing Europe.

1.2. We are witnessing the emergence of a hybrid economy in which the traditional market system is competing with the emergence of a multitude of new models that are transforming the relationship between producers, distributors and consumers.

1.3. In addition to economic returns, some of these new models — such as the functional economy, the sharing economy and responsible finance — seek (or claim) to address other key challenges for people and the planet that are crucial for sustainable development, such as:

— social justice;

— participatory governance;

— conservation of resources and natural capital.

1.4. Supporting such innovative models represents an opportunity for the European Union to become a leader in innovative economic models that make the idea of economic prosperity inseparable from high-quality social protection and environmental sustainability, and define a 'European brand'. The EU therefore needs to show ambition on this issue.

1.5. The present opinion makes the following **10 recommendations** to achieve this:

1.5.1. **Improving coordination of action for the sustainable economy within the EU, by creating a permanent body for the new sustainable economy.** This structure would be given resources for evaluation and communication, with a view to monitoring the development of new economic models with sustainable development potential and the implementation of the recommendations made in this opinion. This kind of structure would promote dialogue among the various stakeholders at European level. The EESC could contribute to these efforts by establishing a new economy observatory, as it has already recommended in a number of opinions.

1.5.2. **The public authorities of the EU should support research, including responsible research and innovation** [1]**, to:**

— better understand the actual impact of new economic models in terms of sustainability throughout the lifecycle, and undertake further research into the obstacles to the development of these new models;

— develop indicators to monitor these new economic models and enhance their visibility.

1.5.3. **It is necessary to ensure that the new models do in fact meet sustainability criteria.** Under the concepts of the new sustainable economy, certain stakeholders are developing models that are not necessarily sustainable in all aspects. The Commission must take account not only of the opportunities but also of the potential risks and unwanted effects of certain new economic models, e.g. in relation to social issues, employment regulation and unfair tax competition.

1.5.4. **The EU must encourage and support education, training and information provision to improve understanding among all stakeholders of the new sustainable economic models and of the role of sustainable finance.** It is important to highlight the compatibility, and the possible tensions and trade-offs, between sustainability challenges and economic profit.

1.5.5. **The Commission should analyse and complement (but not replace) private initiatives for the exchange of good practice and experience between innovators** through internet platforms, networks, conferences, etc. The EESC is already supporting such initiatives by jointly managing a new circular economy platform with the European Commission.

1.5.6. **The public authorities of the EU must ensure that the developers of new genuinely sustainable economic models have access to finance during the initial phases of development and as they continue to grow**. There is a need for tools and definitions to give them priority access to public funding instruments and/or to help them get funding from socially responsible investors.

1.5.7. **The European Commission could encourage the trialling of new sustainable models through a dedicated innovation fund** which would be open to public-private partnerships. To this end, the EESC recommends setting up pilot projects that can create shared value and integrate the networks of the new economy.

1.5.8. **The public authorities of the EU must take account, in existing EU sectoral policies, of the stakeholders developing these new economic models so as to increase their visibility and create a leverage effect that favours their deployment.** For example, it could be useful for the mobility package currently in preparation to support new models of car-sharing or car-pooling as a complement to public transport services.

1.5.9. **In general terms, the EU must put in place a political, fiscal and regulatory framework that supports the large-scale deployment of these new sustainable models, and should also:**

— break down policy silos and develop a clear vision that treats sustainability as the cornerstone of efforts to modernise its social and economic model;

— encourage internalisation of social and environmental externalities and shift Member States' tax systems towards green taxation. Until these externalities are incorporated into pricing, goods and services in the linear economy will continue to dominate our economy;

— develop a regulatory environment that encourages sustainable consumption and production, by increasing transparency and accountability in both existing and emerging sectors so that social and environmental impacts are taken into account throughout the value chain.

1.5.10. **It is necessary to rethink the way the financial sector works to make it sustainable, and to redefine the concept of risk to encompass long-term micro- and macro-level environmental, social and governance challenges.** All links in the financial value chain (consumers, banks, investors, regulators and governments) need to take part in this reshaping, so that the outcomes in terms of investments and loans can be better aligned to the expectations of responsible

(1) For example, under the ninth Framework Programme (FP9) for the period 2021-2027.

consumers. The EESC suggests creating a platform (hub) to provide consumers with objective information for guidance on such matters.

2. General comments: the need to promote innovators offering new sustainable economic models in Europe

2.1. **The 'sustainability' of our economic model** — i.e. its capacity to meet the needs of current generations without compromising the ability of future generations to meet their own needs — is an increasingly contested subject ([2]).

2.2. **In terms of the economy**, the mass unemployment persisting in certain countries reflects the problems faced by some population groups in accessing a rapidly changing labour market. Falling purchasing power and weak growth in certain developed countries pose questions about what the aims of our economic model should be.

2.3. **In social terms**, widening inequalities raise questions about the fair distribution and sharing of resources (economic and natural). The exclusion of a section of society from the benefits of growth is a reason for re-evaluating our **modes of governance** with a view to introducing **an economic model that is more inclusive and participatory**.

2.4. **In environmental terms**, climate change risks call into question the dependence of our economic model on fuels with high carbon emissions. The linearity of our production and consumption systems is leading to over-exploitation of natural resources and loss of biodiversity, and the pollution emitted by our economic activities has effects on the environment and on people's well-being.

2.5. **In this context, the current economic model is facing competition with the appearance of large numbers of innovators offering 'new economic models'.**

2.5.1. These new models — which can draw on new technologies, particularly digital technologies — are changing the relationship between producers, vendors and consumers, who sometimes become 'prosumers'. They are shaking up certain traditional concepts such as salaried employment, by offering more flexible forms of work and job-sharing. Although they are described as 'new', they may in fact represent a renaissance of old practices.

2.5.2. This opinion looks at all the new economic models that, as well as seeking economic returns, attempt — **or claim** — to address at least one of the other pillars of sustainable development, namely:

— **social justice** (respect for human dignity, widening access to goods and services, fair distribution of resources, fair prices, solidarity);

— **a more participatory form of governance** (greater participation by employees and consumers in businesses' operation and strategic orientation, and a production and consumption system that is more in tune with people's real needs and with local circumstances);

— **conservation of resources and natural capital** (separating economic prosperity from resource use, internalising negative environmental externalities).

2.5.3. Innovative entrepreneurs offering **new economic models** that claim to be more sustainable come under the umbrella of **a range of concepts** such as the circular economy, the functional economy, the sharing economy, the economy for the common good and responsible finance. They are enriching the established model of the social economy (SE), which puts governance and social and environmental utility at the heart of its activities. The SE cannot be considered a 'new sustainable economic model', but it is nevertheless enjoying a renaissance, stimulated by these innovators. **While these new models do not always have the same goals** (some focus on environmental aspects, others on social aspects), **they aim to produce multiple forms of value** (economic, social and environmental), and **should therefore not be approached on a silo-by-silo basis**.

2.6. The EU **should seize the opportunity to take the lead in promoting the sustainable economic model. The European economic model must continue to reinvent itself** to take account of long-term challenges and to make the concepts of economic prosperity and sustainability inseparable.

([2]) SC/047, *The transition towards a more sustainable European future — a strategy for 2050* (in preparation) (see page 44 of this Official Journal).

2.6.1. **Consumers in Europe are becoming increasingly aware of the social and environmental impact of their consumption.** The rise of the **'prosumer'**, particularly in the renewable energy sector, is helping to shape new relations along the value chain and between producers, distributors and consumers. **This also holds true for economic players. In the financial sector, for example, the notion of risk is expanding to encompass 'extra-financial' criteria, particularly when valuing assets.** In this way, some asset managers are trying to start a process of encouraging businesses to specify, in addition to their statutory obligations, certain corporate social and environmental responsibility commitments. This process is still in its infancy, and should be continued and stepped up on the basis of genuine accountability ([3]). Expanding sustainable finance is the best way of shifting the European financial system from an approach based on short-term stabilisation to one focusing on long-term impact.

2.6.2. Europe can derive many benefits from pioneering this new economy.

2.6.3. **The EU can use these new economic models to find solutions to specific problems.** Car-sharing can promote more inclusive and more environmentally friendly mobility by updating our modes of transport. Business models designed to get people in difficult situations back into work help to improve access to the labour market for a section of the population.

2.6.4. **This sustainability of the economic model could also become a distinctive feature of the EU and enable it to establish a European 'brand'.**

2.6.5. **The EU has the means to develop 'European champions' in these areas.** For some businesses, combining financial profitability and sustainability criteria in their business models is becoming, or already is, a real comparative advantage in terms of winning new markets.

2.6.6. **By putting the concept of sustainability at the heart of its economic modernisation drive and of its policy interests**, the EU can rally its Member States again around a unifying project, after the shock of Brexit, and put people back at the heart of the European project.

3. **While the emergence of new models that promise to be sustainable represents a real opportunity for the EU, this 'burgeoning' will need to be properly understood and appreciated** in order to identify and encourage the agents that are driving the change.

3.1. The **functional economy**, for example, replaces the idea of selling a good with that of selling the use of a good: the individual consumer no longer purchases a vehicle, but buys a transport service from a provider. From the sustainability point of view, switching from ownership to use should: encourage suppliers to optimise product maintenance, increase product life, and even use eco-design and recycling; create a pool of consumers who use a product and thus intensify the use of goods that have already been produced and may sometimes be under-utilised; and offer access to such products at prices lower than the price of owning them.

3.2. There is not yet an established definition of the **sharing economy** ([4]). Broadly speaking, it covers businesses that develop digital platforms on which individuals can exchange goods and services: car-pooling, rental of goods, purchase of second-hand goods, lending, donation, etc. However, this definition is very controversial: some consider it to include peer-to-peer exchange systems that are not based on digital platforms, others would broaden it to cover businesses which rent out goods while retaining ownership of them, and still others exclude any initiative of a company seeking a financial return.

3.3. The **circular economy, for its part**, was developed to contrast with the linear model ([5]). It is based on establishing 'positive value loops' that reintroduce 'end-of-life' goods or materials into the production loop. In an ideal circular model, goods are ecodesigned, manufactured using renewable or recycled resources or waste from other sectors, reused, repaired, upgraded, and finally recycled. The advantages of the circular economy are that it is less risky and less costly, produces added value, and promotes consumer loyalty and employee motivation.

3.4. **Not all the new 'sustainable' economic models fit into the three concepts set out above,** but these three concepts do serve to highlight **the vagueness of certain terms** used to describe new economic models, reflecting discussions about the profile of the sharing economy or its close relation the collaborative economy. There may also be some overlap between the concepts, so that the functional economy and the sharing economy could be seen as links in the circular economy.

([3]) On this subject, see OJ C 21, 21.1.2011, p. 33, which explains in detail the development of 'socially responsible financial products'.
([4]) OJ C 303, 19.8.2016, p. 36.
([5]) OJ C 264, 20.7.2016, p. 98.

3.5. It is also important to draw attention to the **diversity of businesses which are developing these new models**, with large companies that are modernising their activities operating alongside start-ups seeking rapid growth, social enterprises that may be part of the SE, voluntary organisations and citizens' initiatives.

3.6. Moreover, while some entrepreneurs aim both to make a profit and at the same time to meet environmental, social and governance challenges — putting sustainability at the heart of their project and assessing their impact in order to improve it — others do not share this 'intention' of sustainability. Their primary aim is profit, and they believe that their economic model has positive externalities for the rest of society, without verifying or seeking to improve such effects.

3.7. These new models are not intended as a matter of course to be sustainable in all dimensions. **Businesses that develop economic models based on the circular economy tend, for example, to place more emphasis on environmental issues and to maximise resource savings.** To ensure that the system is also socially sustainable, though, the circular option must remain affordable and accessible for consumers. Moreover, even if the production loops created may be local — thus favouring local resources and jobs — it is quite possible for the resources used, such as recycled materials, to be transported over long distances. **By contrast, the prime objective of the sharing economy could be to broaden users' access to a good, without imposing any environmental requirement.**

3.8. **It is also essential to bear in mind that the jury is still out on the actual impact of new, supposedly sustainable, economic models.** Thus, the environmental advantages of sharing economy platforms are still open to debate. The environmental performance of platforms that enable individuals to access other people's goods rather than buying new items themselves is very often more complex than it appears ([6]). For instance, long-distance car-pooling often competes directly with rail rather than with individual car use, and people acquire goods from others not in order to buy fewer new products, but in order to increase their consumption. At a more general level, **switching from ownership to use is not enough to guarantee a reduction in the environmental footprint of consumption and lower the cost for the consumer**. Thus businesses that offer smartphones to lease rather than to buy tend to encourage their customers to replace their products sooner and do not necessarily have a system in place for recycling or reusing old products.

3.9. Finally, the sharing economy raises important issues concerning monopoly power, data protection, labour rights, the way transactions are taxed, and competition with traditional economic models, as reflected in the debates about peer-to-peer accommodation platforms.

3.10. **While public authorities should support businesses that are innovating on the basis of these concepts, they must therefore question such businesses' intentions and their actual impact**, and be aware of the diversity of companies and the pot-pourri of concepts that they offer.

4. **In this final section, this opinion describes the main 'levers' that would allow the EU to encourage the deployment of these new models and their sustainability.**

4.1. To start with, it is useful to look at the state of play with initiatives already taken at EU level to support new economic models. **This issue has indeed already attracted the attention of public decision-makers in the Member States and at EU level.** Decision-makers have started to monitor the development of these models, asking questions about their real contribution to sustainable development and considering which instruments of public policy could provide support for the models that have the greatest impact.

4.1.1. Several initiatives are ongoing **in the European Commission** in connection with its communication on smart, innovative and sustainable industry, in which it sets out plans to adopt a comprehensive strategy for industrial competitiveness, by combining the active roles of all stakeholders, and to empower individuals:

— the circular economy package ([7]), which includes proposals for revising waste legislation and a detailed action plan for the circular economy comprising measures provided for up to 2018;

— a European Circular Economy Stakeholder Platform to highlight and encourage exchange of best practice, as well as networking, between stakeholders;

([6]) Institute for Sustainable Development and International Relations (IDDRI) study No 03/14: *The sharing economy: make it sustainable.*
([7]) http://ec.europa.eu/environment/circular-economy/index_en.htm

— a European agenda for the collaborative economy [8] and online platforms [9];

— studies being carried out on the sustainability of the sharing economy and on industrial ecology;

— the development of voluntary guidelines for public procurement;

— over the course of 2017, the development by a High-Level Expert Group on Sustainable Finance of recommendations for incorporating sustainable finance into EU strategy, and into the capital markets union, in a comprehensible way.

4.1.2. **The EESC has already adopted opinions on: the functional economy** [10]**, the sharing economy and its twin the collaborative economy** [11]**, the circular economy** [12]**, innovation as a driver of new business models** [13] **and the economy for the common good** [14]. Those opinions highlight:

— the potential sustainability of the new models and the importance of better analysing their real impact;

— the need to support businesses that are actually adopting local, cooperative, ecological and social models.

4.2. **The opinions in question also present proposals for public measures** to support the development of companies adopting economic models that are both new and sustainable. **Below is a list of those measures, fleshed out with other ideas that emerged from the hearings conducted in conjunction with the present opinion.**

4.2.1. First all, **a permanent body must be set up that focuses on new economic models** with potential for sustainability. This body would monitor and oversee their development and the implementation of the recommendations made in this opinion, and must include the European institutions — first and foremost the Commission and the EESC — as well as federations of innovative businesses, trade unions, associations and researchers.

4.2.2. Secondly, **the European public authorities need to help to improve understanding and monitoring of these developments**.

4.2.2.1. To this end, the Commission could increase its contribution to research, in particular responsible research to **improve understanding of the real social and environmental impact of emerging economic models**, and of the obstacles to their development. This would also help to clarify the definitions of these often vague concepts. This work would need to be done in partnership with all stakeholders in the research and innovation process, to ensure it was based on their experience.

4.2.2.2. Both in Eurostat at European level, and in the Member States' national statistics bodies, it is important to **develop indicators and statistics** to monitor the development of these models and to **raise their profile**.

4.2.2.3. **One key lever for the development of new economic models is to promote education and training for the various stakeholders, in order to improve their awareness of the new models and make these models more visible.** New and sustainable economic models still represent only a fraction of the European economy. They often come up against entrenched mechanisms and mindsets, as well as a lack of understanding of their challenges. It would therefore be useful to develop training programmes:

— **for public decision-makers and their administrations**, with a view to drawing up calls for tender likely to encourage companies that use new and sustainable economic models;

[8] COM(2016) 356 final.
[9] COM(2016) 288 final.
[10] OJ C 75, 10.3.2017, p. 1.
[11] OJ C 75, 10.3.2017, p. 33; OJ C 303, 19.8.2016, p. 36; OJ C 177, 11.6.2014, p. 1.
[12] OJ C 264, 20.7.2016, p. 98 and OJ C 230, 14.7.2015, p. 91.
[13] OJ C 303, 19.8.2016, p. 28.
[14] OJ C 13, 15.1.2016, p. 26.

— **for innovative businesses**, by encouraging incubators to offer training on sustainability, for example on the re-use of goods;

— **for all businesses, especially SMEs**, to raise awareness of innovative and sustainable economic models;

— **for employees and workers in economic sectors that are evolving or restructuring**, to help them acquire the skills required by the new economic models and sustainability issues;

— **for the general public and consumers**, via a programme to inform them about these new economic models and their products.

4.2.3. **In addition to monitoring and improving understanding of these models, we need to make use of other levers:**

4.2.3.1. One essential step is to **promote the exchange of good practice and experience between innovators — and with the research community –** through internet platforms and networks. Private initiatives have already been launched for some of the new economic models. The Commission should assess ways of supporting and complementing these initiatives, without replacing them, and should get involved with them in order to gain a better understanding of these innovations and discuss them with innovators. In the case of other models, such initiatives are struggling to emerge, for example due to lack of human or financial resources. The Commission should provide more sustained support in such cases, and also get involved with them.

4.2.3.2. One of the tasks for these networks should also be to **help innovators to access the European support mechanisms to which they are entitled**. Many of the businesses that use new and sustainable economic models are SMEs, which complain that it is difficult to understand the EU's complex procedures.

4.2.3.3. The Commission could **promote access to finance for sustainable economic models via calls for tender focused specifically on innovation**. It should also ensure that public procurement rules do not present a disproportionate barrier to businesses using new and sustainable economic models, and consider a derogation mechanism to protect them from competition that they cannot possibly respond to. In addition, traditional funders of innovation, both public and private, are unfamiliar with these new models, are therefore reluctant to support them, and do not appreciate their social and environmental benefits. The European Commission must provide a better analysis of the problems in accessing finance for the new sustainable economic models and draw up recommendations for overcoming these. It could also look at the emergence of alternative (virtual or social) currencies and the role they could play in supporting these models.

4.2.3.4. **In order to develop, new sustainable economic models need to be tested.** In certain cases — such as transport or industrial ecology — this testing must be carried out in partnership with public authorities. The European Commission could encourage the trialling of new models through an innovation fund specifically for sustainable models which would be open to public-private partnerships. In particular, the Commission should ensure that these tests cover rural and peri-urban areas, and not only the major urban centres.

4.2.3.5. The feedback should make it possible to identify **new standardisation needs, and to determine which standards and rules are impeding the emergence of certain innovative and sustainable models**. These standards and rules must be made compatible with innovation, as has been done for the approval processes for new products and services in the building sector. The majority of companies behind the new economic models are SMEs, which do not always have the resources to manage the workload resulting from standards.

4.2.3.6. **Another important lever in promoting the growth of these new models is to incorporate them into EU sectoral policies**. Thus, the new peer-to-peer marketplaces and businesses in the functional economy must be regarded as waste prevention agents and supported under EU policies for the circular economy. The idea here is not to launch new initiatives or introduce sectoral regulation, but to include the new economic models in the new industrial strategy ([15]) and in existing sectoral policies.

4.2.3.7. **Finally, the Commission must take account of the potential unwanted effects of certain new economic models, e.g. in relation to social issues, employment regulation and unfair tax competition.** The European Union must continue its monitoring and harmonising efforts in relation to the collaborative economy.

([15]) COM(2017) 479 final.

4.2.4. Generally speaking, the new sustainable economic models will develop only if businesses and those that run them are convinced that this will make economic sense in the EU of 2030 or 2050. For this reason, **sustainability should be seen as a cross-cutting EU objective**. **The EU's policy, tax and regulatory framework must provide greater visibility, in order to guide the actions of economic stakeholders, public bodies and civil society.** With this in mind, this opinion recommends:

— **breaking down policy silos around this issue, treating sustainability as a cross-cutting criterion that will facilitate modernisation of Europe's economy.** This is a question of aligning EU policies with sustainability criteria and incorporating those criteria in legislation. For example, each new regulation could undergo a more rigorous sustainability test. At policy level, the EU needs to develop a strong message that shows its support for sustainable development and demonstrates its leadership. And this means translating the sustainable development objectives into a new EU political strategy to 2030, by adopting a synoptic table of EU performance indicators and 'beyond GDP' indicators and incorporating these into the European semester.

— **internalising social and environmental externalities based on an economic rationale, by encouraging the Member States to better incorporate green taxation** ([16]) **and eliminate anti-environmental subsidies.** Carbon-price signals need to be strengthened at European level, for example by reforming the ETS or taking additional measures at national level with regard to the energy sector, which accounts for 60 % of all CO_2 emissions. This internalisation would allow sustainable products and technologies — which are designed to limit such externalities and which can therefore be more expensive to produce — to become more competitive;

— **developing a regulatory framework that is favourable to sustainable consumption and production** (ecodesign standards, extending the lifespan of products, energy labelling, targets for waste prevention, combating transport pollution, energy efficiency standards for buildings, etc.). The current ecodesign legislation, for example, does not go far enough ([17]).. The standards should be adapted to the specific circumstances of SMEs ('SME test').

4.2.4.1. **Finally, rethinking the modus operandi of the financial sector so as to make it sustainable and clearly incorporate environmental and social questions into investment choices and into the concept of risk** under prudential and solvency standards. This process is already under way in the case of socially responsible investors and certain large companies, with the concept of 'integrative thinking' employed in strategic and operational decision-making ([18]). In practice, this process might also lead to:

— reducing 'short-termism', for example by including more savers in the acquisition of long-term assets,

— supporting the introduction of open-source software and solutions in the financial sector, to promote healthy competition,

— fostering alignment between FinTech criteria and sustainability criteria,

— strengthening reporting on sustainability issues (support for environmental rating/certification) for businesses and financial institutions (see the recommendations of the Taskforce on Climate Disclosure in this regard),

— including sustainability criteria in fiduciary obligations,

— sustainability testing for future European financial regulations.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([16]) OJ C 226, 16.7.2014, p. 1.
([17]) Eco-design work programme 2016-2019.
([18]) Work by the High-Level Expert Group on Sustainable Finance.

Opinion of the European Economic and Social Committee on 'Taxation of the collaborative economy — analysis of possible tax policies faced with the growth of the collaborative economy'

(exploratory opinion requested by the Estonian presidency)

(2018/C 081/09)

Rapporteur: **Giuseppe GUERINI**

Co-rapporteur: **Krister ANDERSSON**

Referral	Exploratory opinion (requested by the Estonian Presidency), 17.3.2017
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1. **Conclusions and recommendations**

1.1. The EESC believes that the collaborative economy, by generating social value in the digital economy environment, may offer a new opportunity for growth and development for the countries of the European Union, as it allows untapped resources to be mobilised and gives the initiative to individual people. The EESC distinguishes clearly between the collaborative economy, the digital economy and the platform economy due to the different scope and degree of their collaborative and inclusive dimension.

1.2. While the expansion of the collaborative economy is facilitated and boosted by the spread of the new information and communication technologies, with digital platforms and the wide use of smartphones serving as a powerful vehicle, the EESC considers it important to assess the collaborative economy in its entirety and not to equate it completely with the digital economy.

1.3. The EESC is of the view that the EU must not miss the opportunity provided by the collaborative economy to bring innovation to bear on the system of relations between businesses, individuals and markets. However, given the particularly fluid and rapid nature of change in this sector, it is crucial for fiscal regulatory systems and tax regimes to be adapted in an intelligent and flexible way to the new context of the collaborative economy and, more broadly, of the digital economy.

1.4. The EESC does not judge a new, specific tax system for collaborative economy businesses to be necessary. It does however consider it essential to step up cooperation and coordination between the Member States and the various internal Member State administrations involved, so that the public authorities can keep up with the speed and dynamism of the digital economy and the collaborative economy.

1.5. The EESC recommends that the tax system for the collaborative economy comply with the principle of neutrality (i. e. it must not interfere with market development), identifying appropriate tax mechanisms that are fair to the different types of business operating within the collaborative economy or in conventional forms.

1.6. The EESC advocates the rapid construction of a uniform, integrated European system that ensures common rules for the different Member States regarding the digital economy, in the light of the natural tendency for digital networks to operate in a cross-border setting. It would consequently be counterproductive for different forms of regulation to develop in each of the Member States: a genuinely European approach is needed.

1.7. The EESC calls on the European authorities to make every effort to establish channels of cooperation beyond Europe in order to lay down some ground rules for the digital economy, since the power of digital networks already makes it possible to manage services and exchange goods anywhere in the world, via a digital platform in a single geographic location.

1.8. Rather, existing rules and principles should be adjusted in line with new situations that differ from the past due in part to the opportunities created by the new technologies, in order to ensure uniform and proportionate treatment of all economic operators carrying out certain activities in conventional form or within the digital economy.

1.9. The EESC urges the Commission and the Member States to work together to adopt an overall legal framework for the digital economy that can coordinate and standardise the tax rules that apply to these new forms of economic activity.

1.10. Moreover, the EESC considers that, in order to make the tax system simpler and, in particular, to make it easier to apply VAT, it could be helpful to test a 'stable virtual organisation' in the increasingly cross-border and ever less territorially-bound environment in which the digital economy and the collaborative economy are developing.

1.11. The EESC also considers it important to point out that, in addition to an appropriate tax system, protection and respect must be guaranteed for: (i) consumer rights, (ii) privacy and the rules on processing personal data, and (iii) workers and service providers involved in the new business models and in the work of collaborative platforms.

2. **Introduction**

2.1. The collaborative economy is increasing in volume and growing rapidly, as evidenced by various data. In 2015, income related to the collaborative economy in the European Union was estimated at some EUR 28 billion (as recently as the previous year it stood at only half that amount).

2.1.1. From 2015 onwards, significant investment by major platforms has further boosted the sector's development: it is estimated that in the future, the collaborative economy could entail turnover of between EUR 160 and 572 billion across the EU.

2.2. As shown by the figures, the collaborative economy is spreading to more and more sectors, and has the potential to generate added value, create jobs at different levels and ensure efficient services at competitive prices for European consumers.

2.3. At the same time however the collaborative economy sector raises a series of challenges for the European legislator, who is required to ensure principles and rules designed to establish a clear and predictable legal framework ([1]). Its regulatory action must however not undermine the great potential for innovation the sector has displayed so far.

2.4. The term 'collaborative economy' is often used interchangeably with 'sharing economy': in 2015 the Oxford English Dictionary included 'sharing economy' among its new entries, defining it as 'an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet'.

2.5. The present opinion will use the term 'collaborative economy' as adopted by the European Commission in its Communication of 2 June 2016 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — *A European agenda for the collaborative economy*.

2.6. More specifically, 'collaborative economy' refers to business models where activities are facilitated by collaborative platforms that enable the temporary use of goods or services often provided by private individuals.

([1]) OJ C 303, 19.8.2016, p. 36, point 8.2.4.

2.6.1. The collaborative economy involves three categories of actors: (i) service providers who share assets, resources, time and/or skills — these may be private individuals or professionals; (ii) users of such services; (iii) intermediaries that, via an online platform (collaborative platforms), connect service providers with final users. Collaborative economy transactions generally do not involve a change of ownership and can be carried out for profit or not for profit.

2.7. More specifically, the collaborative economy opens the way to easier and more efficient access to goods and services through connecting and cooperative platforms than was the case in the past, making it easier to match consumer demand with supply of the goods and services that can be provided by either professionals or non-professionals.

2.8. The use of efficient technologies and connecting platforms have transformed various sectors, such as short and long distance transport, together with the hotel sector and house or room rentals management, enabling services matching demand and supply to be organised very efficiently and rapidly.

2.8.1. A number of large operators, mostly domiciled outside the European Union, have established themselves and are clear examples of the growing consolidation of the collaborative economy. Such examples have demonstrated the sector's great growth potential, but they have also revealed the problems that it poses for legislators from a legal point of view, in relation to the tax system and in terms of labour regulation and workers' welfare and insurance.

2.9. In addition to these sectors, others such as certain financial services, personal care and health services are also increasingly falling within the sphere of the collaborative economy. More sectors will join them in the coming years, giving the collaborative economy an even more prominent place: it is consequently clear that a full debate on the regulatory and fiscal aspects of the matter is now not only useful but necessary.

3. **The collaborative economy and new business models**

3.1. The spread of information and communication technologies and of the 'Internet of Things' has brought forward many new technology companies. Numerous new business models are emerging within the digital and collaborative economy sector. These models differ in their structures and the size of the businesses, as well the extent of the reference markets, the ways technologies are used, and the organisational model. Three main groups may however be identified with regard to fiscal treatment:

— the model of very large companies performing various digital functions via the web, where most revenue is yielded by selling and managing collected data and advertising (e.g. Google);

— the model of supply and demand matching and management platforms, based on connecting consumers and suppliers using digital platforms as connecting facilities, where transactions generate income both for the connecting platform and the final service providers (e.g. Airbnb, Uber);

— the model of peer-to-peer platforms where in theory there are no monetary transactions but one-to-one exchanges of goods and services can be generated between users and providers.

3.2. Regarding the model of large platforms for general web search engines, such platforms enable data processing and creation of value added, which then can be adjusted to specific consumer demand and sold.

3.3. In this context the EESC would point to the specific value of the data, which has even been classified as 'the new currency' ([2]). The value added is subject to VAT and the destination principle is applied. However, it may be difficult to assess the volume of value creation in various stages and therefore to allocate tax obligations.

([2]) For more information please see the World Economic Forum article https://www.weforum.org/agenda/2015/08/is-data-the-new-currency/

3.4. The rapid growth of new business models requires an overall assessment of value creation and tax obligations.

3.5. Regarding platforms that match demand and supply (the Uber model), an important preliminary question concerns the possibility of laying down market access rules and requirements to apply to digital platforms operating in the collaborative economy sector and, above all, to service providers using such platforms.

3.5.1. Market access requirements may include the need for official authorisation to operate an undertaking, a licence or minimum quality obligations (e.g. size of premises or type of vehicle, insurance or deposit requirements, etc.). Income generated is often assessed and allocated to an individual or to a business entity, liable to corporate profit tax.

3.6. The Services Directive stipulates that the market access requirements laid down in the different Member States must be justified and proportionate, taking account of the particular business model and innovative services involved, without preference for any one business or service management model over others (principle of neutrality).

3.7. The EESC agrees with the Commission's comment in its Annual Growth Survey 2016, according to which more flexible regulation of the services markets, including those in the collaborative economy, would lead to higher productivity, easing the market entry of new players, reducing the price for services and ensuring wider choices for consumers.

3.8. It is therefore hoped that market access requirements applying to the collaborative economy, as and when they exist in the various national legal systems, will be in line with the Services Directive and will ensure: (i) a level playing field between the various economic operators in sectors where conventional and collaborative economy operators co-exist; (ii) regulatory requirements that are clear, straightforward and capable of fostering the potential for innovation and opportunities that the collaborative economy can offer to increasing numbers of people.

4. **Institutional framework**

4.1. Since it consists of on-line services provided by digital platforms, the collaborative economy sector transcends, at least in part, the concept of territoriality that marks conventional economic activity. It is therefore important that an appropriate and clear regulatory framework is developed also for the collaborative economy, reflecting the European Commission's overall objective of taxing profits where they are made.

4.2. The EESC believes that legal certainty would be bolstered by rules under which businesses providing or promoting collaborative economy services would be considered to have a tax nexus in Europe. With regard to the particular features of digital businesses, discussions are under way on formulating a new type of virtual establishment for companies, defined as a 'stable virtual organisation'. This is a helpful approach, avoiding the problems of determining where this type of business is established, but it requires in-depth discussion and thorough research over the coming years. This would enable an EU location to be established for business carried out through the digital market, ensuring that the economic value of transactions is taxed in Europe or, more broadly, in the place where the value is created.

4.3. The collaborative economy could make some of the national tax authorities' work easier, as a result of the digitalisation of payments made through collaborative platforms and the complete traceability of such payments. The design of payments systems could make it easier for operators in the sector to fulfil their tax obligations, as is the case in Estonia, where the procedure for drivers and some service providers to declare their income has been simplified in cooperation with digital platforms.

4.4. Overall, the EESC hopes that the exchange of accurate and traceable information between tax authorities, operators and collaborative platforms will help to reduce the administrative burden regarding payment of taxes in the collaborative economy sector and the enforcement burden on the financial authorities, with cooperation made simpler and more certain by the technological setting in which transactions take place.

5. **Taxation of the collaborative economy**

5.1. With regard to the taxation of the collaborative economy, it should be pointed out that in its report of 28 May 2014, the Expert Group on Taxation of the Digital Economy set up by the European Commission concluded that there should not be a special tax regime for the digital economy or companies: it is considered more appropriate to bring existing tax rules and models into line with the new situation, making use of the high level of traceability of transactions carried out on collaborative economy platforms to manage tax compliance.

5.2. In practical terms, new business models need particular attention from the EU Commission and national tax authorities, especially when the platforms are domiciled outside the EU, with a view to a fair and proportionate distribution of the tax burden on the economic value generated by the various players: suppliers, beneficiaries and intermediary platforms.

5.3. The EESC considers that a reasonable and proportionate approach needs to be taken when adapting the general rules and principles governing tax matters in the collaborative economy sector. This approach should provide clear and predictable rules for the sector's operators, so as not to generate excessive compliance costs that could jeopardise the growth of a recently-developed sector with future prospects that are extensive, but not yet entirely predictable or measurable.

5.4. Any future European initiative on taxation of digital economy business models should take account of the various anti-avoidance initiatives launched in recent years by the European Commission in the tax field, to ensure that all regulatory steps taken are closely coordinated as part of a comprehensive, consistent framework for action.

5.5. A concerted initiative on taxing the digital economy is needed in order to strengthen Europe's internal market and boost its growth, as this is a sector which already forms a significant part of the European economy and is set to play an even greater role in the coming years.

5.5.1. In this regard, Articles 113 and 115 of the Treaty offer a solid legal basis for drawing up both direct and indirect tax rules for the collaborative economy, geared to consolidating the internal market and improving the way it functions.

5.6. Some Member States have decided to take action on taxing the digital economy sector through new, binding legislation, while other have approved guidelines addressed to the sector's operators. As pointed out previously, a European-level initiative on the taxation of the digital economy would however be needed.

5.7. The EESC therefore hopes that legislative action can be taken at European level on taxing the digital economy, with arrangements for appropriate coordination with and involvement of the Member States in order to strengthen the internal market and take full advantage of the opportunities arising from the digital economy.

5.8. Service providers in the collaborative economy are of course subject to tax obligations. but there are difficulties in identifying taxpayers, not least due to the fact that they may be operating in a professional capacity (e.g. offering service provision on a continuing basis) or in an occasional capacity (as a means of supplementing income without taking it up as an occupation). In addition to this difficulty in identifying taxpayers, it is often a difficult task to precisely measure the taxable income.

5.9. In this respect, the EESC sees the fixing of minimum income thresholds as a useful way of deciding if a particular activity is to be considered as professional or otherwise. It hopes however that the choice of such thresholds is justified by proper evidence or reasons.

5.10. Regarding the new business models there is a need for EU-wide coordination in order to prevent double taxation or tax abuse. Best practices regarding taxation models, in particular for businesses that bring demand and supply together through digital platforms, should be introduced and applied by the Member States. The European Commission must coordinate the legislation, identifying a set of common, shared rules by means of a directive.

5.11. At the same time, the EESC urges national financial administrations to publish guidelines in order to provide clear indications for service providers operating within the collaborative economy. As service providers are often private individuals, there is indeed a need to provide information about taxation obligations, since they are often not aware that they are liable to pay tax.

5.12. The EESC hopes that European and national rules establish mechanisms to facilitate cooperation between collaborative economy operators and the tax authorities. Due to the widespread use of accurate and traceable data, such cooperation could foster fiscal simplification and transparency, with digital platforms perhaps even acting as tax withholding agents in cooperation with the tax authorities.

5.12.1. In this respect, the EESC underlines that tax certainty needs particular attention during the rapid evolution and growth of new business models, which heightens concern about uncertainty in tax matters and its impact on cross-border trade and investment, especially in the context of international taxation ([3]).

5.13. The EESC points out that the collaborative economy could potentially expand the national tax base by bringing jobs and new resources to the economy. With a view to tapping into this new base, competent national authorities should develop more efficient intra-authority information exchange systems. These data, combined with new technological opportunities, could create greater tax certainty at lower cost for both service providers and the tax authorities. Since the digital platform, the service provider and the client may be in different Member States, this question should be subsequently examined at EU level so that proper attention is focused on protection of cross-border data.

6. **VAT**

6.1. Regarding collaborative economy activities and whether they are subject to VAT, an initial distinction must be made between activities conducted by different new business models, e.g. directly by collaborative platforms and those of individual service providers registered with such platforms, and models that use platforms to carry out different activities, such as selling user spaces or data to place advertisements.

6.2. Regarding the latter examples, companies are already subject to corporate income tax. They gather information from users — every time a user enters a search, companies collect information which they can then sell to advertisers and other interested parties and if value is created, VAT should be levied on the exchange of the data (the collection and selling of the information).

6.3. Regarding models that work on matching supply and demand, it can be considered that they create ‘added value’ by providing a service and allowing a transaction/exchange between customers and drivers; this added value should therefore be liable for VAT.

6.4. In general terms, for VAT purposes, a distinction must be made between different situations concerning payment methods for services rendered in the collaborative economy: (i) situations where services are rendered against payment of a sum of money; (ii) situations in which remuneration for the service is made not in money but in the form of another service or non-monetary remuneration; and (iii) situations in which the service is rendered freely with no return.

6.5. The VAT rules applicable to situation (i) above can be deduced from the rules and principles of existing law as set out by the Court of Justice of the EU, while situation (ii) may not fall within the scope of the current VAT rules.

6.5.1. With respect to practical circumstances possibly coming under point (ii), the EESC calls for close examination of whether or not the activities of collaborative platforms are subject to VAT obligations. The legal framework in this area is indeed at present unclear, especially concerning services that, as has been mentioned before do not require monetary payment, but use data on consumers, their preferences and habits for commercial purposes.

([3]) For further information, see Tax Certainty — IMF/OECD Report for the G20 Finance Ministers.

6.6. In the EESC's view, it is important for the Commission to address and regulate the issue of VAT in the collaborative economy as part of its Action Plan, possibly by applying simplified rules and principles below certain turnover thresholds — as has already been done in some countries — in order to limit compliance costs, especially for SMEs and occasional service providers.

6.7. The European Commission and the national tax authorities should promote cooperation and coordination in the application of VAT rules to the collaborative economy sector.

7. **Final comments**

7.1. The EESC backs the opinion of the European Parliament's concerning the European Agenda for the collaborative economy, where the EP notes that 'European entrepreneurs show a strong propensity for creating collaborative platforms for social purposes, and acknowledges a growing interest in the collaborative economy based on cooperative business models ([4]).

7.2. The specific features of the collaborative economy, its innovative potential and the need to bring tax rules into line with the sector's exponential growth argue in favour of including organised civil society in the consultations and analyses led by the European Commission, the purpose of which is to bring together the sector's stakeholders, representatives of the EU institutions and national financial administrations, together with academic specialists, to launch a joint debate on issues relating to taxation of the collaborative economy.

7.3. The EESC calls on the European Commission to propose further recommendations for better information exchange between national taxation authorities and for equal tax treatment of service providers. The Committee considers that a follow-up opinion would be necessary in order to further assess tax policy requirements, as well as the impact and outcomes of taxation of the digital economy.

7.4. With regard to the rights of workers and consumers involved in the collaborative economy, the EESC would refer to the opinion on the *Sharing economy and self-regulation* ([5]). It is however important in this context to point out that the impact of the collaborative economy on the labour market is so powerful as to require a special focus on worker protection, particularly regarding social security, health and welfare contributions.

7.4.1. In this respect, the EESC underlines once again the need to consider the impact of the collaborative economy on the labour market and points out that the full protection of workers and service suppliers is an objective that should be constantly borne in mind by EU and national legislators.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([4]) Report on a European Agenda for the collaborative economy, 11 May 2017 (2017/2003(INI)).
([5]) OJ C 303, 19.8.2016, p. 36, point 8.2.4.

Opinion of the European Economic and Social Committee on the 'Land use for sustainable food production and ecosystem services'

(exploratory opinion at the request of the Estonian Presidency)

(2018/C 081/10)

Rapporteur: **Roomet SÕRMUS**

Consultation	Letter from the Prime Minister of the Republic of Estonia dated 17.3.2017
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Date of Bureau decision	28.3.2017
Section responsible	Section for Agriculture, Rural Development and the Environment
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Plenary session No	529th
Outcome of vote (for/against/abstentions)	126/0/2

1. **Conclusions and recommendations**

1.1. A joint EU reference framework would be of decisive importance for the sustainable use and protection of agricultural soil with a view to monitoring progress in data collection and use; it could also be used to define good soil status and lay down uniform terminology and harmonised criteria for monitoring, as well as for defining priorities and the various policy measures for achieving good soil status.

1.2. In all Member States, the loss of agricultural land due to soil degradation, the abandonment of land, climate change and urbanisation poses a serious problem. The EESC therefore proposes that the existing EU framework be updated in order to protect agricultural land in the Member States that is valuable for food production and the provision of other ecosystem services, and to preserve its fertility, and at the same time to improve monitoring and make reliable information available.

1.3. As owners and users of agricultural land, farmers have a special role in the provision of ecosystem services, which must be recognised and supported. The soil provides the most important ecosystem services. Soils are the basis for the major part of global food production and are necessary for the production of biomass. Soil stores carbon and thus contributes to climate change mitigation.

1.4. The aim of modernising the CAP should be, inter alia, to continue protecting the health and fertility of farmland and soil, which is essential for maintaining and further improving the productivity and sustainability of agriculture.

1.5. In accordance with the climate agreements, existing and new initiatives should be promoted to bring the carbon cycle of soils into balance, in a manner that does not threaten food production. In order to increase the carbon content of the soil, the EESC proposes that the principles of sustainable soil management should be incorporated into EU policy measures. Support should be given to the production of biomass by improving access to water and other soil factors (soil structure and aeration, availability of nutrients, pH value, biological activity of soil), careful tillage, pasture farming and sustainable management of grassland, integrated agricultural production, including best practices from organic and conventional farming, i.e. crop rotation, the cultivation of leguminous crops, the recovery of organic waste, composting and creating winter plant cover for fields, etc. Carbon-rich soils and grasslands must be managed in a sustainable way in order to promote carbon sequestration by soil and plants.

1.6. The Member States should also be encouraged and motivated, in the framework of the second pillar of the CAP, to adopt appropriate soil protection measures.

1.7. Additional investments in environment- and climate-friendly technologies and land improvement systems must be supported with a view to sustainable land and soil use.

1.8. Knowledge-based agriculture (i.e. precision agriculture and agro-ecological approaches) should be encouraged. The potential of resource-, soil- and environment-friendly precision farming develops through the integration of soil, fertiliser, pesticide, weather and yield data, which requires, inter alia, better access to usable data contained in national databases, greater mobility and greater user-friendliness, on the understanding that farmers are the owners of the data generated. The precondition for this is internet access and the use of information and communication technologies by farmers.

1.9. Increased use should be made of soil data in land-use policy-shaping and decision-making. At the same time, the quality and availability of soil data needs to be improved, especially in areas where not enough research has so far been carried out. Uniform monitoring of soil must be agreed at EU level.

1.10. Awareness of the importance of soil must be raised at all levels of the education system. To this end, use should be made of modern teaching resources and the subject of soil should be incorporated into the curricula of the various levels of education.

1.11. Measures to provide farmers with information on soil and good farming practices also have an important role to play. To this end, the involvement of advisory services is particularly important.

2. **Introduction**

2.1. This EESC opinion is being drawn up at the request of the Estonian presidency and aims to emphasise the crucial importance of sustainable land ([1]) and soil ([2]) use for food production and the delivery of ecosystem services.

2.2. At the request of the Estonian presidency, the Committee will look at how the issue of agricultural land is dealt with in the various EU policy areas. It will also consider what can be done by policy-makers and businesses in the EU to promote sustainable and effective use of soil, a resource that is essential for food production and the provision of other ecosystem services.

2.3. There are at present numerous soil protection rules at EU level. Although the various EU policies contribute to the protection and sustainable management of agricultural land, soil protection is mostly not their main objective. The EESC believes that now is an appropriate time to begin the debate on how different measures could be better coordinated at EU level.

([1]) 'Land' means the part of the earth's surface that is not covered by water.

([2]) Soil can be defined at the topmost layer of the Earth's crust, being made up of mineral particles, organic substances, water, air and living organisms. It is the interface between earth, air and water and the habitat of most of the biosphere (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52006DC0231).

2.4. Both the EU and the Member States must base their policy-making on the UN's Sustainable Development Goals for the period up to 2030 ([3]). These goals include promoting ecosystems, combating desertification, halting and reversing land degradation, sustainably managing natural resources and using them efficiently, and integrating climate change measures into national policies, strategies and planning. A precondition for sustainable agriculture and food production is the protection of agricultural land, as well as the sustainable use of soils, which are a finite and in principle non-renewable resource.

2.5. In addition, a number of initiatives ([4]) have been launched to promote sustainable soil management and to raise awareness of the important role of farmland for food security and climate change mitigation.

2.6. The EESC also draws attention to the planetary boundary concept. This could be used for establishing environmental limits, which must not be exceeded if damage to the environment is to be avoided. The Committee notes that three of the nine boundaries (climate change, biodiversity loss and the nitrogen cycle) have already been exceeded ([5]). At the same time the Committee acknowledges that global food security is also an urgent challenge that Europe has to consider as part of its global responsibility.

3. **The main land- and soil-use issues in relation to agricultural production**

3.1. Global demand for food will rise in the coming decades. In some regions of the world agricultural land will therefore have to be farmed even more intensively, which could have negative effects on soils and the wider environment, if land use is not subject to environmental principles. In order to ensure an adequate supply of food, the productivity of available land must be maintained and fertility must be preserved in biological, chemical and physical terms.

3.2. The EESC's opinion on More sustainable food systems ([6]) describes the consequences of unsuitable farming practices in food production: loss of biodiversity, soil degradation, water and air pollution and greenhouse gas emissions. It must therefore be ensured that these resources are used efficiently and sustainably in order to safeguard food supplies. This must also be part of a comprehensive food policy, as set out in the EESC opinion on Civil society's contribution to the development of a comprehensive food policy in the EU, currently being drafted.

3.3. Climate change also has consequences for the availability of basic natural resources — water and soil. Although a number of measures have been taken against climate change, the carbon content of the soil is falling year by year, based on top soil data. Additional information on the deeper layers would, however, reflect the trend more realistically.

3.4. In its report entitled The European environment — state and outlook 2015 ([7]), the European Environment Agency (EEA) warns that soil ecosystem services — including food production, protection of biodiversity, and the storing of carbon, water and nutrients in soil — are increasingly under threat. Depending on the region, the main problems identified in the report are soil erosion, loss of organic matter in soil, soil contamination and sealing, as well as urbanisation, land abandonment and the consequences of increasingly intensive agricultural production for natural and semi-natural habitats. Declining soil fertility is also among the generally acknowledged threats to soil.

([3]) http://www.un.org/sustainabledevelopment/sustainable-development-goals/

([4]) These initiatives include, for example, the International Decade of Soils, the Global Soil Partnership of the United Nations' Food and Agriculture Organization (FAO), the French initiative 4 ‰: Soils for Food Security and Climate Protection, the European Citizens' Initiative 'People4Soil', etc.

([5]) J. Rockström, et al., 2009, 'Planetary Boundaries: Exploring the Safe Operating Space for Humanity, Ecology and Society', Vol. 14, https://www.consecol.org/vol14/iss2/art32/main.html

([6]) OJ C 303, 19.8.2016, p. 64.

([7]) https://www.eea.europa.eu/soer

4. **Agricultural land issues in various EU policy areas**

4.1. A report drawn up for the European Commission analysed the soil protection measures of the 28 EU Member States [8]. The analysis identified 35 EU and 671 national soil protection policy measures. The EU measures include strategy documents, directives, regulations and various accompanying measures. Three quarters of the national measures are primarily binding rules.

4.2. The variety of measures in the Member States is an opportunity to better address soil in its complexity, but also for improved coordination. EU law offers some valuable and strict rules on soil protection, but the system has some weaknesses. National policies are not enough to close the gaps in EU soil protection law and the rules differ significantly from country to country.

4.3. The 7th Environmental Action Programme, in force since the beginning of 2014, recognises soil degradation as a serious problem and sets the 2020 target for the EU of achieving sustainable soil management and adequate soil protection and making progress on the rehabilitation of contaminated land. The EU and its Member States have also committed to stepping up measures against soil erosion and improving soil organic matter.

4.4. The following EU measures, among others, may be considered as relevant to soil protection and as relatively effective: the Industrial Emissions Directive (IED), the Environmental Liability Directive (ELD), and the rules on water protection (Water Framework Directive (WFD), Nitrates Directive (NiD), cross-compliance system of the CAP and Good Agricultural and Environmental Conditions (GAEC)). Implementation of the measures could be made more effective, however, with a view to improving the soil situation, if account were taken of local conditions in a flexible way and the measures were better coordinated.

4.5. Soil protection issues could also be addressed by use of various kinds of financial support available via the Cohesion Fund, the European Regional Development Fund, Life + and the Horizon 2020 programme.

4.6. Direct payments under the first pillar of the CAP, which cover around 90 % of utilised agricultural land in the EU, are an important economic incentive for decisions on the use and management of land by farmers. Direct payments are strictly linked to the maintenance of agricultural land in good agricultural and environmental condition and to cross-compliance and greening requirements under the basic CAP regulations. Member States have a degree of flexibility in their decision-making. 30 % of direct payments are subject to environmental requirements which aim to improve soil quality, protect biodiversity and promote carbon fixation [9]. It is important to ensure that the benefits of greening are not negated by excess red tape when implementing the measure.

4.7. The rural development programmes also offer Member States, under the second pillar of the CAP, opportunities for implementing EU soil protection measures, adapted to local conditions in each Member State.

4.8. A number of planned legislative initiatives (such as the Climate and Energy Package, the Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF), the Effort Sharing Regulation (ESR) etc.) could also offer suggestions for soil protection and climate change mitigation and adaptation.

4.9. The modernisation of the EU fertilisers regulation — being discussed in connection with the Circular Economy Package — which will ensure that organic and waste-based fertilisers can be used more easily, is also highly relevant to soil protection issues. The recycled material to be used as soil amendment or fertilizers should not, however, contain hazardous substances (xenobiotics). Although the Commission proposal sets limit values for concentrations of pollutants in mineral or

(8) Updated Inventory and Assessment of Soil Protection Policy Instruments in EU Member States http://ecologic.eu/14567
(9) https://ec.europa.eu/agriculture/direct-support/greening_en

organic fertiliser, there is still a need for new, clean technical solutions for producing fertilisers and soil improvers that pose no problems for land use, without affecting primary productivity. In its opinion the EESC welcomes the Commission's initiative, pointing out that soil fertility and protection are key objectives for the review of the Regulation ([10]).

5. Proposals to promote sustainable use of soils as essential resource for food production and the delivery of ecosystem services in the European Union

5.1. A joint EU reference framework would be of decisive importance for the sustainable use and protection of agricultural soil with a view to monitoring progress in data collection and use; it could also be used to define uniform terminology and good soil status and to establish priorities, monitoring criteria that take account of different soil and climate conditions and various policy measures for achieving good soil status. This is a prerequisite for appropriately assessing soil conditions and taking the necessary measures.

5.2. In all Member States, the loss of agricultural land due to soil degradation, the abandonment of land, climate change and urbanisation poses a serious problem. Agricultural areas are disappearing in favour of the development of artificial surfaces. Between 2006 and 2012, the annual land take in the European countries was approximately 107 000 ha/year. The types of land most frequently taken for artificial development were arable land and permanent cropland, followed by pastures and mixed agricultural areas ([11]). The EESC therefore proposes that the existing EU framework be updated in order to protect agricultural land in the Member States that is valuable for food production and the provision of other ecosystem services, and preserve its fertility. To this end, more technical means should be established, in order to facilitate better monitoring and provide reliable information.

The European Union's Common Agricultural Policy

5.3. With a view to the modernisation of the CAP, efficient and sustainable management of agricultural land should be ensured in the coming financial programming period. The aim should be, inter alia, to continue protecting the health and fertility of farmland and soil, which is essential for maintaining and further improving the productivity and sustainability of agriculture.

5.4. In the framework of the greening measures of the first pillar of the CAP, better solutions should be found to improve the state of soils. First and foremost, crop rotation using leguminous or grass species should be promoted. The discussions on the effectiveness of greening focus mainly on biodiversity issues, but the positive impact of the cultivation of leguminous crops on soil fertility should be given greater weight than hitherto ([12]).

5.5. Agriculture does not only produce high-quality food. It is also responsible for maintaining biodiversity and open landscapes. It also plays an important role in climate change adaptation and mitigation. The provision of public goods is primarily ensured by measures for the sustainable management of natural resources that add value and address the impact of agriculture on soil, water and biodiversity.

5.6. The Member States should be encouraged and motivated, in the framework of the second pillar of the CAP, to adopt soil protection measures, which would allow them maximum flexibility to take account of local circumstances, different conditions (including soil types) and specific problems.

5.7. The EESC calls on the European Commission to take greater account of the specific proposals of the Member States for improving the quality of soil and using it sustainably (for example through promoting liming to combat soil acidification, or irrigation and drainage to combat water scarcity or excess water content). When managing organic soils, no management option should be excluded, but a range of measures should be provided for soil protection and care.

([10]) EESC Opinion on Fertilisers (OJ C 389, 21.10.2016, p. 80).
([11]) https://www.eea.europa.eu/data-and-maps/indicators/land-take-2/assessment-1
([12]) Rhizobia, bacteria that are active in the root nodules of many species of leguminous crop (clover, melilot, lupines, peas, beans, etc.), are the most important organisms involved in nitrogen fixing, which is of great importance for the maintenance of soil fertility.

5.8. Additional investments in environment- and climate-friendly technologies must be promoted with a view to sustainable land and soil use. In order to ensure sustainable food production, knowledge-based farming (including precision farming and agro-ecological approaches) should be promoted, thus ensuring that agricultural inputs are used in the right quantity, in the right place and at the right time. It is crucially important to improve biological activity by introducing organic material and achieving a balance of nutrients in the soil, as over-fertilisation poses environmental risks through nutrient run-off, while a shortage of nutrients reduces soil fertility. It is also necessary to ensure compliance with the law of the minimum ([13]), because, if a specific nutrient (such as phosphorus) is missing, this increases the risk of run-off of the other nutrients.

5.9. Livestock farming plays an important and often crucial role in land use by supporting nutrient cycling and maintaining soil fertility ([14]) and carbon sequestration. In the EU there is a great deal of agricultural land, including pasture, that is suitable only for livestock grazing and fodder grass production, so that in certain regions stock farming must continue to be encouraged so that farmers do not give up this land. The practice, which is widespread in some parts of the EU, of maintaining permanent grassland only by mowing offers no alternative to pasture farming, either with a view to food production or to resource efficiency or soils. Measures are therefore needed within the CAP ensuring the profitability of livestock farming in the various regions of the EU, and solutions must be found that permit active and sustainable land use for food production.

5.10. In some EU regions outdated agricultural drainage systems are a major problem; with a view to climate change, more emphasis than hitherto should therefore be placed on long-term investment in agricultural infrastructure, such as the modernisation of drainage systems, in order to maintain the use of agricultural land for food production and preserve soil fertility.

Land use and ecosystem services

5.11. The 2005 Millennium Ecosystem Assessment ([15]) defines ecosystem services as the environmental, social and economic goods provided by ecosystems. Soil formation is an ecosystem service and a prerequisite for all other ecosystem services, such as food production. Sustainable food production is therefore inconceivable without soil protection.

5.12. Farmers play an essential role in the provision of ecosystem services, which must be recognised and supported. The soil provides the most important ecosystem services ([16]). It is the life source for microbes, plants and animals and an important reservoir of biodiversity; it filters water and stores water needed for plant growth, it regulates flooding, stores nutrients and makes them available to plants; it is also able to transform toxins. Soils are the basis for the major part of global food production and are necessary for the production of biomass. Soil can store carbon and thus contribute to climate change mitigation.

5.13. Greater attention must be paid to land use, which influences the functioning of ecosystems and thus the delivery of ecosystem services. Soil degradation, unsustainable use of land and the fragmentation of habitats due to urbanisation and construction of houses and roads is jeopardising the provision of several key ecosystem services, threatening biodiversity and reducing Europe’s resilience to climate change and natural disasters. They are also exacerbating soil degradation and desertification ([17]). To remedy these problems, greater account should be taken of the principles set out by the European Commission’s 2012 guidelines on best practice to limit, mitigate or compensate soil sealing ([18]).

([13]) https://en.wikipedia.org/wiki/Liebig%27s_law_of_the_minimum
([14]) EESC opinion on More sustainable food systems (OJ C 303, 19.8.2016, p. 64).
([15]) http://www.millenniumassessment.org/en/index.html
([16]) http://www.iuss.org/index.php?article_id=588
([17]) https://www.eea.europa.eu/soer-2015/synthesis/report/3-naturalcapital
([18]) http://ec.europa.eu/environment/soil/pdf/guidelines/EN%20-%20Sealing%20Guidelines.pdf

5.14. The functions and ecosystem services of soil are subjects only rarely addressed in legislation, as there is no market for these services and they are insufficiently recognised by society. Thus, for example, there are some references in the CAP direct payments basic regulation to soil quality but no references to soil biodiversity and its synergies with primary productivity. Apart from its chemical and physical characteristics, the key functions of soil are determined by the state of the micro-organisms and fauna in soil and the biological processes based on them, including nitrogen fixing, carbon sequestration, water filtration, and the ability to prevent nutrient leakage. In addition to the properties of soil, crop health is also important in ensuring that the full potential of soil can be harnessed for food production and carbon sequestration.

5.15. In the EESC opinion on a possible reshaping of the CAP ([19]), it is stated that environmental, climate change and biodiversity measures under CAP Pillar 2 could be targeted more than hitherto at the delivery of enhanced ecosystem services by farmers. With regard to soils and land use, support measures should primarily be focused on managing grassland and organic soils in such a way that carbon sequestration in soil is promoted. In the interest of soils, tillage should be reduced to a minimum, but because of nutrient accumulation on non-tilled soil surfaces, some tillage is needed to mix nutrients into the root zone and prevent the danger of nutrients being flushed out. Soil compaction also reduces soil's capacity to prevent nutrient loss.

5.16. In some regions of the EU, the conversion of arable land into grassland, the reduction of stocking density on grassland, while respecting a minimum livestock density, the maintenance of peat bogs and measures to limit soil erosion and reduce desertification in arid areas should be promoted.

5.17. In some regions, the greatest challenges facing agriculture are maintaining biodiversity on agricultural land, further promoting sustainable farming practices and increasing production efficiency without further intensifying farming. Other regions are faced with the main task of reducing the pressure on land use, soils and natural ecosystems. In the southern regions, water scarcity is also a major challenge.

5.18. These aspects of agricultural production, which are very important for the ecosystem, must be taken into account when shaping and re-shaping the Common Agricultural Policy and other policy areas.

Soil and climate change

5.19. As soil is the world's largest terrestrial carbon reservoir ([20]), it plays an important part in tackling climate change and in carbon sequestration. In the international climate protection framework, sustainable management of soils is assigned a key role in stabilising and increasing the content of organic materials that help to preserve soil functions and prevent soil degradation. In accordance with the Paris Climate Agreement (COP 21), existing and new initiatives should be promoted to bring the carbon cycle of soils into balance, in a manner that does not threaten food production, as stated in Article 2 of the Paris Climate Agreement.

5.20. In accordance with Principle 9 of the World Soil Charter ([21]) of the Food and Agriculture Organization of the United Nations (FAO), all soils provide ecosystem services which are of crucial importance for global climate regulation. In order to increase the carbon content of the soil, the EESC proposes that the principles of the Voluntary Guidelines for Sustainable Soil Management ([22]) adopted in 2016 by the FAO be incorporated into EU policy measures. Support should be given, inter alia, to the production of biomass by improving access to water (e.g. construction of irrigation systems, taking account of local environmental conditions), reducing tillage to a minimum, pasture farming, integrated production, organic farming, crop rotation, the cultivation of leguminous crops, the recovery of organic waste, composting and creating winter plant cover for fields. Carbon-rich soils and grasslands must be managed in a sustainable way.

5.21. Major climate change initiatives need to be supported at European level. It should not be forgotten, however, that the situation of soils varies greatly between Member States, so that regional differences need to be taken into account in the context of existing and new measures.

([19]) OJ C 288, 31.8.2017, p. 10.
([20]) Twice as much carbon is contained in soil as in the atmosphere, and three times as much as in flora during the growing season.
([21]) http://www.fao.org/soils-2015/news/news-detail/en/c/293552/
([22]) http://www.fao.org/documents/card/en/c/5544358d-f11f-4e9f-90ef-a37c3bf52db7/

Availability of soil-related data and its use

5.22. Increased used should be made of soil data in land-use policy-shaping and decision-making in order to implement fact-based policies and for the purposes of land-use planning at national, regional and local level. Data sharing should be coordinated with due regard to data ownership within an agreed regulatory framework.

5.23. At the same time, the quality and availability of soil data need to be improved, especially in areas where not enough research has so far been carried out (for example soil carbon data). To improve data availability, we need clear short- and long-term goals.

5.24. In order to improve access to soil data and to promote its use, soil maps must be updated and the minimum requirements with which the Member States must comply with regard to the scale of soil maps must be further increased. However, account should be taken of the challenges of soil mapping in some regions of the European Union.

5.25. Uniform and permanent soil monitoring should be agreed at EU level, together with a limited number of indicators relating to changes in soil status and the effectiveness of soil protection measures.

5.26. Farmers have to take complex decisions concerning their production planning on a daily basis. Resource-, soil- and environment-friendly precision farming would be unthinkable without the use of information and communication technologies. Promotion of the use of digital solutions by farmers is a precondition for this, with options and flexibility according to pedo-climatic conditions.

5.27. The potential of precision farming can be realised through the integration of soil, fertiliser, pesticide, weather and yield data, which requires, inter alia, better access to data contained in national databases, greater mobility and greater user-friendliness. Solutions should be promoted that enable farmers to have access to big data stored in the national databases in the course of their daily work, using software solutions from public or private suppliers, also in cooperation with advisory services. Software suppliers must, for example, with the consent of those affected, be given easier access to the most accurate possible data on agricultural soils and soil samples. Farmers should keep ownership of the data they produce.

Developing the knowledge base and applying research and innovation

5.28. Science has an important role to play in the creation of new knowledge, the dissemination of innovations, the development of technologies and the establishment of the conditions for the sustainable use of land and soil. The EESC agrees with the recommendation of the Vienna Soil Declaration ([23]) that the ‘relationships between human activities and soils and their effects on other components of the environment should be a major focus of soil science’. Collaboration between soil science and allied sciences is also important.

5.29. Relatively good financing opportunities for research into soil and food production have been created in the framework of the EU’s Horizon 2020 programme, which should be retained when preparing the 9th Framework Programme for Research and Innovation.

5.30. Particular emphasis must be placed on the transfer of R & D results to companies, which would ensure that land and soils are used for sustainable food production. The EESC calls on scientists, farmers, advisers and other stakeholders to develop cooperation in this field, taking advantage of the possibilities offered by the European Innovation Partnership (EIP-AGRI).

([23]) http://www.iuss.org/index.php?article_id=588

5.31. Agriculture is making increasing use of various biostimulants to improve soil structure, the nutritional efficiency of plants and the water supply in order to enhance crop yields and quality. Given that every soil is unique and that its composition is constantly changing, the impact of the use of biostimulants on the biological balance of the soil is under-researched, and more independent studies should be carried out in this area.

Awareness-raising

5.32. In order to raise the awareness of farmers, political decision-makers and other stakeholders of the importance of agricultural soils for sustainable food production and the provision of ecosystem services, a wide-ranging debate is needed, involving a broad range of stakeholders, on the state of soils and opportunities for soil protection. Greater awareness will help to ensure that more is invested in sustainable use of soils and in research.

5.33. Awareness of the role of soils must be raised at all levels of the education system, by promoting opportunities to gather practical experience. Modern teaching methods should be used when dealing with issues related to land use and soil protection.

5.34. Measures to raise farmers' awareness of different soil compositions, good land management, the importance of crop rotation, fertilisers etc. have a particularly important role to play. The participation and involvement of advisory services are crucial.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Monitoring the application of EU legislation'

(Landscape review of the European Court of Auditors)

(own initiative opinion)

(2018/C 081/11)

Rapporteurs: **Bernd DITTMANN**; **Denis MEYNENT**; **Ronny LANNOO**

Committee Bureau decision	30.5.2017
Legal basis	Rule 29(2) of the EESC Rules of Procedure
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	176/0/1

1. **Conclusions and recommendations**

1.1. The EESC highlights the importance of the following elements for devising suitable legislation which allows the goals of Article 3 of the Treaty on European Union (TEU) to be met: the principles of proper implementation within deadlines, subsidiarity and proportionality; the precautionary principle; predictability; 'think small first'; the external dimension of competitiveness; and the internal market test.

1.2. European legislation should always aim to create a legal framework that enables businesses and citizens to benefit from the advantages of the internal market and to avoid unnecessary administrative burdens. This is why the EESC deems it essential to monitor application on the ground. It is also in favour of legislation that can adapt. It notes that it is not only the content of legislation but the legislative process itself that must be adaptable, so as to meet the needs of businesses and citizens.

1.3. The EESC therefore believes that the applicability of European Union law must be taken into account from the very beginning of the legislative cycle, when impact assessments are being carried out, and that the European impact assessment ecosystem must continue to evolve.

1.4. The EESC stresses, however, that better regulation is not a substitute for political decisions and must on no account lead to deregulation or reduce the level of social, environmental or fundamental rights protection.

1.5. Most difficulties in applying or implementing European Union law properly arise from failure to transpose directives. The EESC therefore generally advocates the use of regulations rather than directives.

1.6. The EESC believes that improving the way the Commission consults stakeholders is crucial for drafting legislation which is easy for Member States and stakeholders to implement.

1.7. The EESC can play a useful role here as intermediary between legislators and those who use EU legislation. It is, for its part, constantly adapting its working methods. Thus it recently decided to play an active part in an evaluation of the legislative cycle, carrying out its own *ex-post* evaluations of the EU *acquis*.

2. **Introduction**

2.1. On 21 December 2016, Mr Pietro Russo, Member of the European Court of Auditors (ECA), sent a letter to Mr Michael Smyth, EESC Vice-President, informing him that contacts would be established at administrative level concerning a landscape review launched by the ECA on the European Commission's monitoring of the application of EU law, in line with its obligations. The review requested by the ECA is based on Article 17(1), of the Treaty on European Union, which states that 'the Commission shall promote the general interest of the Union and take appropriate initiatives to that end. It shall ensure the application of the Treaties, and of measures adopted by the institutions pursuant to them. It shall oversee the application of Union law under the control of the Court of Justice of the European Union (…)'.

2.2. On 3 May 2017, Mr Leo Brincat, Member of the ECA, submitted a document to the EESC Secretary-General, containing three sets of questions.

2.3. Given the political importance of the file, the EESC Secretary-General informed the Bureau thereof, and the latter decided to set up an ad hoc group of three members, with a mandate to draft a response in the form of an own-initiative opinion based on Rule 29(2) of the Rules of Procedure. The ECA has to receive the EESC's input in order to incorporate it into its own report, due in May 2018.

2.4. In essence, the ECA wishes to hear the Committee's views on whether the steps taken by the European Commission to enforce EU law have addressed Europeans' concerns. The ECA would like to know which specific aspects of the monitoring of the application of legislation in particular have caught the EESC's attention.

3. **The questions raised by the ECA**

3.1. The ECA asked three sets of questions, about the EESC's stance on:

a. The Commission's **key initiatives** aimed at achieving better application of EU law (*Better Regulation* and *EU Law: Better results through better application*), in particular as regards their relevance, civil society reactions and any initial positive effects of the initiatives;

b. The **key issues** relating to better application of EU law, in particular the applicability and transparency of EU law and steps to raise public awareness thereof;

c. The Commission's **key responsibilities** in relation to better application of EU law, in particular how the EESC uses the information and reports produced by the Commission ([1]), and any points or suggestions the EESC might wish to make for improving the compilation of reports on the application of law.

3.2. The answers provided by the present opinion — which does not claim to be exhaustive — are based on positions expressed by the EESC in many of its opinions ([2]).

4. **General comments**

4.1. The objectives of the Union are stated in TEU Article 3, in particular: 'It shall work for the sustainable development of Europe based on balanced economic growth (…), a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. (…) It shall promote economic, social and territorial cohesion, and solidarity among Member States'.

4.2. Here, the EESC would recall the importance of the principles already established for devising appropriate legislation in line with the above-mentioned objectives. These include the principles of proper implementation within deadlines, subsidiarity and proportionality, the precautionary principle, predictability, 'think small first', the external dimension of competitiveness and the internal market test ([3]).

([1]) See the Commission Report on *Monitoring the application of European Union law — 2015 Annual Report* [COM(2016) 463 final].
([2]) OJ C 132, 3.5.2011, p 47; OJ C 18, 19.1.2011, p. 100; OJ C 277, 17.11.2009, p.6; OJ C 248, 25.8.2011, p.87; OJ C 24, 31.1.2006, p. 52; OJ C 325, 30.12.2006, p. 3; OJ C 43, 15.2.2012, p.14; OJ C 230, 14.7.2015, p. 66; OJ C 383, 17.11.2015, p. 57; OJ C 13, 15.1.2016, p. 192; OJ C 303, 19.8.2016, p. 45; OJ C 487, 28.12.2016, p. 51.
([3]) OJ C 487, 28.12.2016, p. 51 (point 2.14).

5. **Specific comments**

5.1. On the Commission's key initiatives aimed at better application of EU law (*Better Regulation* [4] and *EU Law: Better results through better application* [5])

5.1.1. The EESC has long been concerned about *'Better regulation'*, having produced a significant number of opinions and information reports [6] on this subject, as well as holding numerous debates, seminars, studies and hearings [7].

5.1.2. As far as application of the *Better regulation* programme is concerned, the EESC believes that regulation is not in itself an obstacle; on the contrary, it deems it to be essential for achieving the objectives of the Treaty. The EESC therefore welcomes Commission Vice-President Timmermans' repeated declaration that the REFIT programme must neither lead to deregulation nor reduce the level of social, environmental or fundamental rights protection [8].

5.1.3. The EESC believes that better and, therefore smart, regulation is a joint task for all the European institutions and Member States, for the benefit of the general public, businesses, consumers and workers. The EESC stresses, however, that better regulation is not a substitute for political decisions.

5.1.4. Thus, in its opinion on the communication entitled *Better regulation*, the EESC [9]:

— welcomed the fact that the better regulation measures will cover the entire life cycle of a legislative act and that both *ex-ante* and *ex-post* measures will thus be covered;

— called for the EU's consultative bodies to be included in the Interinstitutional Agreement on Better Regulation;

— supported the comprehensive involvement of stakeholders by means of consultations throughout the lifecycle of a political initiative;

— stressed the need to choose the appropriate stakeholders and called for independence, impartiality and transparency in the choice of experts for the various bodies;

— called for more transparency as regards informal trilogues and for limited usage of this instrument;

— called for a stronger Commission focus on shortcomings in the transposition and application of EU law by the Member States and, as a consequence, advocated the use of regulations rather than directives.

5.1.5. Moreover, by accepting the Commission's invitation to take part in the REFIT platform, and by formulating proposals to improve the functioning of this platform [10], the EESC has demonstrated its commitment to an EU legal framework that enables businesses and citizens to benefit from the advantages of the internal market and to avoid unnecessary administrative burdens.

5.1.6. As part of its involvement in the REFIT Platform Stakeholder Group, the EESC has actively contributed to the drafting of several REFIT Platform opinions, which have fed into the European Commission's annual work programme and will continue to do so. The EESC's priorities have been based on input from its sections and have included, inter alia, a simplification proposal concerning problems of overlapping and repetitive requirements stemming from various EU legal acts, and the need for clear and full European standards for construction products (Construction Products Regulation). The

(4) COM(2016) 615 final.
(5) OJ C 18, 19.1.2017, p. 10.
(6) See, in particular, the following opinions: *Better regulation for better results* (rapporteur: Mr Dittmann (OJ C 13, 15.1.2016, p. 192)); *Evaluation of European Commission stakeholder consultations* (rapporteur: Mr Lannoo, OJ C 383, 17.11.2015, p. 57); *REFIT* (rapporteur: Mr Meynent (OJ C 303, 19.8.2016, p. 45)); and *Better regulation: implementing acts and delegated acts* (information report not published in the OJ, rapporteur: Mr Pegado Liz).
(7) Examples include the 2016 European Consumer Day on *Better regulation for consumers?*; a debate with Commission Vice-President Frans Timmermans, at the 18 March 2017 EESC Plenary Session; the Study on *Implementation of better legislation — Effect of the Stoiber Report*; and the 2015 Civil Society Day on *Civil dialogue: a tool for better legislation in the general interest*.
(8) OJ C 303, 19.8.2016, p. 45 (point 2.2).
(9) OJ C 13, 15.1.2016, p. 192.
(10) OJ C 303, 19.8.2016, p. 45 (point 2.12.1).

Committee has also helped develop a comprehensive list of suggestions as to how to improve the European Commission's stakeholder consultation mechanisms, which will contribute to the on-going revision of the Better Regulation Guidelines and Toolbox.

5.2. **On the key issues relating to better application of EU law** (applicability and transparency of EU law and steps to raise public awareness thereof)

5.2.1. **Applicability**

5.2.1.1. The EESC is constantly adapting its working methods to help assess the quality of the application of EU law. Less than two years ago, it decided to play an active part in an evaluation of the legislative cycle, carrying out its own *ex-post* evaluations of the EU *acquis*.

5.2.1.2. The EESC [11] believes that the applicability of EU law must be taken into account from the very beginning of the legislative cycle, when impact assessments are being carried out. Despite the progress achieved so far, the European impact assessment (IA) ecosystem must continue to evolve. The EESC proposes several areas of improvement in order to strengthen the quality of IAs, including transparent, accessible, and diverse specifications for studies relating to IAs, an enlargement of the European register of IAs, and a qualitative approach and converging methodological approach at the level of the research matrix of the different EU institutions. In the future, the Committee should also provide an analysis of some impact assessments (regarding subjects on which the Committee holds a strong position), review methodological issues and provide an opinion on whether economic, social, environmental and regional aspects are taken into account at the latter stages of the legislative cycle. This would also facilitate any EESC work on opinions requested of it on draft legislation to which these same impact assessments relate.

5.2.1.3. The EESC believes [12] that European legislation should always aim to create a legal framework that enables businesses and citizens to benefit from the advantages of the internal market and to avoid unnecessary administrative burdens. This is why the EESC deems monitoring of application on the ground to be essential. It is also in favour of legislation that can adapt.

5.2.1.4. European legislation must remain true to its original objective — always in compliance with the objectives set out in the Treaties — and be able to be enacted flexibly in national legislation [13]. Against this background, the EESC is in favour of clarification of the principles of subsidiarity and proportionality.

5.2.1.5. The EESC notes, moreover, that it is not only the content of legislation but the legislative process itself that must be adaptable, so as to meet the needs of businesses and citizens [14]. It is in this context that the EESC is calling for [15]:

a. stricter application of the *Better regulation* principles;

b. greater transparency at all levels of drafting legislation;

c. the development of a more systematic monitoring system for the transposal of directives at national level;

d. account to be taken of the role and greater powers of national parliaments conferred by the Treaty of Lisbon;

e. more regular use to be made by the Commission of its interpretative communications;

f. greater efforts to streamline and codify legislation.

5.2.1.6. Most difficulties in applying or implementing EU law properly arise from failure to transpose directives. The EESC therefore generally advocates the use of regulations rather than directives [16].

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(11) OJ C 434, 15.12.2017, p. 11 point 4.6.1.
(12) OJ C 487, 28.12.2016, p. 51 (point 1.7).
(13) Idem (point 1.11).
(14) Idem (point 2.7).
(15) OJ C 248, 25.8.2011, p. 87 (point 3.6).
(16) OJ C 204, 9.8.2008, p. 9 (point 2.1).

5.2.1.7. Likewise, under REFIT, the Commission had announced that consultations were to be carried out for evaluations, fitness checks and the drafting of delegated and implementing acts. In this connection, the Commission should take greater account of the opinion of its Regulatory Scrutiny Board (RSB) as well, which is now also responsible for *ex post* evaluations.

5.2.1.8. The EESC believes that improving the way the Commission consults stakeholders is crucial for drafting legislation which is easy for Member States and stakeholders to implement. Here, the EESC has already made proposals for structurally enhancing and monitoring the consultation process ([17]).

5.2.1.9. The EESC has had cause to lament the fact that the measures in the *Better regulation* package do not take enough account of the role, function and representative nature of the EESC, as enshrined in the Treaties, and thus fail to exploit the potential for making use of the expertise and knowledge of the Committee's members or to do justice to the EESC's function. Unfortunately, the fact that the EESC is involved in the REFIT platform (*ex-post*) does not adequately reflect the Committee's tasks or its responsibility for strengthening the democratic legitimacy and effectiveness of the institutions ([18]).

5.2.1.10. The EESC believes that application of the EU *acquis* often suffers from a lack of political will on the part of national authorities to comply and ensure compliance with rules which are seen as not 'fitting in' with the body of national law and national traditions, and from a persistent tendency to add new, unnecessary regulatory mechanisms to EU rules or to choose some, but not other, parts of these rules ([19]).

5.2.1.11. Finally, the EESC believes that the *EU Pilot* system (informal dialogue between the Commission and Member States on non-compliance with EU law, held before a formal infringement procedure is launched) is another step in the right direction, but the way it operates still needs to be assessed. Moreover, this system should not be used to replace infringement proceedings.

5.2.2. **Transparency**

5.2.2.1. The EESC firmly believes ([20]) that all legislation must be the outcome of public political discussions. So that European policies can deliver better results, it believes that the European legislative process should be reviewed within the framework of the Treaty of Lisbon and, if necessary, as part of a new treaty. The EESC wishes to highlight the quality, legitimacy, transparency and inclusiveness of the legislation.

5.2.2.2. Meetings of Council configurations working on the basis of qualified majority voting should be public out of concern for greater transparency and democracy. The EESC considers that the trilogue fast-track legislative procedure should only be used in emergencies, which is, moreover, in keeping with the terms of the Treaty ([21]).

5.2.2.3. Unlike European Parliament committees, trilogue meetings are neither transparent nor accessible. Restricting the legislative procedure to a single reading means restricting civil society's participation ([22]).

5.2.2.4. The European Parliament and bodies such as the European Committee of the Regions (CoR) and the EESC need to be better integrated into the European semester cycle ([23]).

5.2.2.5. With regard to delegated acts, the European Commission should make its decision-making process more transparent (see TFEU Article 290), as the Committee has called for repeatedly ([24]).

5.2.2.6. Moreover, a certain degree of confusion has resulted from the proliferation of titles for the various agendas and programmes (*Better Regulation, Smart Regulation, Think Small First*, etc.). The ranking of these programmes and projects and the relationship between them should be clarified, so that the public understands to whom they are addressed ([25]).

([17]) OJ C 383, 17.11.2015, p. 57.
([18]) OJ C 13, 15.1.2016, p. 192 (point 2.6).
([19]) OJ C 18, 19.1.2011, p. 100 (point 3.5).
([20]) OJ C 487, 28.12.2016, p. 51 (points 1.9 and 2.6).
([21]) Idem, (point 3.11).
([22]) Idem (point 3.15).
([23]) Idem (point 3.16).
([24]) Idem (point 3.17).
([25]) OJ C 230, 14.7.2015, p. 66 (point 5.2).

5.2.2.7. In addition, in the interests of transparency and legitimacy, the Committee has urged [26] the Commission to hold consultations without prejudice to structured civil dialogue (TEU Article 11(2)) or to consultations carried out within specific frameworks, such as consultation of the social partners as part of social dialogue (TFEU Article 154), or of advisory bodies such as the EESC (TFEU Article 304).

5.2.3. **Public awareness**

5.2.3.1. There is a need to foster and improve communication to the public. Communication breeds interest, which breeds understanding. The 'New Narrative for Europe' should start with a communication strategy shared by the Commission and the Member States. In this context, it would seem useful to reiterate a point which the EESC stressed in its opinion on the *Single Market Act*: political parties, the media, educational institutions and all stakeholders have a historical responsibility in relation to the EU being able to successfully cope with the challenges of the global world based on the values that so far have characterised our social market economies [27].

5.2.3.2. There is not yet enough awareness of the support networks set up by the Commission; this is especially true of the SOLVIT network, which aims to help individuals and businesses when their rights are infringed by public authorities in another Member State. The EESC welcomes the Commission's initiative to do better in promoting this network.

5.2.3.3. One option [28] would be for the Commission to place more emphasis on public information about infringements, as ultimately it is the Member States' governments which are transposing legislation incorrectly, late or not at all. It was they who adopted this self-same legislation in the Council. They are responsible for the widespread poor application of the EU *acquis*, which is confirmed anew every year in the reports on the application of EU law. The Commission should also examine systematically what measures are essential for effecting a radical change in the current situation and should take account of earlier EESC proposals [29] on this matter.

5.3. **On the key responsibilities of the Commission relating to better application of EU law** (monitoring the application of EU law [30] and compliance with EU law by Member States)

5.3.1. The EESC is clearly concerned about monitoring the application of EU law and has issued a number of specific opinions on this [31]. It has also dealt with the issue in a number of opinions on other topics (*Smart regulation, Better regulation* and *REFIT*, etc.) and in hearings and seminars on the matter (mainly organised by its Single Market Observatory).

5.3.2. In this context, the EESC has often urged the Commission to request its opinion on the Annual Report, so as to register the views of organised civil society on, and thus strengthen, the application of legislation in the EU [32].

5.3.3. The EESC does in fact believe that it can play a useful role as intermediary between legislators and those who use EU legislation. It can, for example, provide its own distinct input into the European Parliament's own-initiative report on the annual report on the implementation of EU legislation by Member States, by homing in on the additions made by Member States when transposing [33] legislation.

5.3.4. The EESC [34] has, moreover, proposed a number of measures for improving the transposition of directives, inter alia:

— deciding on a regulatory transposition instrument early on in the process;

— speeding up the transposition process once the directive has been published in the Official Journal, by entrusting domestic coordination to a national contact point which would have a database established for this purpose;

— encouraging transposition by copying, where specific, explicit provisions or definitions are concerned;

(26) OJ C 383, 17.11.2015, p. 57 (point 2.1.2).
(27) OJ C 132, 3.5.2011, p. 47 (point 1.7).
(28) OJ C 13, 15.1.2016, p. 192 (point 4.4.9).
(29) OJ C 230, 14.7.2015, p. 66.
(30) COM(2016) 463 final.
(31) OJ C 204, 9.8.2008, p. 9 and OJ C 347, 18.12.2010, p. 62.
(32) OJ C 347, 18.12.2010, p. 62 (point 1.10).
(33) OJ C 303, 19.8.2016, p. 45 (point 3.2.4).
(34) OJ C 204, 9.8.2008, p. 9 (point 5).

— allowing transposition by means of specific reference to prescriptive/explicit provisions in the directive concerned, such as lists; tables detailing the products, substances or items covered by the directive; specimen forms; and certificates annexed to the directive;

— gearing national transposition procedures to the scope of the directive by using fast-track procedures, without neglecting the mandatory domestic consultations prescribed for adoption of regulatory texts.

5.3.5. The EESC likewise believes that adequate monitoring of EU affairs in the Member States would also greatly help the Commission and would benefit the quality of its work ([35]).

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([35]) OJ C 325, 30.12.2006, p. 3 (point 6.1.13).

III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

529th PLENARY SESSION OF THE EESC ON 18 AND 19 OCTOBER 2017

Opinion of the European Economic and Social Committee on the 'Compliance package

(a) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Action plan on the Reinforcement of SOLVIT: Bringing the benefits of the Single Market to citizens and businesses'

(COM(2017) 255 final — SWD(2017) 210 final)

(b) 'Proposal for a Regulation of the European Parliament and of the Council on establishing a single digital gateway to provide information, procedures, assistance and problem solving services and amending Regulation (EU) No 1024/2012'

(COM(2017) 256 final — 2017/0086 (COD))

(c) 'Proposal for a Regulation of the European Parliament and of the Council setting out the conditions and procedure by which the Commission may request undertakings and associations of undertakings to provide information in relation to the internal market and related areas'

(COM(2017) 257 final — 2017/0087 (COD))

(2018/C 081/12)

Rapporteur: **Bernardo HERNÁNDEZ BATALLER**

Referral	(a) European Commission, 5.7.2017
	(b) European Parliament, 12.6.2017
	Council, 14.6.2017
	(c) European Parliament, 31.5.2017
	Council, 10.10.2017
Legal Basis	(a) Article 304 TFEU
	(b) Articles 21(2), 48 and 114(1) TFEU
	(c) Articles 43(2), 91, 100, 114, 192, 194(2) and 337 TFEU
Section responsible	Single Market, Production and Consumption
Adopted in section	4.10.2017

Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	184/0/5

1. **Conclusions and recommendations**

1.1. The EESC welcomes the European Commission's plans to create a culture of compliance and smart enforcement with regard to the single market, in that it offers many opportunities to individuals wishing to live and work in another Member State, as well as to businesses wishing to expand their markets.

1.2. The EESC supports the Commission's action plan to improve the quality and effectiveness of the SOLVIT network. Similarly, it recommends that the Commission, in close cooperation with all civil society organisations, raise awareness of the network to enable individuals and businesses to benefit more from SOLVIT's services, which should be used more by businesses within the context of the economic freedoms of the single market; for this reason, the tool should be strengthened.

1.3. The EESC supports the initiative set out in the proposal for a regulation on a single digital gateway, which would allow citizens and businesses to have easy access to comprehensive information. The Committee welcomes the fact that this portal includes access to information, procedures, and effective assistance and problem-solving services, on the basis of the 'only once' principle and the 'whole-of-government' approach.

1.4. There are differences of opinion among the various civil society organisations regarding the proposal for a regulation setting out the conditions and the procedure for requesting information, with some bodies welcoming it and others, such as those representing businesses, voicing serious concerns. In the event that the proposal for a regulation is adopted within the envisaged timeframe, the EESC requests that this tool be used by the Commission, exercising maximum proportionality, where necessary for cases with a strong cross-border dimension while at the same time ensuring respect for the fundamental rights of those concerned, especially as regards the protection of confidential information. In terms of information available to the EC to address Single Market barriers, there are already vast existing information channels which could be explored better and more systematically to identify obstacles in the Single Market including non-compliance with EU legislation. In any event, the EESC hopes there will be a mandatory assessment of the functioning of the Regulation within five years.

1.5. The EESC encourages the EU Member States to make more progress in the area of e-governance, particularly as regards the recognition of eID and foreign identity documents, as the services provided are not deemed to be sufficient.

1.6. The EESC calls on the Commission to involve civil society in this process, building on the latter's efforts and the results achieved, as a means of assessing the state of the EU single market. In any event, the organisations that make up the EESC have the experience, tools and ability to work together on SOLVIT, with a view to stepping up the activities set out in the proposal for a Single Digital Gateway aimed at increasing people's awareness of it and monitoring its quality. This should be carried out while continuing to contribute to any assessments that are deemed appropriate.

2. **The Commission proposals**

2.1. In the Joint Declaration on the EU's legislative priorities for 2017, issued on 13 December 2016, the European Parliament, the Council and the European Commission reiterated their commitment to promoting the proper enforcement of existing legislation. That same day, the Commission presented its Communication on EU law: Better results through better application, which sets out how the Commission intends to step up its efforts to ensure the enforcement of EU law for the benefit of all. In particular, the Commission's Single Market Strategy saw the establishment of its 10 priorities, aimed at creating a culture of compliance with the single market rules, with a special emphasis on strengthening SOLVIT.

2.2. Currently [1], SOLVIT exists as a network of centres set up by the Member States (and EEA countries) as part of their own national administrations, in order to provide a quick and informal means for resolving the problems that individuals and businesses encounter when exercising their rights in the single market.

2.2.1. A SOLVIT case can be any cross-border issue caused by the possible infringement by a public authority of Union law governing the single market, provided that the issue is not the subject of legal proceedings at either national or EU level.

2.2.2. SOLVIT is part of national administrations and operates purely on an informal basis. It cannot intervene in the following cases:

— issues between businesses;

— consumer rights;

— legal costs and damages;

— cases brought before the courts.

2.3. The Commission's Compliance package comprises the following documents:

2.4. Action plan on the Reinforcement of SOLVIT [2].

2.4.1. The Commission is committed to taking, together with the Member States, additional measures to **strengthen the strategic role of SOLVIT** with the aim of making the single market work better in practice for citizens and businesses.

2.4.2. It complements the objectives of the European Pillar of Social Rights and other related initiatives, reflecting the Commission's primary aim of promoting social justice and equal opportunities in the EU.

2.4.3. The aim of this Communication is to promote SOLVIT in three ways:

(i) improving its quality;

(ii) stepping up its activities in order to raise awareness of it, and;

(iii) boosting its role in enforcing EU law.

2.4.4. In general, promoting SOLVIT more strategically and developing more structured cooperation with intermediary organisations and relevant networks will **make it possible to enhance the role of SOLVIT in providing useful comments and evidence** on the functioning of the single market in practice: it will include a greater 'critical mass' of cases, involving a greater number of businesses.

2.4.5. In line with the eGovernment Action Plan, **the Commission will assess the viability of the 'once only' principle**. This would avoid the situation whereby citizens and businesses that wish to lodge a complaint with the Commission for the first time, having not received a solution to their case, must resubmit information that SOLVIT already possesses.

2.5. Proposal for a regulation on establishing a single digital gateway [3].

2.5.1. The Proposal for a regulation lays down rules for the establishment and operation of a single digital gateway to provide citizens and businesses with easy access to high quality, comprehensive information, effective assistance and problem solving services, and efficient procedures regarding EU and national rules applicable to citizens and businesses exercising or intending to exercise their rights derived from EU law in the area of the single market.

2.5.2. It also proposes facilitating the use of the procedures by users from other Member States, supports the implementation of the 'once only' principle, and lays down rules on reporting obstacles in the single market based on the collection of user feedback, notifications regarding the functioning of the single market, and statistics from the services covered by the gateway.

(1) Commission Recommendation of 17.9.2013 (OJ L 249, 19.9.2013, p. 10).
(2) COM(2017) 255 final.
(3) COM(2017) 256 final.

2.5.3. The annexes to this proposal include a list of 13 basic procedures for citizens and businesses moving to another Member State, as well as a list of assistance and problem-solving services established by binding Union laws which can be accessed via the portal.

2.5.4. Areas of information linked to citizens: travel within the Union; work and retirement within the Union; vehicles in the Union; residence in another Member State; education or traineeship in another Member State; healthcare; cross-border family rights, obligations and rules; consumers in cross-border situations.

2.5.5. Areas of information linked to businesses: starting, running and closing a business; staff; taxes; goods; services; funding a business; public contracts; health and safety at work.

2.6. Proposal for a Regulation of the European Parliament and of the Council setting out the conditions and procedure by which the Commission may request undertakings and associations of undertakings to provide information in relation to the internal market and related areas ([4]).

2.6.1. The Proposal for a Regulation aims to help the Commission monitor and enforce single market rules by enabling it to obtain comprehensive and reliable quantitative and qualitative information from selected market players in good time, through narrowly targeted information requests.

2.6.2. The proposal, which excludes 'micro-enterprises' from its scope, does not create any additional administrative burden in that it sets out an exceptional, complementary procedure for obtaining the necessary information in cases where there may be obstacles impeding the functioning of the single market. The information tool created by virtue of this initiative serves as a last resort when other means for obtaining information have failed.

2.6.3. The proposal sets out the procedure to be followed in order to request information, the decision adopting it, how to protect confidential information and professional secrecy, as well as the possibility of imposing fines in cases of wilful failure to respond or of gross negligence on account of providing incorrect, incomplete or misleading information. In any event, powers of judicial review are regulated by the Court of Justice.

2.6.4. According to the proposal, having robust information on malfunctions in the single market will allow the Commission and the national authorities to ensure a higher degree of compliance with single market rules. According to the Commission, this would strengthen consumer trust in the single market and help to maximise its full potential.

3. **General Comments**

3.1. The Committee highlights the need to introduce some elements into the Compliance package proposed by the Commission in order to strengthen the legitimacy of its legislative proposal, meet the expectations of all institutions and bodies involved in implementing it in the future, and ensure it is implemented efficiently in all of the Member States concerned.

3.2. The main aim of this package, namely to strengthen SOLVIT, was called for both by the Member States, via explicit requests to the Commission issued by the Competitiveness Council, as well as by the European Parliament, thereby giving the legislative proposal in question a strong basis of democratic legitimacy.

3.2.1. It would be useful to expand and clarify the rules and functions of the bodies and institutions responsible for overseeing the future application of the legal framework in question and, more specifically, the Regulation setting out the conditions and procedure by which the Commission may request undertakings and associations of undertakings to provide information in relation to the internal market and related areas.

3.2.2. In this respect, the EESC points to the need to refocus the Commission's proposal as, firstly, it does not include any reference to the role of the EESC in the implementation phase of the Regulation and, secondly, it appears that its main purpose is to strengthen the Commission's own role in the administrative phase prior to bringing an action for failure to fulfil obligations.

([4]) COM(2017) 257 final.

3.2.2.1. Firstly, the above proposal weakens the legitimacy of the EU's functionary subsidiarity by preventing the EESC from performing tasks it has been given specific powers to perform by the Treaties, and to which it has successfully devoted a significant part of his activity.

3.2.2.2. The EESC has the experience, tools and abilities to help raise awareness of how SOLVIT works. The Committee is also excluded from any form of cooperation on monitoring and assessing the implementation of the proposed regulations.

3.2.2.3. This approach in the proposal to the single digital gateway should be amended as the current version is not in line with the institutional dimension of the second paragraph of Article 11 TEU, limits the role of the Committee as a representative of the interests of organised civil society, and undermines the very principle of participatory democracy in its functional dimension, rendering the future application of the Regulation less efficient.

3.2.2.4. The single digital gateway should help accelerate the implementation of efficient and interoperable eGovernment that is accessible to all. The EESC supports the 'only once' principle and points to ([5]) the basis of the 'whole-of-government' approach, which involves collaboration between the various public bodies, extending beyond their respective areas of competence, with a view to providing applicants with an integrated proposal from a single body.

3.2.3. Secondly, point III of the Action Plan on strengthening of SOLVIT contains important measures to upgrade SOLVIT's role as an EU law enforcement tool, as a response to repeated calls from the Competitiveness Council and the European Parliament.

3.3. It is also necessary to make several remarks in order to make implementation of the draft communication as efficient as possible.

3.3.1. First of all, as regards the aim of promoting SOLVIT, there are two issues that need to be addressed which do not appear in the Commission's Action Plan.

3.3.2. Firstly, in light of the UK's withdrawal from the EU, expected in mid-2019, the 'market' concept as referred to in section II of this plan will be substantially reduced. If, in turn, the agreement governing the bilateral relationship between the UK and the EU has not been concluded by then, and the UK is not part of the European Economic Area, its administration will be automatically relieved of any obligation to implement the Plan, producing a negative impact on its nationals and those of the Member States in which the network of SOLVIT centres does operate.

3.3.3. Furthermore, since EU law and, more specifically, its fundamental economic freedoms have extra-territorial scope which confers benefits and obligations on the nationals of third states and on these countries' own administrations, in future consideration should if possible be given to setting up centres and applying SOLVIT in the territory of states with which the EU has established special ties through international agreements, such as those laid down in the first three sub-points of point (a) of the sixth paragraph of Article 218 TFEU. This would be of clear benefit to citizens and businesses, as well as to nationals of those third States, and would improve implementation of the rules governing the single market.

3.4. Secondly, it is necessary to create incentives for the public administrations of Member States that, as a result of the digital divide, or for other reasons, require more resources than others in order to implement the Regulation on establishing a single digital gateway.

3.4.1. The Commission could consider proposing that action aimed at strengthening economic, social and territorial cohesion be approved. This action also seems justified in order to incentivise the undertakings concerned in light of the data provided in point III of the Commission's Plan, which show some disproportionate differences in the number of cases per SOLVIT centre, differences which are not justified solely by the different demographic and economic weight of the states participating.

3.5. Finally, it is necessary to establish a commitment in all states where the SOLVIT network operates so that suitable and stable staff that hear applications submitted to the network are selected within the shortest possible timeframe by means of open and transparent competitions.

([5]) OJ C 487, 28.12.2016, p. 99.

4. **Specific comments**

4.1. **On SOLVIT**

4.1.1. The EESC supports the tangible efforts to improve the work of SOLVIT. SOLVIT has the potential to be a useful tool as it provides citizens and businesses with a platform for resolving a wide range of problems relating to the single market. The Commission should improve SOLVIT's overall visibility even further.

4.1.2. Better law enforcement benefits both citizens and businesses alike. Figures show that over the years the proportion of citizen cases submitted to SOLVIT has increased in comparison to business cases, particularly in the area of social security. On the other hand, at 80 % the rate of resolved business cases was below the network's average of 89 %. The Commission should adopt appropriate measures to enable all users to avail of what the network has to offer. It is important to strengthen the tool, and the EESC hopes that the aims set out in the Roadmap to strengthening SOLVIT2 will be achieved, particularly concerning the introduction of an appeal procedure for companies for matters regarding the mutual recognition of goods, as well as more direct and effective legal support for the network using improved arrangements for providing informal legal advice and interactive training tools, with the possibility of managing divergent opinions.

4.2. **On the proposal for a regulation on the single digital gateway**

4.2.1. The Committee approves the initiative for a single digital gateway contained in the proposal for a regulation. The portal should provide citizens and businesses with all the information and assistance they need to operate throughout the single market. If well designed, this tool could help both citizens living and working in another EU country as well as businesses wishing to avail of any of the economic freedoms in another Member State, particularly SMEs and start-ups.

4.2.2. Often, citizens and businesses are not fully aware of their rights and opportunities within the single market. The single digital gateway should improve and connect the existing tools and help businesses to complete the administrative procedures and formalities that are most frequently used online. The portal should make the single market more transparent, as well as more secure and reliable.

4.2.3. It is essential that the Single Digital Gateway provides all the information and assistance that businesses need in order to do business across borders more easily. This includes high-quality and up-to-date information on the market, problem-solving, dispute settlement mechanisms, and electronic procedures for businesses wishing to engage in cross-border activities.

4.3. **On the proposal for a regulation on a Single Market Information Tool (SMIT)**

4.3.1. There is a divergence in the position of the various civil society organisations, particularly employers' organisations, that make up the EESC concerning the proposal for a regulation setting out the conditions and procedure by which the Commission may request undertakings and associations of undertakings to provide information in relation to the single market and related areas.

4.3.2. Organisations representing businesses are calling the proposal into question on the grounds that it is largely targeted at business, while it is the Member States that are responsible for persisting barriers to the single market:

(a) Better enforcement of the agreed rules is essential in order for the Single Market to function more effectively. This starts with guiding and supporting the Member States in transposing and implementing the rules. The Commission should play a greater role in the enforcement process ensuring that all economic operators comply with the rules not hesitating to launch pilot projects or infringement proceedings for non-compliance.

(b) In terms of information available to the EC to address Single Market barriers, there are already vast existing information channels such as the Enterprise Europe Network, the ODR platform, TRIS, the IMI-system and the REFIT platform. These channels could be explored better and more systematically to identify obstacles and segmentations in the Single Market including non-compliance with EU legislation.

(c) Business worry and fear concerning increasing administrative burden of new obligation to provide the confidential commercial information and sensitive data of companies (pricing policy, business strategy) at the risk of fines and penalties.

4.3.3. Organisations representing civil society bodies on the other hand welcome the proposed regulation on the grounds that it is important:

(a) to ensure timely access to reliable data because, as well as increasing transparency, this will improve the functioning of the single market by providing access to relevant, useful, coherent information that is particularly significant for the adoption of certain measures by the Commission;

(b) to obtain comprehensive and reliable quantitative and qualitative information in good time from selected market players, through narrowly targeted information requests, and

(c) to help the Commission ensure that the single market rights of citizens and businesses are respected, and strengthen cooperation with the Member States.

4.3.4. Consequently, in the event that the proposal for a regulation is adopted within the envisaged timeframe, the EESC requests that this tool be used by the Commission, exercising maximum proportionality, for cases with a strong cross-border dimension, where necessary and while at the same time ensuring respect for the fundamental rights of those concerned, especially as regards the protection of confidential information.

4.3.4.1. In addition, the proposal to carry out an evaluation referred to in the explanatory text of the proposal should be moved to the regulatory text, in order to make it a binding rule. This assessment will have to be carried out within five years of the Regulation being adopted, in order to analyse the functioning of these supervisory activities.

5. **The EESC's role in the process**

5.1. The completion of the EU single market and the proper enforcement of its rules are among the EESC's main priorities.

5.2. Citizens and businesses are often not fully aware of the rights and opportunities the single market offers. The single digital gateway should improve and connect the existing tools and help businesses to complete the administrative procedures and formalities that are most frequently used online. The portal should make the single market more transparent, as well as more secure and reliable.

5.3. The EESC is prepared to contribute to this initiative, as a representative of civil society organisations. To that end, it offers to help monitor and assess the implementation of the Regulation on the single digital gateway.

5.4. The EESC calls on the Commission to cooperate with it closely, in order to take advantage of the knowledge and experience of its members, who are drawn from all 28 Member States.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council on the monitoring and reporting of CO_2 emissions from and fuel consumption of new heavy-duty vehicles'

(COM(2017) 279 final — 2017/0111 (COD))

(2018/C 081/13)

Rapporteur: **Dirk BERGRATH**

Co-rapporteur: **Mihai MANOLIU**

Consultation	European Parliament, 15.6.2017
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(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. In the EESC's view, job creation, as well as investment aimed at reindustrialising Europe, economic growth, the transition to clean energy, new business models cutting-edge technologies, environmental protection and public health should be key objectives of EU policy.

1.2. The EESC believes that transport operators have missed opportunities to reduce their fuel bills, which account for a quarter of their operating costs. Fuel efficiency is a fundamental criterion in purchasing decisions, and reducing fuel consumption would help to reduce the fuel import bill. The EU needs certification, fuel consumption assessment, and emission and consumption standards, and this should drive innovation. Fierce competition between vehicle manufacturers has been generated by policies and plans for electric vehicles. The transport sector needs to make its contribution to reducing emissions, along with construction, agriculture and waste.

1.3. EU action is justified in view of the cross-border impact of climate change and the need to safeguard single markets in fuel, vehicle and transport services. The fragmentation of the transport market and loss of market transparency, differences in legislation and divergent policy practices on monitoring, and the lack of a common database containing monitoring data all have significant social and economic effects.

1.4. The EESC welcomes the fact that the proposal for a Regulation makes it easier to monitor and disseminate CO_2 readings of HDVs newly registered in the EU, and provides customers — most of them SMEs — with clear information concerning consumption.

1.5. The EESC welcomes the choice in the proposal for a Regulation of the third option of combined reporting, as this safeguards the digital flow of information, means that data are collected at both national and EU level, and entails low administrative costs.

1.6. The EESC emphasises that significant markets such as the United States, Canada, Japan and China have in recent years implemented certification and fuel efficiency measures in the form of fuel consumption and/or emission standards, in order to stimulate innovation and rapidly improve vehicle efficiency. The competitiveness of European manufacturers of heavy-duty vehicles therefore depends on meeting these standards.

1.7. While it is true that the market basically puts pressure on manufacturers to keep reducing the fuel consumption of lorries in the EU, SME-dominated transport companies often face difficulties in financing the higher purchasing price of more fuel-efficient HDVs.

1.8. The EESC recommends that when setting potential CO_2 limits for heavy-duty vehicles, the Commission should aim to strike a balance between targets that can be achieved in the short to medium-term and the longer-term goal of zero-emission road transport. This means that innovation in existing technology should be stimulated, without constraining investment in zero-emission vehicles.

1.9. In this context, the EESC feels that the recommendations it made in its opinion on the final report of the CARS 21 High Level Group could also be applied for heavy-duty vehicles, especially when it comes to the time frame for implementation.

1.10. The EESC underlines the role of public investment and regulation in reducing road transport emissions, including those produced by heavy goods transport.

1.11. The EESC stresses that any regulatory action must go hand in hand with more policy measures to reduce demand for road transport — including for heavy goods transport — by shifting to other modes (rail, inland waterways, etc.) that produce fewer greenhouse gas emissions.

2. **Introduction**

2.1. The proposal for a Regulation aims to lay down the requirements for the monitoring and reporting of CO_2 emissions from and fuel consumption of new heavy-duty vehicles registered in the European Union. It applies only to heavy-duty vehicles designed and constructed for the carriage of passengers or goods and trailers ([1]).

2.2. Transport and mobility are vitally important for Europe's economy and competitiveness. This importance is also reflected in the wide variety of other policy frameworks that strongly influence this sector. Delivering on the priorities of the Energy Union, the Digital Single Market and the Agenda for Jobs, Growth and Investment will in each case benefit mobility and the transport sector.

2.3. In October 2014, the EU Heads of State and government ([2]) set a binding goal of reducing emissions produced across the EU's entire economy by at least 40 % compared to 1990 levels by 2030. This target is based on global projections that comply with the medium-term timescale of the Paris Agreement on climate change (COP 21) ([3]). The Commission has announced that it will introduce fuel efficiency standards for new heavy-duty vehicles.

2.4. In 2015, according to industry data, lorry exports generated a trade balance surplus of EUR 5,1 billion. This sector is part of an automotive industry which generates 12,1 million direct and indirect jobs in Europe, equivalent to 5,6 % of total EU employment.

([1]) Vehicle categories as defined in Directive 2007/46/EC as last amended by Regulation (EC) No 385/2009: M1, M2, N1 and N2 with a reference mass exceeding 2 610 kg not falling within the scope of Regulation (EC) No 715/2007 of the European Parliament and of the Council, all vehicles in categories M3 and N3, and vehicles in categories O3 and O4.

([2]) European Council conclusions of 24 October 2014, EUCO 169/14, p. 2.

([3]) FCCC/CP/2015/L.9/Rev.1.

2.5. The Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy (February 2015) ([4]) identified the transition to an energy-efficient, decarbonised transport sector as a key area for action. Spurred on by the Paris Agreement on climate change, the measures set out in the Strategy for Low-Emission Mobility (July 2016) ([5]) are now being implemented. Infrastructure investments as part of the Investment Plan for Europe should stimulate the creation of future clean, competitive and connected mobility in Europe.

2.6. Between 1990 and 2014, CO_2 emissions in the EU from commercial vehicles increased markedly faster than those from cars. CO_2 emissions from commercial vehicles rose by some 25 %; emissions from cars by only around 12 %. Lorries and buses now account for around a quarter of road-transport-related CO_2 emissions in the EU. Their share of emissions continues to grow, as increasingly stringent CO_2 limits are reducing emissions from cars and vans.

2.7. Currently, a typical European 40-tonne 4×2 tractor unit in a 'long-haul test cycle' consumes around 33,1 l of fuel per 100 km on roads and highways. A typical European 12-tonne 4×2 distribution truck in an 'urban delivery test cycle' consumes around 21,4 l of fuel per 100 km ([6]).

2.8. Heavy-duty vehicles (HDVs) are usually manufactured in several stages; generally, only tailor-made products are available. The chassis is produced by one manufacturer and then, at the next stage, receives a body from another manufacturer. This means that several different manufacturers have an impact on the completed vehicle's fuel consumption and thus on its CO_2 emissions.

2.9. Purchasers of heavy-duty vehicles are mostly freight transport operators. They can experience fuel costs greater than a quarter of their operational costs and rank fuel efficiency as their top purchase criterion. While the fuel efficiency of heavy-duty vehicles has improved over recent decades, many of the more than half a million transport companies, which are to a large extent SMEs, do not yet have access to standardised information with which to evaluate fuel efficiency technologies, compare lorries in order to make the best-informed purchasing decisions, and reduce their fuel costs. This is compounded by the absence of a commonly agreed methodology for measuring fuel consumption.

2.10. The lack of market transparency translates into less pressure for EU HDV manufacturers to make further efforts to improve vehicle efficiency and invest in innovation in such competitive global market. There is a consequent risk that the EU manufacturing sector could lose its current lead in vehicle fuel efficiency.

2.11. Transparency in the fuel and CO_2 emission performance of vehicles would also stimulate competition inside the EU market, where in 2016 the Commission identified a cartel among manufacturers of lorries that had been operating between 1997 and 2011.

3. **The proposal for a Regulation**

3.1. This proposed Regulation is part of the *Europe on the move* package, intended to: improve road safety; promote fairer tolling; reduce CO_2 emissions, air pollution, traffic congestion and red tape for businesses; combat illegal employment; and ensure decent conditions and rest periods for workers.

3.2. In the long term, these measures will have a positive effect far beyond the transport sector: they will promote employment, growth and investment, strengthen social justice, increase consumer choice and provide Europe with a clear path towards reducing emissions.

([4]) COM(2015) 80 final.
([5]) COM(2016) 501 final.
([6]) Delgado, O., Rodríguez, F., Muncrief, R., *Fuel efficiency technology in European heavy-duty vehicles: Baseline and potential for the 2020-2030 timeframe*, International Council on Clean Transportation, ICCT White Paper, Berlin, July 2017.

3.3. Over the next 12 months this package will be supplemented by further proposals which will include post-2020 emission standards for cars and vans, as well as — for the first time — for heavy-duty vehicles. These proposals will give a further boost to innovation, enhance competitiveness, cut CO_2 emissions, improve air quality, public health, and road safety.

3.4. The knowledge gap will be reduced through simulation software — an efficient tool for calculating fuel consumption and costs. The new (type-approval) certification regulation on the determination of CO_2 emissions will be based on individual performance data and a certified process of sourcing and managing the input data.

3.5. This proposal for a Regulation implements the 2014 Communication on a strategy for reducing heavy-duty vehicles' fuel consumption and CO_2 emissions. The HDV strategy announced an implementing measure setting out the procedure for the certification of CO_2 emissions, calculated by the VECTO simulation tool, from new HDVs placed on the EU market, and a legislative proposal on monitoring and reporting these emissions.

3.6. Given that VECTO is only a simulation tool, the second package should include on-road fuel-consumption testing, as the Commission intends to do for cars and light commercial vehicles. A methodology needs to be developed for differentiating infrastructure use charges for new HDVs in line with CO_2 emissions (review of the Eurovignette Directive and the Energy Efficiency Directive).

3.7. The EESC calls on the European Commission and the Member States to agree to guarantee that third parties (research institutes, transport companies, NGOs) will have access to the official VECTO data on fuel consumption so that the figures can be cross-checked through independent testing. Quality control and verification of the submitted data needs to be carried out in order to address any gaps or irregularities. These checks should be carried out in compliance with fundamental rights.

3.8. The proposal also implements the 2016 European Strategy for Low-Emission Mobility, whose goals include reducing greenhouse gas emissions in road transport by at least 60 % in 2050 compared to 1990 levels and drastically reducing the emission of air pollutants. The strategy also states that the Commission will speed up analytical work on design options for CO_2 emission standards with a view to preparing a legislative proposal during this Commission's term of office.

3.9. For monitoring purposes, starting in 2020, the competent authorities of the Member States must submit data about new vehicles registered in the EU for the first time during the preceding year, and manufacturers of heavy-duty vehicles must submit data on vehicles with a production date that falls during the preceding calendar year. This annual reporting is due by 28 February of each year. The type of data to be submitted is set out in Parts A and B of Annex I to the proposal for a Regulation.

3.10. The European Environment Agency (EEA) is to manage, on the Commission's behalf, a central database of the data submitted that will be publicly available (except for certain sensitive data).

3.11. The competent authorities and manufacturers will be responsible for the accuracy and quality of the data they submit. However, the Commission can undertake its own verification of the quality of the data submitted and, where appropriate, take the necessary measures to correct the data published in the central register. There are no direct reporting obligations for SMEs or micro-enterprises.

3.12. The Commission will produce an annual report with its analysis of the data transmitted by Member States and manufacturers for the preceding calendar year. The analysis must include, as a minimum, figures on average fuel consumption and CO_2 emissions of the heavy-duty vehicle fleet of the Union as a whole, as well as that of each manufacturer. It must also, where available, take into account data on the uptake of new and advanced CO_2 reducing technologies.

3.13. The Commission is empowered by way of delegated acts to amend the data requirements set out in the annexes to the proposal for a Regulation, and to make changes to the monitoring and reporting process.

4. **General comments**

4.1. As in previous opinions on Commission legislative proposals on reducing CO_2 emissions, the EESC confirms its support for all EU initiatives that aim to achieve specific targets for reducing greenhouse gas emissions, as this is a key part of combating climate change. To this end, no reasonable measure to also reduce commercial vehicle emissions may be overlooked, as these vehicles make up over 10 % of the vehicle fleet.

4.2. The instrument chosen — an EU Regulation — is, moreover, the most apt to ensure immediate compliance with the provisions adopted and to avoid distortion of competition that could have implications for the internal market.

4.3. The data on CO_2 emissions and fuel consumption are produced using simulation software called VECTO (Vehicle energy consumption calculation tool).

4.3.1. The decision to develop this tool was made after considering other options for test procedures, including engine test beds, chassis dynamometer testing and on-board tests in real traffic with portable emission measurement systems (PEMS). The key reasons for selecting simulation rather than any of the other testing procedures were:

1. comparability: test results for different types of HDVs are directly comparable;

2. cost efficiency: the high cost of testing facilities compared to simulation;

3. capacity to deal with high variability: HDV production series are very small since vehicles are to a large extent customised to end-users' prescriptions;

4. reproducibility: simulation offers the highest scores for reproducibility of tests;

5. accuracy: small savings from single component optimisations can be detected;

6. comprehensiveness: simulation can be used to optimise the total vehicle configuration in order to achieve lower fuel consumption, since it includes all components (cabin, tyres, engine, transmission, etc.). This approach was confirmed in the 2014 HDV strategy.

4.3.2. The obligation to process and make VECTO data available for all new heavy-duty vehicles enables buyers both to compare the different vehicle models, fuel consumption technologies and various vehicle bodies — e.g. crane, refrigerated compartment — and to compare different combinations of the individual components. Unlike cars, different heavy-duty vehicle models are used in very different ways according to their bodies, leading to a wide divergence in fuel consumption and CO_2 emissions. In addition, the ability to compare increases competition both between vehicle manufacturers and between vehicle body manufacturers.

4.3.3. The EESC welcomes the fact that the proposal for a Regulation makes it easier to monitor and disseminate CO_2 readings of HDVs newly registered in the EU, and provides customers — most of them SMEs — with clear information concerning consumption.

4.3.4. The EESC is aware that measuring real driving emissions (RDE) by means of a portable emissions measurement system (PEMS) is preferable to measuring emissions using a chassis dynamometer or — as proposed here — using simulation software. Following an introductory period, and after taking stock of experience with the VECTO system, the Commission should analyse whether RDE tests for heavy-duty vehicles are feasible, and if so how they can be done.

4.4. During the impact assessment, the Commission tested three options for data collection and reporting to the EEA: (1) reporting by national authorities; (2) reporting by manufacturers of heavy-duty vehicles; and (3) combined reporting by national authorities and manufacturers.

4.4.1. The EESC welcomes the choice in the proposal for a Regulation of the third option of combined reporting, as this safeguards the digital flow of information, means that data are collected at both national and EU level, and entails low administrative costs.

4.4.2. The EESC is pleased to note that data submitted to the Commission by the competent national authorities and the manufacturers of heavy-duty vehicles are to be publicly available. For the sake of protecting data and safeguarding competition, the EESC also welcomes the proposal that neither the vehicle identification number (VIN) nor manufacturing data related to certain supplied parts (transmission, axles and tyres) are to be made public.

4.5. In the EESC's view, it would be worth reflecting on CO_2-based road-user charges for heavy-duty vehicles. To enable this, data from the central register (vehicle identification number and CO_2 emissions readings) would have to be linked with registration data (number plate) and then shared with those who administer road-user charges.

4.5.1. The EESC has on several occasions ([7]) endorsed the Commission's intention to introduce a uniform system at European level for road-user charges based on the polluter-pays principle. A publicly-managed uniform system for road-user charges would also be useful from the perspective of data protection.

4.6. The Commission views its proposal for a Regulation as a necessary step towards implementing and enforcing future CO_2 emission standards for heavy-duty vehicles. A monitoring and reporting system is particularly necessary for assessing compliance with such future standards, as is already the case for cars and vans.

4.6.1. There have been binding CO_2 limits for passenger cars in the EU since 2009, and for vans since 2011. Meanwhile, heavy-duty vehicles have not hitherto been subject to comparable CO_2 limits. However, a Commission legislative proposal is expected in 2018 that will introduce mandatory CO_2 limits for these vehicles as well.

4.6.2. Significant markets such as the United States, Canada, Japan and China have in recent years implemented certification and fuel efficiency measures in the form of fuel consumption and/or emission standards, in order to stimulate innovation and rapidly improve vehicle efficiency. The competitiveness of European manufacturers of heavy-duty vehicles therefore depends on meeting these standards.

4.7. It is true that the market basically puts pressure on manufacturers to keep reducing the fuel consumption of lorries in the EU: fuel costs represent by far the largest single item of expenditure (around 30 %) in the cost structure of long-distance road haulage. Transport companies, as buyers of heavy-duty vehicles, therefore have an interest in lorries that consume as little fuel as possible.

4.7.1. On the other hand, experience has shown that non-binding targets and market forces alone are not sufficient to significantly reduce new vehicles' fuel consumption and, in turn, CO_2 emissions.

4.7.2. The transport sector is dominated by SMEs. One of the most important issues facing SMEs is their difficulty accessing finance. Hence, transport companies often face difficulties in financing the higher purchasing price of more fuel-efficient HDVs.

4.7.3. The EESC recommends that when setting potential CO_2 limits for heavy-duty vehicles, the Commission should aim to strike a balance between targets that can be achieved in the short to medium term and the longer-term goal of zero-emission road transport. This means that innovation in existing technology should be stimulated, without constraining investment in zero-emission vehicles.

4.7.4. In this context, the EESC feels that the recommendations it made in its opinion on the final report of the CARS 21 High Level Group ([8]) could also be applied for heavy-duty vehicles. Those recommendations included giving industry players the time to fully develop the technologies needed to meet more stringent requirements without products becoming significantly more expensive as a result, and thus ultimately slowing down the renewal of the vehicle fleet.

([7]) EESC-2017-02887 (see page 181 of the current Official Journal), EESC-2017-02888 (see page 188 of the current Official Journal), EESC-2017-03231 (see page 195 of the current Official Journal).

([8]) OJ C 10, 15.1.2008, p. 15.

4.7.5. In this context, the United States' regulation on new HDVs, tractor trucks, trailers, and engines can be regarded as a positive example of anticipatory implementation. There, a second phase of regulations will be implemented from model years 2018 to 2027, building upon initial Phase 1 standards that cover model years 2014 to 2018.

4.8. The EESC underlines the role of public investment and regulation in reducing road transport emissions, including those produced by heavy goods transport.

4.8.1. One future option might be the 'e-highway' system, where hybrid trucks would be powered by overhead power lines on key arterial freight corridors in a similar way to trams, trains and trolleybuses today. When connected to the powerline, trucks could run fully electrically. Once driving off the powered track, the vehicle would run on the diesel or electric engine via on-board battery capacity.

4.8.2. Truck platooning has the potential to reduce CO_2 emissions by around 10 %. Trucks closely follow each other at a set distance, using state-of-the art connectivity technology and driving support systems. The vehicle at the head of the convoy acts as the leader. If it brakes, all the other trucks in the platoon also brake. Reaction time is virtually one-on-one for all trucks. Platooning results in lower fuel consumption and increased safety, but regulatory changes might be needed.

4.8.3. Directive (EU) 2015/719 ([9]) finally introduced new amendments to heavy-duty vehicle regulations that would permit more aerodynamic vehicle designs with improved energy efficiency and emissions behaviour to be introduced onto European roads. The amendments include derogations on the maximum total length of HDVs, allowing for existing trucks to be retrofitted with rear aerodynamic flaps and new trucks to feature these additional aerodynamic elements, as well as rounder, longer cabin designs. However, manufacturers of trailers report problems with the registration authorities in applying these new regulations.

4.9. The EESC stresses that any regulatory action must go hand in hand with more policy measures to reduce demand for road transport — including for heavy goods transport — by shifting to other modes (rail, inland waterways, etc.) that produce fewer greenhouse gas emissions.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([9]) Directive (EU) 2015/719 of the European Parliament and of the Council of 29 April 2015 amending Council Directive 96/53/EC laying down for certain road vehicles circulating within the Community the maximum authorised dimensions in national and international traffic and the maximum authorised weights in international traffic (OJ L 115, 6.5.2015, p. 1).

Opinion of the European Economic and Social Committee on the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term review on the implementation of the digital single market strategy — A connected digital single market for all'

[COM(2017) 228 final]

(2018/C 081/14)

Rapporteur: **Antonio LONGO**

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1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee (EESC) supports the proposal to revise the *digital single market strategy* and acknowledges the considerable efforts made by the Commission in legislative initiatives to achieve the EU's objectives for technological, economic and social growth.

1.2. Nevertheless, the EESC voices its concern at delays in the adoption and implementation of the 35 actions and legislative initiatives submitted, which could widen the *gap* in technology and in the EU's competitiveness vis-à-vis global competitors.

1.3. The EESC backs the Commission's proposal to incorporate three new legislative initiatives on online platforms, the European data economy and cybersecurity into the digital single market strategy. The Committee recommends an integrated approach to this that takes on board the need to boost competitiveness and protect digital rights in both the internal market and third countries.

1.4. The EESC stresses the need to strengthen the *social dimension* ([1]) of the digital single market strategy. It is only through European-level governance involving national governments, the social partners and civil society as a whole that it will be possible to tackle the challenges and risks inherent in the digital revolution, in the process safeguarding vulnerable people and offering greater opportunities to individuals and businesses.

1.5. The EESC hopes that, whilst respecting national competences here, the EU will launch a major plan for digital education and training, providing everyone with the cognitive tools they need to cope with the transition. The plan should cover education of all types and at all levels, from teacher training to curriculum revision and teaching methods, and should be closely linked to a system of lifelong training designed to update or convert workers' skills. Special attention should also be paid to managers, by launching advanced training courses in collaboration with universities.

([1]) OJ C 125, 21.4.2017, p. 10, points 3.8 and 3.9.

1.6. The digital revolution will transform every aspect of work: organisation, the place of work, tasks, timing, conditions and contracts. In the EESC's view, social dialogue can play a key role in this process and it would call on the Commission, together with the social partners, to set the ball rolling by exploring the medium- and long-term prospects and identifying robust strategies to guarantee decent wages, good jobs, a sound work-life balance and widespread access to social security.

1.7. The EESC welcomes the recent successes notched up in the digital sector, but calls on national and European institutions to make sure that regulations (such as *the abolition of retail roaming surcharges*) are properly and fully implemented and to push on with work to reduce fragmentation and distortion. In this respect, the EESC would advise the Commission to publish at the earliest opportunity a regulation enabling portability of online content.

1.8. The Committee stresses the importance of closing the infrastructure, regional and cultural *digital divide* as soon as possible, as it now acts as a brake on the EU's economic and social development and a source of inequality in the living conditions and opportunities for individuals and businesses. The funding offered so far is substantial, but not enough to cover all the EU's development needs.

1.9. The Committee reaffirms that internet access is a fundamental right for everyone, as well as an indispensable tool of social inclusion and economic growth, and so must be ranked among universal services with no further delay.

1.10. The EESC calls on the Commission to speed up implementation of the e-Government and e-health strategies, both because these are a prerequisite for European digital development and because of the positive impact they will have on the quality of services and people's lives.

1.11. The Committee thinks that SMEs should be given more help, since using digital is already a sine qua non for staying in the market. Moreover, support for companies cannot fail to include an ad hoc strategy for *start-ups* based on three key objectives: simpler rules, networking and easier access to financing.

1.12. The Committee calls on the Commission to bolster consumer rights protection across the EU, while ensuring that harmonising legislation does not result in lower standards of protection where this is already established and satisfactory.

1.13. The EESC considers cybersecurity to be a priority for European sovereignty and competitiveness, as it affects every aspect of the digital environment. The Committee recommends that the Commission proposal stipulate a marked improvement in standards of prevention, deterrence, response, crisis management and resilience with regard to EU fundamental rights, laying the groundwork for stronger cooperation between Member States and with third countries.

2. **The state of play in the digital single market**

2.1. The European Commission has drawn up 35 legislative proposals set out in the digital single market strategy ([2]) since May 2015, many of which have yet to be implemented as they are either still being negotiated by the Commission, the Parliament and the Council or they have not yet been put into effect in the individual Member States. The communication on the mid-term review of the digital single market strategy takes stock of the initiatives undertaken and the results achieved.

2.2. The most significant initiatives already implemented or yet to be implemented include:

— the *abolition of retail roaming surcharges* ([3]) from 15 June 2017;

([2]) COM(2015) 192 final.
([3]) COM(2016) 399 final.

— *cross-border portability of online content services* [4] from the first few months of 2018;

— the *removal of unjustified geo-blocking* [5] detrimental to consumers.

2.3. The Commission considers that it is of paramount importance to implement the *connectivity package* [6], which will promote the delivery of high-quality digital infrastructure throughout the EU so as to extend the benefits of the digital revolution to all businesses and individuals.

2.4. With a view to encouraging cross-border e-commerce, it will be important to adopt the Commission's proposals to harmonise *rules on digital contracts* [7], step up cooperation between national consumer protection authorities [8], ensure affordable cross-border parcel delivery services [9], simplify the procedures for declaring VAT [10], combat unfair commercial practices and safeguard intellectual property rights, including copyright [11].

2.5. In order to reach higher standards in terms of *data protection* [12] and *confidentiality of electronic communications* [13], the Commission has adopted two ad hoc regulations which should be implemented in 2018.

2.6. The legal framework for the audiovisual sector [14] will be adapted to the requirements of the digital era by revising the *rules on copyright* [15] in order to facilitate cross-border access to content and extend the possibilities for making use of content protected by copyright in the field of education, research and culture.

3. **Summary of the Commission's new proposals**

3.1. Given the inevitable developments in the digital world, which will entail constant updating of both infrastructure and regulations, it is vital that all users are guaranteed a safe, open and fair digital environment. Only then will people start to have more confidence, the lack of which is still curbing the expansion of the digital single market [16].

3.2. The Commission has identified three sectors in which more decisive action by the EU is necessary and regarding which it intends to present legislative initiatives in the near future: 1) **online platforms**, 2) **the European data economy**, 3) **cybersecurity**.

3.3. *Online platforms* [17] are reshaping the digital single market to such an extent that they are taking on the role of *internet watchdogs*, as they control access to information, content and transactions. In 2017, the Commission will therefore be preparing an initiative to involve them in — and make them accountable for — internet management. This initiative will tackle in particular the issue of unfair contract terms and improper commercial practices in the relations between platforms and businesses. The taking down of illegal content will also be made quicker and more effective with the introduction of a formal *notice and takedown* system.

3.4. The *data economy* will be increasingly important for businesses, individuals and public services. In 2017, the Commission will issue two legislative initiatives on the *free movement of non-personal data across borders* and on the accessibility and *re-use of public data* and data collected using public funds. Lastly, in order to prepare the digital market for the development of the internet *of Things*, principles will be identified to determine who is liable in the event of harm caused by high-intensity data products.

(4) COM(2015) 627 final.
(5) COM(2016) 289 final.
(6) COM(2016) 587, 588, 589, 590, 591 final.
(7) COM(2015) 634 and 635 final.
(8) COM(2016) 283 final.
(9) COM(2016) 285 final.
(10) COM(2016) 757 final.
(11) COM(2016) 593 final.
(12) Regulation (EU) 2016/679.
(13) COM(2017) 10 final.
(14) COM(2016) 287 final.
(15) COM(2016) 593 and 594 final.
(16) Special Eurobarometer survey 460.
(17) COM(2016) 288 final.

3.5. In 2017, the Commission will review the *EU's cybersecurity strategy* ([18]) and the mandate of the European Union Agency for Network and Information Security (ENISA) so that they are able to deal with the new challenges and risks. Further measures will be proposed regarding rules, certification and labelling for cybersecurity in order to protect connected devices more effectively from cyberattacks. This process will strengthen the public-private partnership.

3.6. In order to improve digital skills and employability, the Commission has called for the *New skills agenda for Europe* and the *Digital Skills and Jobs Coalition* ([19]) to be implemented promptly ([20]). In 2018, the Commission will also be initiating the *Digital Opportunity* project to give graduates the chance to carry out cross-border traineeships in the digital sector.

3.7. The *strategy on digitising European industry* ([21]) will encourage cooperation and the exchange of best practice. This initiative is supported by Horizon 2020 resources (EUR 5,5 billion) and private and national investments, drawing on the public-private partnership. A number of key sectors such as energy, transport and finance will undergo significant changes, in line with sustainability and efficiency criteria.

3.8. The *e-Government 2016-2020* plan ([22]) will assist the digital transition of public services at national and European level. The Commission expects to see the biggest changes in the health sector, as a result of the right to seek treatment in any EU country (digital medical records and prescriptions) and the increasing use of technology to support doctors (for analysis, operations, treatment, etc.).

3.9. In order to strengthen its position in the global arena, the EU has earmarked more funds for research and innovation (R&I) and launched two major technological initiatives: *cloud computing* for sharing and re-using knowledge, and *quantum technologies* for solving calculations more complex than those currently tackled by supercomputers.

3.10. The Commission believes that the digital single market strategy will become increasingly important in relations between the EU and third countries: it will safeguard new digital rights, combat digital protectionism and promote initiatives to combat the global *digital divide*.

4. **General comments**

4.1. The EESC acknowledges the considerable efforts made by the Commission in legislative initiatives to achieve the digital single market strategy's objectives for technological, economic and social growth. The Committee considers that this mid-term review is crucial for promoting the implementation of this strategy by making it less fragmented and reducing distortions.

4.2. The EESC welcomes the results achieved recently, such as the abolition of retail roaming surcharges ([23]), cross-border portability of online products ([24]) and the removal of unjustified geo-blocking ([25]). These initiatives will help improve the EU's image, although many problems have yet to be resolved in order to guarantee consumer rights and a level playing field for businesses.

4.2.1. However, the Committee notes that in many Member States the process of abolishing roaming surcharges is patchy and uneven, which manifestly harms consumers and the EU's image. In a number of countries, consumer associations complain of attempts to get round the ban, mainly by restricting the amount of gigabytes available for surfing. The EESC therefore calls on the Commission to scrupulously monitor this process and bolster and speed up methods and deadlines for implementation.

([18]) JOIN(2013) 1.
([19]) COM(2016) 381 final.
([20]) 2016/C484/01.
([21]) COM(2016) 180 final.
([22]) COM(2016) 179 final.
([23]) OJ C 24, 28.1.2012, p. 131; OJ C 34, 2.2.2017, p. 162.
([24]) OJ C 264, 20.7.2016, p. 86.
([25]) OJ C 34, 2.2.2017, p. 93.

4.2.2. As regards cross-border portability of online content, the EESC hopes that the provisional agreement between the Council and the Commission, adopted by the European Parliament on 18 May this year, will soon be implemented in practice. The agreement includes a regulation introducing a common EU approach to portability of online content, so that subscribers will be able to access and use this when they are temporarily in a Member State other than the one where they are resident.

4.3. The EESC is concerned that only a few of the legislative proposals presented by the Commission with regard to the digital single market strategy have actually been implemented. This is a significant curb both on the assessment of the strategy as a whole and on the EU's realistic prospects for growth and competitiveness. The Committee calls on all the institutions involved in the *co-decision* process to speed up negotiations and trusts that the Member States will implement the rules in a timely and consistent fashion.

4.4. The EESC maintains that the digital revolution will dramatically change people's lives and the way of doing business, producing and marketing, with long-term effects that are difficult to foresee at this time, in particular on the labour market and employment. Digitisation will change work organisation, the place of work, tasks, times, conditions and contracts. The Committee therefore stresses the need to strengthen the *social dimension* ([26]) of the digital single market strategy. Only then will it be possible to see all the challenges and risks inherent in the digital revolution and give everyone the chance to reap the benefits and opportunities.

4.5. The EESC considers it crucial to launch at the earliest opportunity a major plan for digital education and training, providing everyone with the cognitive tools they need to cope with the transition. Whilst it is aware of the specific national remit in this area, the EESC hopes that the programme will start in schools, building on teachers' knowledge, adapting curricula and teaching methods to digital technologies (including *e-learning*) and providing all pupils with high-quality training. The programme will naturally include provision for lifelong learning with the aim of adjusting or updating all workers' skills ([27]).

4.6. In the Committee's view, the business world will have to act swiftly to adapt its own digital skills, paying particular attention to cybersecurity issues. In this respect, the EESC thinks that the EU should assist firms providing high-level training for managers by drawing on the support of academic experts, so as to enhance knowledge and awareness of the risks of data theft and computer crime. The EESC also believes it is important to support the training of IT technicians responsible for security by providing special platforms for simulating cyber-attacks and testing their response capability.

4.7. Despite the recommendations issued in 2015 ([28]), the EESC notes that a number of key challenges for the delivery of the digital single market have not yet been addressed properly. Improved digital skills, IT literacy, the digitisation of businesses and *e-Government* are still prerequisites for full, shared and balanced development.

4.8. The EU has invested — and is continuing to invest — many billions in research and innovation, as well as in the digital sector. Even so, set against the Commission's estimates of what is needed (about EUR 155 billion), we fall far short of the investment levels needed to ensure sturdy and even development in the digital sector to match the main global *competitors*. This is why the Commission has often said that it intends to turn to Public Private Partnerships (PPP) to plug the investment *gap*.

4.8.1. The EESC believes that, while PPPs are unquestionably an important lever for development and innovation, they cannot be expected to solve every problem. It therefore calls on the EU institutions to be more energetic in terms of action and financing in areas that are *less geared to the market*, as well as in all those initiatives (such as the CEF programme) designed to establish high added value infrastructure that may, however, only provide a return much later.

([26]) OJ C 125, 21.4.2017, p. 10, points 3.8 and 3.9.
([27]) OJ C 434, 15.12.2017, p. 30.
([28]) OJ C 71, 24.2.2016, p. 65, *A digital single market strategy for Europe*, points 1.1, 1.2, 1.3 and 1.8.

4.9. Taxing digital multinationals has been hotly debated and the subject of robust institutional initiatives for some time now. National tax systems, in particular, seem not always to properly tax the profits these companies generate within the EU. The Committee calls on the Commission to find responses that, while complying with the subsidiarity principle, will strike a balance between the need to tax profits fairly and the need to avoid hamstringing innovation and development.

4.10. The EESC reiterates the importance of bridging the *digital divide*, which runs the risk of becoming one of the main factors of economic, employment and social exclusion. The EU strategies on digital education and training (the *New Skills Agenda for Europe* and the *Digital Skills and Jobs Coalition*) therefore need to be implemented promptly. With this in mind, the EESC would urge the Commission to ensure that the Member States implement this process swiftly and correctly.

4.11. The Committee reaffirms the principle that internet access is a fundamental right for everyone, as well as an indispensable tool of social inclusion and economic growth. For this reason, high-speed internet access must be ranked among universal services with no further delay ([29]). The EESC also believes that the phenomenon that is the digital revolution can only be mastered with the active involvement of the public, who need to be conscious of the opportunities and risks the internet provides.

4.12. It is therefore important that the EU actively support and participate in the annual internet Governance Forum, which will meet next in Geneva in December 2017 under the heading *Shape Your Digital Future!* to discuss how the opportunities afforded by the internet can be maximised while facing up to emerging risks and challenges.

4.13. The EESC endorses the *connectivity package* ([30]) and particularly welcomes the initiatives to reduce the regional *digital divide* (Wifi4EU) and guarantee good quality digital communications (5G). Specifically, the Committee thinks WiFi4EU is crucial to ensuring that the digital single market really reaches everyone. It therefore hopes that this pilot project, for which EUR 125 million has been allocated so far, becomes a structural component of EU policies, with its budget adjusted so as to guarantee that everyone, including people living in areas that are of little interest to the market (islands, mountainous and remote areas, etc.) has a good internet connection.

4.14. The EESC endorses the proposal to involve **online platforms** in a wide-reaching project to make them responsible players in a fair and transparent internet ecosystem. However, this process cannot disregard the need to reduce legislative fragmentation, taking into account the impact on businesses (unfair competition), workers (contracts) and consumers ([31]) (cross-border disputes) and maintaining the standards achieved.

4.15. The EESC considers that the **European data economy** is one of the sectors in which the gap between the EU and global digital innovation leaders is clearest. The Committee supports the proposal to establish a legislative framework, provided that this framework is also geared to *cloud computing* ([32]), *artificial intelligence* and *the internet of Things, takes account of contractual freedom — removing obstacles to innovation* — and receives appropriate EU funding.

4.16. The EESC considers **cybersecurity** to be a priority, since it affects all fields of the digital environment and is crucial to ensuring European sovereignty, something that cannot be achieved without *digital autonomy* in both data collection and management and the equipment actually used to control and monitor this process. Given the vast range of areas affected, the EESC believes that funding for cybersecurity needs to be substantially increased so as to transcend obstacles to research, bring sensitive industrial sectors (transport, manufactured goods with a high added value, etc.) on board and help Member States to shore up their digital defences.

([29]) OJ C 161, 6.6.2013, p. 8.
([30]) The EESC has drawn up an opinion on each of these proposals, grouped together to ensure consistency in terms of approach and content: OJ C 125, 21.4.2017, p. 51; OJ C 125, 21.4.2017, p. 56; OJ C 125, 21.4.2017, p. 65; OJ C 125, 21.4.2017, p. 69; OJ C 125, 21.4.2017, p. 74.
([31]) OJ C 75, 10.3.2017, p. 119.
([32]) OJ C 487, 28.12.2016, p. 86.

4.17. Cyberterrorism and cybercrime are now a danger for all economies and governments. The Committee recommends that the proposed review of the cybersecurity strategy stipulate a marked improvement in standards of prevention, deterrence, response, crisis management and resilience with regard to EU fundamental rights, laying the groundwork for stronger cooperation between Member States and with third countries.

4.17.1. The EESC supports the approach taken by the Commission, believing that all digital products and connected systems must be secure from the moment that they enter the market, and would like to see the swift adoption of the measures announced.

4.17.2. The Committee endorses the Commission's proposal to extend the mandate of ENISA ([33]) and adapt it to the new global threats. In particular, the EESC considers that the revision of European strategies on cybersecurity requires ENISA to communicate more openly and transparently with the public and organised civil society in order to enhance its initiatives and work.

5. **Specific comments**

5.1. Although 90 % of European businesses require digital skills, in 2016 only 44 % of Europeans and 37 % of workers had them at adequate levels. Furthermore, almost half of European businesses fail to provide further training for their employees, thereby harming workers and undermining the competitiveness of the business ([34]). The EESC therefore reiterates the urgent need to use ad hoc resources to fund a major strategy in the area of education and digital training ([35]), with particular reference to the gap separating *digital natives* and older people ([36]), and more generally supporting and guiding anyone who is not yet 'digitised', whatever their age or condition.

5.2. When it comes to the fallout on jobs, there is also a real possibility that robotisation will lead to an overall reduction in jobs, progressively taking over all repetitive and 'less' creative work ([37]). The EESC therefore calls on the Commission to use the European social dialogue to explore ways to guarantee decent wages, a sound work-life balance, good jobs and widespread access to social security ([38]).

5.2.1. To meet the challenge of digitisation, it will be essential to take action on education and training, coming up with ad hoc Europe-wide mechanisms to redeploy workers whose jobs are given to machines or rendered obsolete by robotisation and providing adequate social safety nets to guarantee that they can live decently while retraining. It will also be crucial to include these measures in a broad, elastic and resilient strategy that can respond swiftly and effectively to changes caused by the digital revolution so that we control it rather than being controlled by it.

5.3. The EESC reiterates its support for the action plan on *e-Government*, which aims to provide user-friendly, personalised and cross-border digital services. However, the Committee is of the view that these objectives cannot as yet be achieved given the delays in implementing the strategy at national level and the absence of a comprehensive and *interconnected* Europe-wide digital infrastructure. The Committee notes the persistence of problems with the '*one-off*' principle and delays in establishing a *single digital gateway*. The Committee also reiterates the requirement to guarantee *updates* in line with the most up-to-date technology and the need for more openness towards users as regards the possibility to change or delete their own data (*right to be forgotten*) ([39]).

([33]) OJ C 75, 10.3.2017, p. 124.
([34]) European Commission, *Digital Transformation Scoreboard*, 2017.
([35]) OJ C 173, 31.5.2017, p. 1, OJ C 173, 31.5.2017, p. 45.
([36]) OJ C 389, 21.10.2016, p. 28.
([37]) 'The Risk of Automation for Jobs in OECD Countries: A Comparative Analysis', OECD, 2016. A lively debate is being waged about the impact of the digital revolution on employment levels. While the OECD estimates a 9 % fall in the number of jobs (those deemed most repetitive), other studies — such as those of the World Bank and other institutions — see either an increase in the number or new jobs making up for those lost. All the studies, however, accept the principle that the world of work will undergo major changes and agree on the need to adopt timely and resilient countermeasures.
([38]) OJ C 13, 15.1.2016, p. 161.
([39]) OJ C 487, 28.12.2016, p. 99.

5.4. The Committee has identified similar problems in *e-health* and *e-Government*. The EESC therefore proposes to encourage the roll-out of advanced digital infrastructure, develop cooperation with R&I and ensure that users and medical professionals are more involved ([40]).

5.5. The EESC supports the communication on *digitising European industry*, pointing out that no Member State on its own is in a position to exploit all the opportunities of the digital revolution. Conversely, the EU can stand up to its main global *competitors* provided that it prepares a common strategy to reinforce Europe's industrial base (*Industry 4.0*) as an independent component of competitiveness, attract investment, increase the number of jobs and stay focused on the objective of industrial output comprising 20 % of European GDP by 2020 ([41]).

5.6. The Committee calls on the Commission to support digital innovation in all companies, with particular attention to SMEs which could reap considerable benefits (simplification and less red tape), but points out that without adequate support and help they risk being squeezed out of the market. Digitisation is in fact already a sine qua non for every company to stay in the market — although this will not be sufficient in itself — and SMEs, which have fewer instruments and resources, could find it more difficult to cope with the change.

5.7. The EESC considers that *start-ups,* which are important for digital innovation, economic growth and jobs, need to be supported with help for development and *scaling up*. In particular, the Committee recommends a cross-cutting approach to the various types of business, based on three key objectives: simpler rules, networking and easier access to financing ([42]).

5.8. The EESC considers that cross-border e-commerce is one of the key sectors for the development of the digital single market. The Committee reiterates its request for more decisive action to make parcel delivery services affordable for everyone ([43]). It also recommends harmonising the rules on digital contracts more effectively, owing to the choice of legislative instrument (two directives), which might lead to confusion without actually simplifying the regulatory framework ([44]).

5.9. The EESC welcomes the information provided by the Commission on the results achieved with regard to consumer protection through the *Online Dispute Resolution Platform* ([45]), but considers that much remains to be done to increase awareness of the platform and bolster consumer confidence in e-commerce. In particular, the EESC would like to see out-of-court — especially cross-border — resolution tools made stronger. Measures are also needed on data protection ([46]), audiovisual media services ([47]), combating fraud and upholding copyright ([48]), with a focus on safeguarding users — particularly the most vulnerable — from cyberbullying, *fake news* and all forms of incitement to violence.

5.10. The Committee also welcomes the process initiated by the Commission to harmonise consumer protection at European level, provided that this does not drag down high standards of consumer protection and aims to secure an overall improvement in digital consumer protection in the EU.

5.11. The EESC calls on the Commission to make the digital single market strategy increasingly cross-cutting, integrating it into other sectors and strategies which are critical to Europe's development, such as energy, the circular economy ([49]) and transport ([50]) within the broader context of the United Nations' sustainable development goals. It could in fact be key to achieving the objectives of sustainability, simplification and greater efficiency.

([40]) OJ C 13, 15.1.2016, p. 14.
([41]) OJ C 389, 21.10.2016, p. 50.
([42]) OJ C 288, 31.8.2017, p. 20.
([43]) OJ C 34, 2.2.2017, p. 106.
([44]) OJ C 264, 20.7.2016, p. 57.
([45]) According to the Commissioner, Ms Jourova, more than 24 000 disputes were resolved in the first year. http://europa.eu/rapid/press-release_IP-17-727_en.htm
([46]) OJ C 288, 31.8.2017, p. 107.
([47]) OJ C 34, 2.2.2017, p. 157.
([48]) OJ C 125, 21.4.2017, p. 27.
([49]) OJ C 264, 20.7.2016, p. 98.
([50]) OJ C 288, 31.8.2017, p. 85; OJ C 345, 13.10.2017, p. 52.

5.12. The EESC believes that the EU needs to boost investment in R&I in order to be able to compete with digital innovation leaders. The initiatives to strengthen the infrastructure are important but not decisive. Specifically, Europe must roll out *cloud computing* ([51]) as soon as possible, in line with the *Open Innovation, Open Science, Open to the World* strategy. The Committee also supports the move to keep developing quantum technologies and artificial intelligence ([52]).

5.13. The EESC endorses the Commission's decision to develop the external dimension of the digital single market strategy, but feels that so far very little has been done in this sector. It would particularly like to see action taken on two levels:

— *a definition of new relationships with digital competitors*. The EU must protect digital rights, combat digital protectionism and be at the forefront of a global alliance to promote cybersecurity. This process will play a key role in the definition of new global governance;

— *promotion of digital development*. Digitisation can be an important driver of growth capable of combating the causes of war, poverty and migration. The EESC also considers that meeting most of the UN sustainable development goals requires full-scale and widespread use of digitisation that actively involves countries and individuals, and not only the richest and most advanced. Reducing the technology gap, therefore, must be a priority for the EU at global level and not just in terms of cross-border cooperation.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([51]) OJ C 487, 28.12.2016, p. 86.
([52]) OJ C 288, 31.8.2017, p. 1.

Opinion of the European Economic and Social Committee on the 'Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Competition Policy 2016'

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Rapporteur: **Paulo BARROS VALE**

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1. Conclusions and recommendations

1.1. The EESC welcomes the content of the Report on Competition Policy 2016 ([1]) and is supportive of it on the whole. However, the Committee has some concerns regarding the current context and what it believes European competition policy could be.

1.2. The EESC is pleased to note the efforts made by the Commission to promote compliance with the rules, thereby contributing to an environment of fair and free competition, as well as to the development of international cooperation.

1.3. The EESC believes that EU competition policy requires better definition and that it is often out of step with other EU policies that influence it. Businesses and consumers experience various problems other than those covered by the Commission under competition policy, which also influence the internal market. The problems deriving from taxation are one example of this.

1.4. The Commission's powers are limited but it does hold the power of initiative and it could take more ambitious steps in to coordinate competition policy both with the various European policies and with the activities of national competition authorities (NCAs). European and national competition policies must be perfectly aligned if the Commission and the NCAs are to be able to work more effectively.

1.5. On a daily basis, competition has negative effects on certain groups, particularly SMEs and consumers: the business practices of large retail groups destroy smaller companies — as a result of aggressive negotiations — and limit consumer choices; unclear pricing formulas, for example in relation to energy and fuel prices, affect businesses and consumers; and dumping practices continue — particularly in the transport and distribution sector. These issues should be subject to continual monitoring and tackled by the NCAs and the Commission.

1.6. Although it is known that the power of large groups may lead to distortions of competition, the Commission has been supporting mergers and concentrations that create sectoral giants. The EESC calls on the Commission to establish genuinely effective corrective measures as part of these processes and to closely monitor the activities of large groups, safeguarding compliance with the rules as well as consumer and SMEs' interests.

([1]) COM(2017) 285 final.

1.7. It is not possible to harmonise tax policies, according to the Treaty. Differences in direct and indirect taxation sometimes affect businesses and consumers and worsen asymmetries. The EESC reiterates that competition policy must mitigate distortions stemming from taxation, for as long as Europe reserves this area as a national competence.

1.8. International cooperation has developed with several agreements being negotiated. The EESC advocates that real partnerships should be sought out and that the agreements reached should reflect the extensive ongoing discussions on the content of the trade agreements.

2. **Gist of the 2016 Report on competition policy**

2.1. The report gives a general outline of the measures adopted by the Commission in the field of competition policy summarising the broader working document on the action taken in 2016 ([2]).

2.2. The President of the European Commission, Jean-Claude Juncker, highlighted the importance of competition policy in his 2016 State of the Union address, stating that: 'A fair playing field also means that in Europe, consumers are protected against cartels and abuses by powerful companies. […] The Commission watches over this fairness. This is the social side of competition law.'

2.3. The report is organised into six parts: the Introduction; Ensuring a true level playing field for all: how State aid control helps tackle the challenge; Boosting competition and innovation across the Digital Single Market; Delivering a Single Market that empowers EU citizens and businesses; Unlocking the potential of the European Energy Union and Circular Economy; and Shaping a European and global competition culture.

2.4. Broadly speaking, the EESC supports the content of the report. However, the Committee takes of a critical view of the assertion, under the section entitled 'Upholding a fruitful interinstitutional dialogue' that 'the State aid rules also preserve a level playing field between banks that receive State aid and banks that do not'. A number of conditions were indeed imposed on the banks that receive state aid, but it cannot be claimed that they have preserved a level playing field between those receiving state aid and others. There is a distortion of competition and the corrective measures imposed do little to rectify it.

3. **General comments**

3.1. The EESC welcomes the 2016 Report on competition policy, which addresses areas that are of great importance to the lives of companies and citizens.

3.2. The European industrial base is made up mainly of SMEs. These businesses are the backbone of the European economy, while also being the most vulnerable to unfair competition due to their size.

3.3. In the large-scale retail sector, SMEs are particularly affected by abuses of dominant positions by large retailers which, in taking advantage of their greater bargaining power and acting against all competition rules, use abusive negotiating practices which continue to destroy small producers and businesses and to influence consumer choices and interests. The EESC recommends that the Commission include an analysis of the functioning of the food distribution chain in future competition policy reports.

3.4. When dealing with the abuse of dominant positions and other practices that limit competition, action by NCAs is of the utmost importance. The capacity of NCAs in terms of resources, powers and the independence of their activities has been examined by the Commission and measures are due to be adopted in response to the finding that their effectiveness could be further enhanced. The EESC reiterates that the NCAs can and should take a more preventative approach rather than a reactive one, following complaints from operators or consumers — in particular with regard to practices that constitute an abuse of a dominant position, which occur constantly during negotiation meetings. Monitoring negotiations may help to prevent some instances of abuse of dominant powers, thereby protecting small operators and consumers.

3.5. It is particularly in this area that it is important to ensure effective enforcement of the right to compensation for the victims of anti-competitive practices, as neither Directive 2014/104/EU of 26 November 2014 nor the Recommendation

([2]) SWD(2017) 175 final.

on common principles for collective redress mechanisms in disputes concerning infringements of competition law have proved capable of providing the necessary collective redress for the rights of those affected by such infringements.

3.6. There have been several mergers and concentrations in various sectors, creating 'giants', that may affect the functioning of the market and undermine competition rules. The Commission has been called upon to rule on some of these procedures. In practice, few have been blocked and the corrective measures imposed in exchange for authorisation have fallen short of expectations. On one hand, the Commission justifiably pursues cartels, but on the other, authorises mergers and acquisitions without compensatory measures. The EESC is concerned about the potential danger of creating large groups in some sectors, which may lead to serious distortions of competition, in the destruction of various SMEs and influence consumer choices. The Committee urges the Commission to be vigilant.

3.7. The distortions of competition stemming from the EU's external relations affect both its imports and its exports. Indeed, products are entering the European market from countries where social dumping practices, abusive environmental practices and state aid that would be considered illegal under European rules persist. Moreover, European companies that comply with standards see their access to other markets impeded, as it is clearly impossible to match the pricing practices of competitors from countries with more favourable legislation or with ineffective enforcement controls.

3.8. However, distortions of competition can also result from the EU's own rules. An example of this is the REACH Regulation (Registration, Evaluation. Authorisation and Restriction of Chemicals) which, as of 31 May 2018, will be applicable to companies that make or place chemical substances on the market, on their own or in mixtures or articles, in quantities exceeding 1 tonne per year. This Regulation requires companies to submit a registration dossier of chemical substances, either on their own or contained in mixtures or articles, in quantities exceeding 1 tonne per year to the European Chemical Agency (ECHA), accompanied by the relevant fee. The registrant is considered to be the legal holder of the report, thereby allowing the information that it contains to be transformed into a commodity which is traded on the market by the lead registrants, generally larger businesses with greater economic power. In practice, when a company tries to register with ECHA, they are told that they should contact the lead registrant, who will then inform them of the cost of authorising access to the information deposited. This can reach up to tens or hundreds of thousands of Euros per substance. It has been established that registrations submitted under the Regulation at least 12 years previously can be used for the purposes of registration by another manufacturer or importer. However, in practice, as the date on which the REACH Regulation will apply fully to all substances produced or placed on the market in quantities exceeding 1 tonne per year approaches, lead registrants require microenterprises and SMES in the sector to pay hefty sums or even a percentage of sales in return for the 'letter of access' to the information they have provided to the ECHA. This information should be public and available free of charge to all EU citizens and companies, in order to fulfil the purposes that it was created for: to protect peoples' health and the environment. In this case, the regulation, which was designed to improve the protection of human health and the environment from risks that may arise from the use of chemicals, may create barriers to market entry for new businesses and to the free movement of chemical substances, resulting in restricted competition and the abuse of dominant positions by larger companies. The EESC draws attention to the need to carry out an evaluation and review of the REACH Regulation in order to remove any barriers to competition resulting from the application of this legislation.

3.9. The issue of bank mergers and state aid to the banking system continues to be on the agenda. As a result of the recent financial crisis and its impact on the real economy and market confidence, practices within the sector are subject to constant scrutiny, due to legitimate concerns that serious problems will resurface. Temporary state aid saved the financial sector from collapse. Banks suffered significant losses during the financial crisis and are now seeing their margins reduced, due to the current spread levels. The restructuring of the sector has seen the disappearance of some institutions, as well as mergers that could be worrying, not only in terms of the stability of the financial sector in the event of further crisis situations, but also with regard to the possibility of distortions to competition resulting from the size of these new groups. The EESC calls on the Commission to be attentive and vigilant with regard to potential abuses of dominant positions that could harm consumer interests and financing for companies, in particular SMEs.

4. **Specific comments**

4.1. State aid

4.1.1. State aid is an important tool for development in that it enables less-developed regions to catch up, as well as promoting jobs and the economy. Scarce resources should be used well and should not conflict with good practices in the field of competition.

4.1.2. The EESC reiterates its conviction that the ongoing modernisation of state aid must be in line with the objectives of the Europe 2020 Strategy, cohesion policy and competition policy, while safeguarding levels of state aid in sectors that serve European development and public services that meet social needs.

4.1.3. The EESC has already supported the modernisation of state aid in the past. The Committee now welcomes the obligation on authorities responsible for granting aid to provide information on the aid when it exceeds EUR 500 000 ([3]).

4.1.4. This information will address the difficulty experienced by EU citizens, who do not feel that they are sufficiently informed about state aid that is granted ([4]). What must now be done is to make these opportunities for consultation known, together with information on the rules on granting and recovering aid, which promote transparency in the use of public funds.

4.1.5. The EESC supports the measures taken by the Commission to tackle state aid granted through tax rulings and which confer illegal tax benefits. This includes the adoption of the anti-tax-avoidance package, with the aim of ensuring that companies pay taxes in the place where they earn their profits and avoiding aggressive tax planning ([5]).

4.2. Digital Single Market

4.2.1. With the growth of the broadband network, the digital services market plays an increasingly important role in the life of European companies and citizens. E-commerce is on the rise and competition policy aims to ensure that the market works, by protecting consumers and guaranteeing that the most powerful companies do not undermine the rules.

4.2.2. The EESC calls on the Commission to continue work on the geographical obstacles to e-commerce, which could form a barrier to the establishment of a genuine Digital Single Market. In a global market there cannot be any form of discriminatory treatment towards customers based on their location.

4.2.3. The digital market is dominated by a handful of technology giants. Ensuring that consumers have access to the best products at the best prices, and that new products and new competitor companies can enter the market is a challenge.

4.2.4. Some online booking platforms are currently of great concern to hoteliers, due to their abuse of the dominant position that they hold over travel reservations. These platforms charge considerably higher commissions than travel agencies and even require hoteliers to charge the same prices for the same type of room across all sales channels. The EESC calls on the Commission to investigate the parity clauses and commissions applied which put free competition in the sector at risk.

4.2.5. The Commission continued its investigation into Google (the workings of search engines, restrictions imposed on the ability of certain third-party websites to display advertisements related to searching for Google's competitors, the restrictive conditions imposed on manufacturers of Android devices and mobile network operators) and Amazon's practices (agreements with publishers), which may amount to violations of antitrust rules. Google was recently fined a record EUR 2,4 billion for abusing its dominant position on the search-engine market by granting an illegal advantage to another Google product, its own price comparison service.

([3]) https://webgate.ec.europa.eu/competition/transparency/public/search/home?lang=en
([4]) 'Perception and Awareness about transparency of State Aid'. Eurobarometer — July 2016.
([5]) http://ec.europa.eu/taxation_customs/business/company-tax/anti-tax-avoidance-package_en

4.2.6. Google occupies a dominant position on the search engine market and the Commission must ensure that its search results are not limited, in such a way as to restrict user's choice of information. The Commission's efforts should also focus on practices by the 'Booking' website, which influences search results on European tourism, thus abusing its dominant position and having a particularly detrimental effect on smaller markets and businesses.

4.2.7. The telecommunications sector is especially important to the lives of consumers and companies. The EESC draws the Commission's attention to the fact that an open and competitive market still does not exist in this area. Indeed, telecommunications operators continue to adopt practices at odds with free competition, by increasing their prices during the course of a contract without providing the customer with any prior information on this that would enable them to terminate the said contract, as stipulated by law. This price increase was felt particularly when roaming services came to an end. In practice, this has led to a general increase in tariffs that affects those who do not travel.

4.3. The energy market and the circular economy

4.3.1. Despite the work carried out in recent years, the single energy market is still to be completed. High energy prices — particularly in certain countries — have a significant bearing on household and company budgets, as market liberalisation has not led to a genuine reduction in tariffs. These prices keep Europe at a disadvantage in terms of energy costs, in comparison with its many competitors worldwide.

4.3.2. Increasing energy efficiency and investment in renewable energies must continue to be central ideas for a more competitive and sustainable Europe, despite the environmental concerns surrounding the treatment of waste resulting from the use of these technologies (such as solar energy cells and batteries). Renewable energies, despite technological advances, are not yet developed enough to be able to compete with fossil fuels and nuclear energy and they therefore deserve continued support to compete on a fairer market.

4.3.3. Renewables are not only a source of clean energy. They should also be viewed as an opportunity to develop local communities, allowing them to become both energy consumers and producers, as part of a decentralised energy production model that benefits local communities.

4.3.4. Technology has developed and solar photovoltaic energy has become more accessible to businesses and households that wish to install panels to cover their own consumption, but the granting of licences to install these power stations is limited to a certain level of power. This may limit the attractiveness of this investment for operators of a certain size that could see their energy bills significantly reduced or diminished to almost nothing during months with the highest sun exposure.

4.3.5. Moreover, Europe must continue to ensure its energy independence by strengthening its connections so as to reduce its vulnerability and increase competition.

4.3.6. The EESC stresses that particular emphasis must be given to the major challenges facing the EU, namely:

— reducing the energy costs for households and businesses, with clear social and economic benefits and benefits in terms of the external competitiveness of European companies;

— promoting the establishment of a genuine European energy policy;

— improving the integration of energy markets by encouraging European connections;

— taking a leading role in implementing the Paris Agreement to reduce greenhouse gas emissions in the context of sustainable development.

4.4. International cooperation

4.4.1. In a global marketplace, Europe continues to endure unfair competition from countries that employ abusive environmental and social practices. In addition to important social aspects, distortions of competition resulting from the EU's external relations require a strong international diplomacy effort to protect businesses and consumers from existing distortions that affect imports and exports.

4.4.2. The EESC welcomes the Commission's commitment to actively participating in international competition bodies, such as the OECD Competition Committee, the World Bank, the United Nations Conference on Trade and Development and the International Competition Network.

4.4.3. The EESC also welcomes the Commission's efforts in the negotiations on free trade agreements with Armenia, Mexico, Indonesia, the Philippines and Japan, as well as in the area of technical cooperation with emerging economies. There is only one mention of the need for these agreements not only ensure a balance of competition, thereby protecting businesses and consumers, but also to contribute to economic and social cohesion in Europe.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Mid-Term Review of the Capital Markets Union Action Plan'

(COM(2017) 292 final)

(2018/C 081/16)

Rapporteur: **Daniel MAREELS**

Consultation	European Commission, 5.7.2017
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Section responsible:	Economic and Monetary Union and Economic and Social Cohesion
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Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and Euro area economic policy, Capital Markets Union and The future of EU finances) ([1])*. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe* ([2]) *and previous opinions on completing EMU* ([3])*, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.*

1. Conclusions and recommendations

1.1. As the CMU is essential both for further and deeper European integration and progress generally and for the Member States individually, and given that account needs to be taken of the changing international context, the EESC is strongly in favour of this union and is ambitious regarding its implementation. For the Committee, it is important for every effort to be made to make it a success. It is important to make progress and achieve results quickly in order to provide the EU economy with a new impetus and dynamism in the short term.

1.2. Indeed, the Committee has always been very supportive of and explicitly called for the further deepening and completion of the EMU. Today, the Committee does so once again, issuing a urgent call for the same in the interests of the CMU. The CMU, together with the banking union, should ensure a financial union, and its implementation should therefore also contribute to ensuring the establishment of the EMU, as it is one of the latter's fundamental components. The first stages of implementing the CMU are now complete and several steps have already been taken regarding the banking union,

([1]) The package includes EESC opinions Euro area economic policy 2017 (additional opinion) (see page 216 of the current Official Journal), *Capital Markets Union: Mid-term Review, Deepening EMU by 2025* (see page 124 of the current Official Journal) and *EU finances by 2025* (see page 131 of the current Official Journal).

([2]) EESC Resolution on 'The Commission's White Paper on the Future of Europe and beyond', 6 July 2017. OJ C 345, 13.10.2017, p. 11.

([3]) OJ C 451, 16.12.2014, p. 10 and OJ C 332, 8.10.2015, p. 8.

with the development of the first and second pillar and proposals for the third pillar. It is now important to continue work in both areas and to achieve the final objectives as quickly as possible.

1.3. The CMU can also make a substantial contribution to consolidating the economic recovery, thereby helping to ensure growth, investment and jobs. This will benefit both the individual Member States and the EU as a whole. In structural terms, the associated broadening and diversification of financing sources should help to ensure greater integration. This in turn should contribute to the desired increase in stability, security and resilience of both the economic and the financial system. Continuing to pursue fragmented action is not an option, since this leads to many missed opportunities.

1.4. Similarly, given the various international and global power shifts currently taking place as well as Brexit closer to home, it is vital for the EU to prepare itself effectively and to strengthen its position economically. The resilience and dynamism that the US economy demonstrated after the crisis could serve as an example to the EU in this respect.

1.5. For the EESC, it is clear that the CMU is not a voluntary exercise for the benefit of the few, but needs to become a reality in all EU Member States. This is an absolute necessity. This calls for the political will at European level and in the Member States to make all necessary efforts and to establish all of the relevant conditions required. The outcome needs to be a CMU that stands for integration across the EU, while at the same time paying attention to existing needs and ambitions, including those of particular regions and areas. A coherent and consistent policy is needed across all areas, and initiatives that are not in line with the stated objectives should be excluded.

1.6. For the EESC, it is extremely important to maximise the CMU's chances of proving successful. It is therefore expressly proposed to make provision for the tools needed in order to be able to assess and measure the effective efforts to implement the CMU and the progress made in all Member States. More specifically, the Committee is strongly in favour of establishing a system to regularly assess the progress with and implementation of the CMU in the Member States, using both qualitative and quantitative measures, with the results of this to be made publicly available. There should also be appropriate measures and action in the event of shortcomings.

1.7. The ultimate success of the CMU will depend on the extent to which the suggested building blocks are transformed into an effective reality and the single market actually comes into being and is used effectively by all relevant stakeholders, first and foremost by financial service providers, businesses, investors and savers. The EESC therefore welcomes the current rapid mid-term review and recommends that such exercises should in future take place on a regular basis. The aforementioned stakeholders should have an active role and should be closely involved in this.

1.8. The further steps to be taken in order to lay the building blocks for the CMU require that choices be made. In the Committee's view, preference should be given to action and measures that achieve the greatest convergence and that leave the least room for the Member States to go beyond what is strictly necessary. It is important to keep the REFIT approach in mind, in order to make things easier, while avoiding unnecessary administrative burden and keeping costs down.

1.9. The Commission document contains 38 building blocks for the CMU that are (still) to be delivered by 2019. While the large number of measures to be delivered in the short term may raise questions as to the approach, for the Committee it is important to ensure that the foundations of an irrevocable and irreversible CMU are laid down as quickly as possible.

1.10. In this connection, the EESC calls in particular for all due attention to be given to the financing of SMEs, for which bank financing remains an extremely important issue. As well as the existing measures provided for in the original Action Plan for the benefit of SMEs (including STS securitisations and the Prospectus Directive), efforts should be made to develop all initiatives in the present Communication that can further improve their situation. In addition, other avenues for SMEs should be developed and encouraged, such as alternative financing and the promotion of other policy tools.

1.11. Furthermore, the EESC welcomes the focus on the strengthening of sustainable investments and the leading role that the EU should play in this field. The Committee supports the idea that sustainability considerations should be taken into account in up-coming legislative reviews of financial legislation (priority action 6).

1.12. Finally, the Committee is pleased that supervision will be a key part of efforts to develop the CMU. Supervision at European level has a crucial role to play, both as regards safety and stability and when it comes to achieving the desired market integration and eliminating obstacles, barriers and inequalities in the single market.

2. **Background**

2.1. When it took office, the Juncker Commission set the stimulation of growth, investment and jobs as one of its top priorities. In order to achieve this, it immediately started work on developing an *Investment Plan for Europe* made up of a number of pillars.

2.2. Among other things, this plan includes efforts to achieve a single Capital Markets Union. The first steps towards this were taken at the end of September 2015 when the Commission published its Action Plan on Building a Capital Markets Union ([4]), setting out the building blocks for putting a well-functioning and integrated Capital Markets Union, encompassing all Member States, in place by 2019.

2.3. Less than a year later, the European Council called for 'swift and determined progress' on the plan, 'to ensure easier access to finance for businesses and to support investment in the real economy by moving forward with the Capital Markets Union agenda' ([5]), and shortly after that the Commission adopted a communication also calling for the reforms to be accelerated ([6]).

2.4. In addition, a number of new challenges for financial integration have recently emerged, such as the imminent departure from the EU of its biggest financial centre (Brexit).

2.5. All of this recently ([7]) led to the publication by the Commission of a Communication on the mid-term review of the Capital Markets Union Action Plan ([8]). This mid-term review not only (a) describes the state of play regarding implementation of the original action plan; and (b) sets out a number of new legislative initiatives based on outstanding measures; but in particular (c) announces a number of new priority actions.

2.5.1. The aim of the mid-term review is to respond more specifically to the challenges that have emerged and are evolving, and also to take account of the results of the public consultation held in spring 2017.

2.5.2. Of the (33) measures proposed in the original plan ([9]), more than half (20) have been implemented at Commission level in accordance with the original timetable. The proposals presented relate, inter alia, to developing venture capital markets, making it easier and cheaper for companies to access public markets by revising the rules on prospectuses, removing the preferential tax treatment of debt over equity, promoting a safe and liquid market for securitisation, and giving honest entrepreneurs the opportunity to restructure or a second chance in the event of bankruptcy.

2.5.3. With regard to the outstanding measures ([10]), the Commission intends, among other things, to move forward with *three legislative proposals* that are seen as key to implementing the CMU: a proposal on a Pan-European Personal Pension Product (PEPP) (published on 29 June 2017), a proposal specifying conflict of laws rules for third-party effects of transactions in securities and claims (Q4 2017), and a proposal for an EU framework for covered bonds (Q1 2018).

([4]) COM(2015) 468 final.
([5]) http://www.consilium.europa.eu/en/press/press-releases/2016/06/28-euco-conclusions/
([6]) COM(2016) 601 final.
([7]) On 8 June 2017.
([8]) COM(2017) 292 final.
([9]) COM(2017) 292 final, point 2.
([10]) Ibid. footnote 9.

2.5.4. In order to respond to the evolving challenges, nine new priority actions [11] will be taken to strengthen the CMU:

— greater powers for the European Securities and Markets Authority (ESMA) to promote the effectiveness of consistent supervision across the EU and beyond,

— a more proportionate regulatory environment to support SME listing on public markets,

— a review of the prudential treatment of investment firms,

— looking into the possibility of a European licensing and passporting framework for FinTech activities,

— measures to support secondary markets for non-performing loans, and a study on a possible legislative initiative to strengthen the ability of preferential creditors to recover value from secured loans to corporates and entrepreneurs,

— following up on the recommendations of the High Level Expert Group on Sustainable Finance,

— facilitating the cross-border distribution and supervision of UCITS and alternative investment funds (AIFs),

— guidance on existing EU rules for the treatment of cross-border EU investments, and an adequate framework for the amicable resolution of investment disputes,

— a comprehensive EU strategy looking into measures to support local and regional capital market development.

2.6. The aim is still to make a decisive and lasting contribution to laying the foundations for a true CMU by 2019. This will be reflected in the Commission's 2018 work programme.

3. **Observations and comments**

3.1. Firstly, the Committee reaffirms [12] its support in principle and draws attention to its previous opinion in support of the CMU, the implementation of which is indispensable for further financial and economic integration within the EU. The current momentum should not be ignored, particularly now that a number of global power shifts are currently taking place between East and West. The EU must prepare itself effectively.

3.2. The CMU is a key part of a larger programme that is supposed to contribute to generating more growth, investment and jobs. A sustainable and sound economic revival should remain high on the agenda and should be further pursued without delay. Indeed, the challenge is to consolidate the economic recovery and get more people into steady work.

3.3. The CMU should also make it possible to mobilise capital in Europe on a large scale and channel it towards all businesses, infrastructure and sustainable long-term projects, in a more unified environment. The goal of broadening and diversifying financing sources — in which both banking and market financing have a major role to play — should make the economy more dynamic and robust. The US model, which showed a higher degree of resilience after the crisis, may serve as inspiration in that regard, alongside other new ideas in which non-bank lenders, among others, play a more important role.

(11) COM(2017) 292 final, point 4.
(12) OJ C 133, 14.4.2016, p. 17.

3.4. At the same time, the challenge is to pursue economic and social convergence and thereby bolster economic and financial stability within the EU. A qualitative approach should be adopted, characterised by sound and sustainable growth and prosperity. Businesses, investors and savers should also be able to benefit from the CMU but, at the same time, this should not mean that they have to bear excessive risk.

3.5. The CMU is also vital for the further deepening and completion of the EMU and its implementation is indispensable ([13]). The Committee reaffirms its established position in this regard ([14]). Together with a fully-fledged banking union, the CMU should lead to a real financial union, one of the four fundamental pillars ([15]) of the EMU ([16]). Several steps have already been taken in this area and it is important to maintain these efforts.

3.6. Moreover, all Member States will benefit from the CMU. As recently pointed out, it has '[a]nother major benefit, (…) the contribution to convergent growth among member countries, resulting from the improved circulation and allocation of savings across the Union'. Weaker economies should therefore be able to catch up more quickly with those that are performing better ([17]). Moreover, 'in this perspective, Brexit makes it more crucial that the CMU is effectively implemented and that European growth can avail itself of the services of an integrated financial system ([18])'.

3.7. As a result, the Committee deems it highly desirable for rapid progress to be made. It endorses the European Council's conclusions of June 2016 ([19]) and other statements ([20]) to the same effect.

3.8. With this rapid ([21]) mid-term review of the Action Plan, the finger is kept on the pulse and action is taken early. The Committee welcomes the fact that this allows for a stronger and more targeted response to the various future challenges that are arising in ever changing political and economic circumstances. Furthermore, it is desirable to make provision for such mid-term reviews to be carried out at regular intervals in future. The Committee believes that the various stakeholders should have an active role and should be closely involved in this. That is all the more important since the ultimate success of the CMU will depend on the extent to which the foundations laid are genuinely transformed into reality and the single market is actually created and effectively used by the largest possible number of financial service providers, businesses, investors and savers.

3.9. In order to implement the CMU, preference should be given to measures that make the biggest contribution to convergence ([22]) and that leave the least room for the Member States to go beyond what is strictly necessary. Differences in the transposition of European legislation into national legislation, as well as differences in application in practice, should be avoided. Furthermore, the REFIT approach should be adopted as far as possible.

3.10. For the Committee, the CMU cannot be a voluntary exercise that will only benefit some countries but, on the contrary, must become a reality in all EU Member States. This is an absolute necessity. It is therefore extremely important for there to be the (political) will at European level and in each Member State to establish the relevant conditions and provide the necessary incentives to make it possible to secure such success and make it a reality.

([13]) OJ C 451, 16.12.2014, p. 10, point I.
([14]) See also the EESC opinion on 'Deepening EMU by 2025' (see page 124 of the current Official Journal).
([15]) As well as steps to implement a financial union, it is also necessary to create a genuine economic union, a fiscal union and a political union. Five Presidents' Report, 'Completing Europe's Economic and Monetary Union', June 2015.
([16]) See also 'Completing Europe's Economic and Monetary Union', Five Presidents' Report, June 2015.
([17]) This will also mean that the asymmetric effects of economic shocks are better absorbed.
([18]) See, inter alia, Vítor Constâncio, Vice-President, European Central Bank, Effectiveness of Monetary Union and the Capital Markets Union, Malta, 6 April 2017. http://malta2017.eurofi.net/highlights-eurofi-high-level-seminar-2017/vitor-constancio-vice-president-european-central-bank/
([19]) See point 2.3 of this opinion.
([20]) See footnote 13.
([21]) Less than 2 years after the publication of the Action Plan.
([22]) Where possible, therefore, preference should for example be given to regulations over directives.

3.11. There can be no compromise on the absolute necessity to establish the CMU in all Member States (see 3.10 above). It is therefore necessary to make provision for tools that make it possible to assess the efforts actually being made to achieve the objectives set as well as the genuine progress made in all Member States. In that regard, the Committee is strongly in favour of establishing a system to regularly assess the progress with and implementation of the CMU in the Member States, using both qualitative and quantitative criteria. The results of this should be made public. Provision should be made for appropriate action and measures in the event of shortcomings.

3.12. The outcome needs to be a CMU that stands for integration across the EU, while at the same time paying attention to existing needs and ambitions in individual Member States, without this leading to renewed fragmentation. In that context, it is clear that the development of regional capital markets for certain regions and economic operators established within them is very important (Priority action 9). This could also help stimulate cross-border trade and service provision, which are often more expensive and more complicated than local trade.

3.13. Moreover, further successful implementation of the CMU will require consistent, coherent policy at all levels. And it is important to reject initiatives that are not in line with the CMU and/or are liable to create fragmentation, obstacles or other barriers.

3.14. As it stands, the full overview of building blocks for the CMU (still) to be put in place by 2019, as listed in the Commission document ([23]), contains no fewer than 38 measures and actions. With a view to keeping the aforementioned chances of success as high as possible, one wonders whether the Commission is trying to do too much in too short a space of time, and whether it might not be better to focus on a limited number of priorities ([24]). Irrespective of the response, it is, in any event, important to work within the proposed timetable, focusing as much as possible on results, and to lay the foundations of an irreversible capital union.

3.15. As the Committee stated in its original opinion on the action plan, the financing of SMEs, which constitute the driving force of Europe's economy and are of major importance for employment, is a matter close to the Committee's heart. Following this mid-term review, the Committee still has questions ([25]) concerning the relevance and effectiveness of the CMU for SMEs.

3.16. With specific regard to SMEs, particularly small SMEs, every effort should be made to make both local and cross-border bank financing easily accessible and attractive, and/or to maintain it ([26]). Possibilities for alternative financing for SMEs should also be encouraged and enhanced. The proposals concerning securitisation (simple, transparent and standardised (STS) securitisation), on which the EESC has previously published a favourable opinion ([27]), certainly constitute a step in the right direction, but they are not the end of the road. The development of a secondary market for non-performing loans (Priority action 4), and a regime for covered bonds can also play a leading role, as does the promotion of policy instruments that exist for SMEs.

4. **Specific observations and comments**

4.1. Without seeking to be exhaustive, below are a number of observations and comments on some priority actions ([28]) announced in the Commission document that the caught the Committee's attention.

([23]) See the Annex to Commission Communication COM(2017) 292 final.

([24]) At the Eurofi High Level Seminar 2017, held in Malta on 5, 6 and 7 April 2017, participants were polled on a number of issues. One of the questions was 'how may the CMU be significantly accelerated?' 37 % of respondents answered 'focusing on a few key priorities', while 29 % felt it required 'building political momentum for lifting domestic barriers'. 12 % of respondents opted for 'building one financial hub in EU27', and the same percentage said that it was 'not possible to significantly accelerate CMU'. The fourth and fifth most popular responses were 'increasing supervisory convergence' (8 %) and 'further adapting banking regulation to EU financial market specificities' (3 %).
Another question was 'what are the two key priorities in EU-27 for achieving CMU objectives?' The three most popular answers were 'improving the consistency of insolvency and securities laws' (21 %), 'developing equity financing' (16 %), and 'being successful with the short-term priorities (securitisation, prospectus, …)' (15 %).
For more information on the Eurofi High Level Seminar (including the results of the polls, see https://www.ecb.europa.eu/press/key/date/2017/html/sp170406_2.en.html).

([25]) OJ C 133, 14.4.2016, p. 17, point 1.6.

([26]) The situation varies across the Member States.

([27]) OJ C 82, 3.3.2016, p. 1.

([28]) Where these have not been specified elsewhere in this opinion.

4.2. The Committee is extremely pleased that supervision will be central to the efforts to develop the CMU (Priority action 1) and hopes that this will be given priority attention. Supervision at European level has a crucial role to play, both concerning the safety and stability of the financial and economic system as well as in achieving the desired market integration and eliminating inequalities and other barriers in the single market, whatever they may be.

4.3. The quest for more proportionality in the rules to support initial public offerings and investment firms (Priority action 2) is extremely worthwhile and definitely merits attention but, at the same time, continued attention needs to be paid to the interests and protection of small savers and investors.

4.4. It is entirely legitimate to wish to strengthen the leading role of the EU with respect to sustainable investments (Priority action 6). Indeed, it is important for Europe to play a leading role when it comes to 'good' and sustainable growth. A qualitative approach must be adopted in this respect. It is also important for savers and investors to have relevant information at their disposal, for example information covering a sufficient time period. For example, in the case of the investment impact, no data are kept for more than 3 years. It should be examined whether this period could be extended.

4.5. Furthermore, the EESC supports the EC ([29]) when considering that private capital, EFSI funding and other EU funds should be combined in an efficient manner to shift investments towards those SMEs that show positive social and environmental externalities, thereby also contributing towards meeting the United Nations Sustainable Development Goals (SDGs) and in particular the objectives of the recent European Pillar of Social Rights.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([29]) COM(2017) 292 final, point 4.5.

Opinion of the European Economic and Social Committee on the 'Reflection Paper on the Deepening of the Economic and Monetary Union'

(COM(2017) 291 final)

(2018/C 081/17)

Rapporteur: **David CROUGHAN**

Consultation	European Commission, 5.7.2017
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Adopted in section	5.10.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	138/3/8

Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and euro area economic policy, Capital Markets Union and The future of EU finances) (1)*. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe* (2) *and previous opinions on completing EMU* (3)*, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.*

1. **Conclusions and recommendations**

1.1. The common currency and its institutions provided a stabilising element in the global financial crisis and, before that, had brought to business and citizens benefits in the form of low inflation and interest rates, and ease of cross border trade and travel.

1.2. However, the reflection paper clearly shows that the EMU is incomplete and the 'Economic' component has lagged the 'Monetary' pillar in integration at EU level, which hampers its ability to support monetary policy and national economic policies. Decisions to correct the institutional and governance shortcomings, which in part give rise to the continuing fragility of the euro area, cannot be put off indefinitely. There is a need to strengthen the political will to cement the 'Union' part of EMU.

1.3. The drift towards protectionism and the eventual unwinding of exceptionally low interest rates and quantitative easing makes for a much more uncertain world leaving a limited time to make progress. The EESC reiterates to political leaders that it is even more important that Europeans commit to a common sense of purpose by enhancing their influence

(1) The package includes EESC opinions *Euro area economic policy 2017* (additional opinion) (EESC-2017-02837-00-00-AC-TRA-EN) (see page 216 of the current Official Journal), *Capital Markets Union: Mid-term Review* (EESC-2017-03251-00-00-AC-TRA) (see page 117 of the current Official Journal), *Deepening EMU by 2025* (EESC-2017-02879-00-00-ASAC-TRA) and *EU finances by 2025* (EESC-2017-03447-00-00-AC-TRA-EN) (see page 131 of the current Official Journal).

(2) EESC Resolution on *The Commission's White Paper on the Future of Europe and beyond*, 6 July 2017.

(3) See for example EESC opinions *Completing EMU — the next European legislature*, OJ C 451 of 16.12.2014, p. 10 and *Completing EMU: The political pillar*, OJ C 332 of 8.10.2015 p. 8.

and power through further integration. The Committee urges the Commission and the European Council to take bold decisions before the end of this mandate to advance necessary elements of EU-wide governance.

1.4. Among the most important elements for stability is the upward convergence of the heterogeneous economies. This will require national politicians and social partners to accommodate a European dimension into their national deliberations about economic and fiscal policies. The EESC calls for greater 'parliamentarisation' of the euro area, with a grand EP committee comprising all members of parliament from the euro area and from those countries wishing to join, combined with stronger coordination of members of parliament from the euro area on EMU issues.

1.5. For efficacy, balance and fairness, national policies for economic growth and wellbeing should be crafted and coordinated also with the general interest of the euro area in mind; for reasons of democratic accountability and ownership, the process of the European Semester should involve the European Parliament, national parliaments, the social partners and civil society. The social dimension must be included on a par with the economic dimension.

1.6. The EESC recognises the failings in the governance of the financial sector and fully supports the steps to complete the Financial Union, including the Banking Union and the Capital Markets Union.

1.7. Immediate solutions are required to tackle non-performing loans, which are a drag on banks' financial and human resources to provide finance for investments and are a deterrent to investors who fear that returns from new investments would be channelled into non-performing loan repayments.

1.8. The Committee supports the creation of an enabling framework by 2018 for the introduction of sovereign-bond backed securities (SBBSs) as proposed by the reflection paper. In the medium-long run the creation of a European safe asset would be necessary to reduce financial market volatility and ensure the stability of the Member States' economies in case of an asymmetric shock.

1.9. An own resource budget greater than the MFF 1 % of GDP is called for to fund the enhanced European Stability Mechanism, which should morph into a European Monetary Fund able to resource Member States in crisis and also be a backstop to the banking sector. A bigger budget should also be a resource for maintaining essential investment levels in the euro area in productive infrastructure of a European-wide benefit. Access to such funds should be linked to the achievement of agreed progress on economic and social standards.

1.10. There is a need for fiscal policy capable of stimulating the euro area economy in times of downturn. In their current form, the fiscal rules and Country Specific Recommendations (CSRs) act pro-cyclically, further depressing weak economies. The MIP is an important part of the Semester process, which should be at the forefront of macroeconomic imbalance prevention on a euro-wide basis. There should be more emphasis placed on the adverse euro area impact of Member States that run chronic balance of payments surpluses.

1.11. The Committee advocates the exploration of tools to improve economic governance in the EMU, for instance by creating a permanent Euro Finance Minister, while ensuring full democratic accountability. Bundling competences would enhance coherence of EMU policies that are currently fragmented due to the number of different institutions.

2. **Background**

2.1. On 1 March 2017 the European Commission presented a *White Paper* on the Future of Europe, which was followed by several reflection papers in the different domains of European policy-making. This Opinion concerns the third *Reflection Paper:* ***Deepening of the Economic and Monetary Union***.

2.2. The common currency and its institutions provided a stabilising element in the global financial crisis and, before that, had brought to business and citizens benefits in the form of low inflation and interest rates, and ease of cross border trade and travel.

2.3. However, the paper clearly shows that the EMU is incomplete and the ‘Economic’ component has lagged the ‘Monetary’ pillar in integration at EU level, which hampers its ability to support fully monetary policy and national economic policies. The paper levels no criticism of the policies pursued or decisions taken or decisions blocked. There is a need to strengthen the political will to cement the ‘Union’ part of EMU.

2.4. The European Union must address the really important systemic issue: how can we create a single currency and operate a single monetary policy and continue to make the **political** choice to leave economic and fiscal policy at national level.

2.5. The crisis clearly demonstrated how implausible this is. Failure to pool the necessary elements of sovereignty and create mutual trust between Member States resulted in a lack of solidarity. The heterogeneous euro area economies diverged under the weak and hopelessly incomplete coordination of economic and fiscal policies requiring the introduction of crisis measures through the intergovernmental process. Not surprisingly, the euro area split with Creditor states dictating the terms to Debtor states, and no euro area finance minister was in sight.

3. **The case for Deepening EMU**

3.1. The EESC has called for the deepening of EMU in many opinions over the last number of years ([4]). The Committee, therefore, welcomes and concurs with the case that the Commission builds for completing the economic and monetary union and notes that economic realities differ from state to state giving rise to quite different perceptions of the challenges facing the euro area. A stronger EMU requires stronger convergence.

3.2. The EESC is conscious of the diversity of opinion within the Member States regarding the Future of Europe, which reflects their history and their heterogeneity. But decisions to correct the institutional and governance shortcomings, which in part give rise to the continuing fragility of the euro area, persistent imbalances and the greatly divergent economic and social outcomes for Member States, cannot be put off indefinitely ([5]).

3.3. We have failed to achieve the upward convergence of the Member States, which some had thought a single monetary policy might bring. The failure to tackle all aspects of competitiveness in the real economy resulted in divergence, which rendered a single monetary policy inappropriate for many Member States, coining the phrase ‘one size fits none’. The EESC has already expressed its reservations that the *Five Presidents’ Report* followed up by a *White Paper* would result in lost impetus and urgency.

3.4. There is a need now to move forward on all fronts, economic and social, financial, fiscal and political, to build up the necessary conditions to pool essential elements of sovereignty, without fear of moral hazard, to ensure that the EU works for the wellbeing of all. This will replace the sub-optimal structures of the present governance, and will allow the EU, and in particular the euro area, to regain the confidence of citizens and investors alike, and play its full role in global affairs.

3.5. The Committee is concerned that, following the crisis, the Four Presidents’ Report of 2012 and the Five Presidents’ Report of 2015, insufficient tangible progress has been made to really deepen EMU. A great concern is the lack of urgency in making key institutional reforms to give democratic legitimacy to take executive decisions, and enforce implementation and compliance. This void in governance is increasing the drift towards populism and national and protectionist solutions in some Member States.

3.6. The global world we operate in is increasingly more uncertain with countries turning away from from free trade towards protectionism; exceptionally low interest rates and quantitative easing that have sustained the recovery in much of the developed world must unwind sometime soon with unpredictable and probably adverse consequences. There is now only a limited window of opportunity to make progress.

([4]) EESC Opinion on *Completing EMU — The next European legislature*, OJ C 451, 16.12.2014, p. 10; EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33; EESC opinion on *Completing EMU: The political pillar*, OJ C 332, 8.10.2015, p. 8; EESC opinion on *Steps towards completing EMU* OJ C 177, 18.5.2016, p. 28.

([5]) EESC opinion on *Completing EMU: The political pillar*, OJ C 332, 8.10.2015, p. 8.

3.7. A full fiscal and political union may be medium to long-term projects but there are essential measures in this direction needed in the short term to strengthen the EMU and provide more stability. The EESC reiterates to political leaders that it is even more important that Europeans commit to a common sense of purpose by enhancing their influence and power through further integration.

3.8. The Committee urges the Commission and the European Council to take bold decisions with the necessary and full involvement of the European Parliament, before the end of this mandate, to advance necessary elements of EU-wide governance. To delay grasping the nettle of essential reform to a later mandate surrenders to inertia, for which neither markets nor citizens may have the patience.

4. **Financial Union: Risk reduction and risk sharing**

4.1. The EESC recognises the failings in the governance of the financial sector and fully supports the steps to complete the Financial Union, including the Banking Union and the Capital Markets Union.

4.2. Completing the Banking Union is fundamental to deepening EMU. The fragmented market and regulations were significant factors in militating against a resolution of the financial crisis. The EESC recognises that much has been done to coordinate the sector, but calls on all the actors to progress, as rapidly as possible, the completion of the banking union.

4.3. In particular, it is important to complete the work done on the Banking Union to strengthen financial integration and risk sharing through the financial markets. There is an urgent need by 2019 to establish a common backstop through the European Stability Mechanism to the Single Resolution Fund to ensure an adequate, speedy and efficient operation. This would also remove possible political bias. The EESC is supportive of the idea that the ESM would also take over the role of a European Monetary Fund and would have access to an own resource budgetary facility, after it has been brought under EU law.

4.4. A European Deposit Insurance Scheme (EDIS), taking already existing national systems into account, should be pursued without delay ([6]) to ensure savings in deposit accounts have the same better protection across the European Union.

4.5. To ensure progress on these fronts, there is a need to deal comprehensively with non-performing loans (NPLs) ([7]), which greatly increased during the crisis. NPLs act as a drag on the banks' financial and human resources to provide finance for new investments, which are crucial to growth. The ECB, Commission and governments should combine to tackle this legacy issue, based on the guiding principle that viable debt remains serviced and non-viable debt gets speedily resolved. Lack of a speedy resolution process deters would-be investors from making new investments for fear that the new revenues accruing would be syphoned off to furnish old loans.

4.6. A better framework for restructuring and insolvency on a euro-wide basis is a fundamental part of recovery from crisis, requiring the use of secondary markets with special expertise. The EESC advocates learning from examples of establishing bad banks. The EMU needs intelligent and sustainable solutions for NPLs that are currently still giving reason for concern.

4.7. The EESC urges the Commission to press on with establishing a CMU, which would be an important source of additional finance for larger businesses and would play an important role in risk sharing. The Committee acknowledges that this will not prove an additional source of finance to SMEs, especially small and micro businesses. Banking, therefore, will continue to play a crucial role, requiring banks to refocus on servicing the needs of the real economy, which requires fair access and sustainable bank finance across all Member States ([8]).

([6]) EESC opinion on *European Deposit Insurance Scheme*, OJ C 177 of 18.5.2016, p. 21, in particular points 1.1 to 1.3.
([7]) EESC opinion on *Action plan on a capital markets union*, OJ C 133, 14.4.2016, p. 17, in particular point 3.3.1.
([8]) EESC opinion on *Action plan on a capital markets union*, OJ C 133, 14.4.2016, p. 17 and EESC opinion on *CMU: mid term review*, (EESC-2017-03251-00-00-AC-TRA) (see page 117 of the current Official Journal).

4.8. In the short run (by 2018) the Committee supports the creation of an enabling framework for the introduction of sovereign-bond backed securities (SBBSs) as proposed by the reflection paper and the draft Commission working programme for 2018. SBBSs have the potential to sever the sovereign/bank nexus by de-privileging national sovereign bonds and diversifying banks' balance sheets while at the same time avoiding debt mutualisation. Consultation with financial providers is necessary to ensure appropriate regulatory treatment and foster private risk-sharing.

4.9. In the medium-long run (by 2025), the creation of a European safe asset, akin to US Treasury bonds, would be necessary to reduce financial market volatility and ensure the stability of the Member States' economies in case of an asymmetric shock. The EESC has long advocated the use of Union bonds and Euro bonds ([9]). Other similar proposals, such as a Debt Redemption Fund and a Eurobill Fund, have also been discussed. Following the conclusions of the expert group established to analyse the merits and risks of the different options for joint debt issuance, the Commission should now make a concrete proposal as to which instrument to use and under what timeframe ([10]). To avoid moral hazard, the Member States should be able to benefit from this instrument subject to compliance with their country-specific recommendations.

5. **Achieving Re-Convergence in a more Integrated Economic and Fiscal Union**

5.1. The Committee welcomes the paper's explicit recognition that upward convergence towards more resilient economic and social structures is an essential element for a stronger EMU. In recognition of the heterogeneous nature of the Member States there cannot be 'one size fits all' policies requiring across the board harmonisation, but it does require a common approach towards certain outcomes.

5.2. The weakness in economic and fiscal policy in the EMU rests fundamentally with the lack of a European-wide political will to allow EU involvement in national economic and fiscal policies. The EESC already emphasised that an upgraded reinforced macroeconomic dialogue is necessary, especially with countries of the eurozone, which could help to more strongly reflect the euro area dimension at national level. There must also be a more democratic system of executive decision-making than the Council of Ministers, the individual members of which are accountable only to their national parliaments and not the euro area as a whole.

5.3. The EESC welcomes the Commission proposals to further reinforce the European semester. For efficacy, balance and fairness, national policies for economic growth and wellbeing should be crafted and coordinated also with the general interest of the euro area in mind; for reasons of democratic accountability and ownership, the processes of the European Semester, which cuts across national and European policies should involve the Commission, the European Council, the European Parliament, national parliaments, the social partners and civil society. In a very limited way this process has begun but requires a greater degree of participation at national level and agreement of all the parties involved. This would strengthen the euro and if simplified and more transparent, the Semester would encourage much needed better reform implementation.

5.4. Reducing macroeconomic imbalances is crucial to European stabilisation. Such imbalances were formerly given temporary relief through currency devaluation. Now without this tool, extremely painful internal devaluations take place causing severe hardship through high unemployment and negative growth. For euro area stability and the avoidance of such severe adjustments, the build-up of macroeconomic imbalances must be prevented.

5.5. Macroeconomic dialogue at national level, therefore, must take account of this European dimension. Early detection and avoidance of macroeconomic imbalances, which reflect different levels of competitiveness, broadly defined (see 5.6), is a key element of the Semester process. National policy should be well informed about the impact that proposed policies would have on their competitiveness in the euro area, and also take into account developments in the euro area that may require a competitiveness response. The input of the local Commission euro semester officers and independent National Productivity Boards, linked to a euro area network could help by acting as a mirror to economic and social policy ([11]).

([9]) EESC opinion on *Where is the euro headed?*, OJ C 271, 19.9.2013, p. 8; EESC opinion on *Growth and sovereign debt in the EU: two innovative proposals*, OJ C 143, 22.5.2012, p. 10.
([10]) EESC opinion on *Completing EMU – The next European legislature*, OJ C 451, 16.12.2014, p. 10.
([11]) EESC opinion on *the establishment of National Competitiveness Boards within the Euro Area*, OJ C 177, 18.5.2016, p. 35.

5.6. An important element in these discussions is the social dimension, which has so far been neglected in the Semester process, increasing the social deficit of the EU by negatively affecting the lives of millions of EU citizens. This also fuels the trend to anti-EU populism and general dissatisfaction with the EU. A revised definition of competitiveness ('competitiveness 2.0') ([12]) to include 'the ability of a country to deliver "Beyond GDP" objectives' and measured on the basis of three pillars: income; social factors; and sustainability could result in a more comprehensive Semester process.

5.7. The EESC agrees that the implementation of national policies, where competences remain at the national level, could be coordinated through the European Semester process ([13]).

5.8. The Committee supports linking access to EU funds and a potential stabilisation instrument to the achievement of agreed progress on economic and social standards, as well as for the necessary transitions due to digitalisation, all aimed at the well being of citizens. This would be monitored through the European Semester ([14]). Seriously lagging economies that are striving to fulfil their CSRs should be eligible for cohesion fund assistance for productive investment, which would help catch-up or provide essential infrastructure of overall European benefit.

5.9. The EESC agrees that current EU budget of only 1 % of GDP is too small and not designed to operate a stabilisation function and will be even more inadequate after Brexit. The Committee supports the view that the euro area would benefit significantly from a strong stabilisation capacity in the event of severe asymmetric shocks ([15]). The Committee acknowledges that such a function should not lead to permanent transfers nor lead to moral hazard.

5.10. The EESC supports the proposal to explore the possibilities to build up a fiscal capacity for the euro area, the aim of which would be to maintain essential investment levels in the euro area in productive infrastructure such as transport, urban renewal, education, research and green transformation ([16]). This fiscal capacity could also be a source of finance for the ESM, which in time should morph into an EMF to finance crisis management funds.

5.11. An effective investment plan to generate revenue through growth, social cohesion and solidarity is necessary for Europe's economic integration, prosperity and prevention of growing social inequalities. The EESC has supported that a full Golden Rule be allowed for productive public investments, which should be incorporated into changing the fiscal rules.

5.12. The fiscal rules-based approach, must be improved and developed before the next mandate to prevent pro-cyclical policies. Prevailing local conditions should be taken into consideration. The structural balance has proved to be an unreliable non-observable variable upon which to base enforceable policy changes through the CSR process.

5.13. Too much emphasis is placed on debt reduction through sometimes self-defeating fiscal consolidation rather than the more fruitful measure to increase GDP growth. 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 ([17]).

([12]) EESC opinion on *the establishment of National Competitiveness Boards within the Euro Area*, OJ C 177, 18.5.2016, p. 35.

([13]) EESC opinion *on Completing EMU — The next European legislature*, OJ C 451, 16.12.2014, p. 10; EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33; EESC opinion on *Steps towards completing EMU*, OJ C 177, 18.5.2016, p. 28; EESC *Opinion on European Pillar of Social Rights*, OJ C 125, 21.4.2017, p. 10.

([14]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33; EESC opinion on *Completing EMU — The role of taxation policy*, OJ C 230, 14.7.2015, p. 24.

([15]) EESC opinion *EU finances by 2025*, (EESC-2017-03447-00-00-AC-TRA) (see page 131 of the current Official Journal).

([16]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33; EESC opinion on *The economic policy of the euro area*, OJ C 177, 18.5.2016, p. 41; EESC opinion *on Structural Reform-Support Programme*, OJ C 177, 18.5.2016, p. 47; EESC opinion on *Mid-term review of the Multiannual Financial Framework 2014-2020*, OJ C 75, 10.3.2017, p. 63.

([17]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33.

5.14. The EESC believes that by 2019 changes should be made to rectify 'the current situation [that] conceals a clearly sub-optimal repartition of the fiscal adjustment across countries at this point in time' ([18]).

5.15. The MIP is an important part of the Semester process, which should be at the forefront of macroeconomic imbalance prevention on a euro-wide basis. There is a need to remove the inbuilt asymmetry where persistent positive imbalances are viewed without censure and negative imbalances are subject to penalty ([19]). Not only does a financial penalty make a bad situation worse, but chronic surpluses in some Member States may make the deficit position even worse in a neighbouring state.

6. Strengthening the EMU Architecture and anchoring Democratic Accountability

6.1. The EMU is not an end in itself. It is a means to optimise the possibilities of achieving: sustainable growth, good jobs, economic and social upward convergence; stability and prosperity for **all** Member States by operating together; economic responsibility which goes hand in hand with solidarity; and risk-reduction which goes hand in hand with risk-sharing. While the euro area must make these necessary advances, it should also be open to other Member States. The EESC agrees that more transparency, good communication and increased involvement of the social partners and civil society is necessary and — together with an enforced role of national parliaments in the decision-making process — would help democratic accountability.

6.2. The EESC calls for greater 'parliamentarisation' of the euro area, with a grand EP committee comprising all members of parliament from the euro area and from those countries wishing to join, combined with stronger coordination of members of parliament from the euro area on EMU issues (COSAC +) ([20]). As mentioned in 5.2 and 5.3 the European Parliament, in particular, as well as national parliaments, social partners and civil society at large should play a major role in the democratisation of the Semester process.

6.3. The Committee advocates the exploration of tools to improve economic governance in the EMU, for instance by creating a permanent Euro Finance Minister, while ensuring full democratic accountability. Bundling competences would enhance coherence of EMU policies that are currently fragmented due to the number of different institutions. There should be a euro area fiscal stance established ab initio, with the Minister for Finance defining how it should be achieved. The current fiscal stance is the sum of all the Members States budgetary balances and the direction of the fiscal stance for the euro area is accidental.

6.4. The EESC welcomes the proposed strengthening of the ESM to develop it to a fully functional crisis management instrument. By developing it into a European Monetary Fund (EMF) within the European treaties, with a strong role for the European Parliament, democratic legitimacy would be improved and decision making speeded up.

6.5. The use of intergovernmentalism as a method of governance for the European Union should be abandoned and the fiscal rules should be revised before being integrated into EU law.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([18]) COM(2016) 727 final
([19]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33.
([20]) EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33.

Opinion of the European Economic and Social Committee on the 'Reflection paper on the future of EU finances'

(COM(2017) 358 final)

(2018/C 081/18)

Rapporteur: **Stefano PALMIERI**

Co-rapporteur: **Petr ZAHRADNÍK**

Consultation	European Commission, 4.8.2017
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Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and Euro area economic policy, Capital Markets Union and The future of EU finances) [1]*. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe* [2] *and previous opinions on completing EMU* [3]*, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.*

1. **Conclusions and recommendations**

1.1. The EESC considers that while the structure of the *Reflection paper on the future of EU finances* outlines some of the challenges that the EU will be facing over the next few years, it also determinedly links potential budget solutions to the five scenarios identified by the European Commission in its *White Paper on the Future of Europe*.

1.2. The EESC would argue that Europeans need more (and better) Europe, not less Europe, in order to overcome the political crisis in the EU which is the result of the lack of a strategic vision for the future and of the capacity to respond adequately to the economic and financial crisis. There is a growing gap between the concerns and expectations of Europeans, who are calling for tangible benefits for their daily lives, and the limited powers and financial resources currently allocated to the EU. The European venture and the EU itself are losing credibility and their existence is being called into question, fuelling the current nationalist and populist parties.

(1) The package includes the EESC opinions on Euro area economic policy 2017 (additional opinion) (see page 216 of the current Official Journal), *Capital Markets Union: Mid-term Review* (see page 117 of the current Official Journal), *Deepening EMU by 2025* (see page 124 of the current Official Journal) and *EU finances by 2025*.

(2) EESC resolution of 6 July 2017: *The Commission's White Paper on the Future of Europe and beyond*. OJ C 345, 13.10.2017, p. 11.

(3) OJ C 451,16.12.2014, p. 10 and OJ C 332, 8.10.2015, p. 8.

1.3. The EESC endorses the approach taken in the reflection paper whereby the basic principle of the EU budget must be to deliver European added value, achieving better outcomes than would be possible for uncoordinated national budgets acting individually. The time has therefore come to abandon the logic of a 'fair return', of dividing Member States into net contributors or beneficiaries, and of *ad hoc* rebates for individual Member States.

1.4. The EU must first identify political priorities with high European added value and only then determine the resources needed to achieve them and reform the EU budget. Against this backdrop, the EESC considers that it is not credible for the EU budget to continue to be less than 1 % of the income and only 2 % of the public expenditure of the 28 countries, a level which is inadequate given the challenges, shocks and crises which the EU must tackle.

1.5. The reform of the EU budget must of necessity aim to improve it, overhauling its structure as regards areas of expenditure and own resources, taking account of suitable rationalisation, efficiency and effectiveness criteria and maintaining direct, transparent channels of communication with the public.

1.6. Improving and increasing the budget requires real, in-depth consultation of civil society, as represented within the EESC, in order to reflect real local and regional needs and to ensure a positive impact for all Europeans, in the public interest.

1.7. With regard to expenditure, the EESC considers the following to be programmes with a high level of European added value: medium- to long-term investments in economic, social and environmental development, employment, innovation and competitiveness; protecting the most disadvantaged regions and most vulnerable social groups; and responding flexibly and promptly to asymmetric shocks and unexpected crises, including by means of an independent budget for the Eurozone.

1.8. The EESC considers that the macroeconomic stabilisation function in the eurozone is particularly important, as one of the causes of the strategic crisis in the EU and the rise of populism is the negative impact on those social groups and economic sectors that are 'losing out' from globalisation and the technological revolution.

1.9. As regards revenue, the EESC agrees with the analysis in the report on *Future financing of the EU* by the High Level Group on Own Resources: a new budget must be achieved which consists predominantly of autonomous, transparent and fair own resources and which does not place a disproportionate burden on the most disadvantaged people or on SMEs.

1.9.1. The EESC would reiterate its support for a common consolidated corporate tax base (CCCTB), as well as taxation of financial transactions, fuels and carbon dioxide emissions which, if levied at European level, would be able both to act upon a transnational tax base and to counteract the global impact on the environment.

1.10. The EESC considers that while the impact of Brexit on the post-2020 multiannual financial framework (MFF) may be a threat for the European venture, if negotiations are conducted by the Member States on the 'fair return' principle, it can also be an important opportunity as by reaffirming the principle of European added value it may improve and increase the EU budget.

1.10.1. The EESC therefore urges that, as soon as possible:

— the European Commission set a figure on the impact of Brexit — for both 'hard' and 'soft' Brexit scenarios — on EU revenue and expenditure and on the repercussions on the post-2020 MFF,

— a transparent, public debate be launched on the post-2020 MFF involving the institutional, economic and social stakeholders, along with civil society representatives and the European public,

— no reduction be made, however, in the resources earmarked for cohesion policies or social objectives.

It will thus be possible to bring diverging and opposing interests together by identifying a jointly agreed solution for the post-2020 MFF.

2. **General comments**

2.1. The approach taken by the *Reflection paper on the future of EU finances* links potential budget solutions to the challenges facing the EU with regard to the five scenarios identified by the European Commission in its *White Paper on the Future of Europe*. The EESC criticised this approach in its recent resolution on the white paper ([4]), considering these five scenarios to be 'artificial' as they are geared exclusively to the Member States and are not directly relevant to Europeans who are calling for a jointly agreed, clear strategy.

2.1.1. An important opportunity is thus being lost, as much of the document — regarding the value added of European finances, trends and challenges, and options for the future of EU finances — comprises a wholly laudable analysis, albeit one lacking a jointly agreed, efficient and effective policy proposal.

2.2. Over the last few years, the EESC has highlighted ([5]) the problems affecting Europe's economy and society, the fundamental principles which must be upheld, and avenues for revitalising and boosting the effectiveness of the action of the EU institutions. The EESC has repeatedly argued that Europeans need more (and better) Europe, not less Europe ([6]), precisely because the political crisis in the EU is the result of the lack of a strategic vision for the future and of the capacity to respond adequately to the economic and financial crisis.

2.3. In 2016, the EESC pointed out with regard to the mid-term review of the MFF for 2014 to 2020 ([7]) that the work carried out by the Commission needed to be acknowledged, particularly the flexibility mechanisms introduced to cope with unexpected crises and the results- and performance-oriented approach. However, the specific proposals and resources allocated appeared — already at the time — insufficient to meet the challenges ahead and the EU's priorities, as the MFF is the result of an unambitious compromise between Member States with an eye more to their net balance and benefits for specific interest groups than to an instrument for delivering on the interests of the EU as a whole.

2.4. Against this backdrop, the EESC endorses the approach taken in the reflection paper whereby 'the essence of a modernised EU budget' is 'the value added that results from pooling resources and delivering results that uncoordinated national spending cannot' ([8]).

2.5. In order to have more and better Europe, we must first identify political priorities with high European added value and then determine the resources needed to achieve them, reforming the EU budget accordingly. In this scenario, it would no longer be credible for the EU to devote to its own budget less than 1 % of the income and only 2 % of the public expenditure of the 28 countries, a dynamic moreover in constant decline ([9]). This level is entirely inadequate given the new challenges which the EU must tackle and the shocks and crises to which it must respond.

2.5.1. The quantitative increase in the EU budget must go hand in hand with a substantial improvement in terms of quality involving an overhaul of its structure, as regards areas of expenditure and its own resources. To this end, it is imperative to take account of suitable budget rationalisation, efficiency and effectiveness criteria and to maintain direct, transparent channels of communication with the public.

2.5.2. Improving the quantity and quality of the EU budget also requires real, in-depth consultation of civil society, as represented within the EESC, in order to ensure that areas of expenditure accurately reflect real regional and local needs and have a positive impact on the well-being of the European people, in the public interest.

([4]) EESC resolution of 6 July 2017: *The Commission's White Paper on the Future of Europe and beyond*: 'The EESC does not believe that a choice between scenarios is a successful method for promoting a common sense of purpose or for defining the future path'. OJ C 345, 13.10.2017, p. 11.
([5]) OJ C 248, 25.8.2011, p. 75, OJ C 229, 31.7.2012, p. 32, OJ C 451, 16.12.2014, p. 10 *and* OJ C 487, 28.12.2016, p. 62.
([6]) '… by moving the needle on the subsidiarity gauge towards more and better Europe …', OJ C 351, 15.11.2012, p. 36.
([7]) OJ C 75, 10.3.2017, p. 63, point 1.1.
([8]) COM(2017) 358 final, p. 6 (English version).
([9]) The budget is capped at 1,2 % of Gross National Income (GNI) by the Council decision on the EU's own resources (2014/335/EU, Euratom) but according to the approach taken in this opinion (i.e. first identify political priorities and then determine the resources needed to achieve them), the EU budget must not be limited to a predetermined cap.

2.6. With the emergence of new challenges linked to changing geopolitical scenarios and the need to adapt to the repercussions of the economic and financial crisis, it is not surprising that the EU has demonstrated just how inadequate its own budget is and entered a crisis which was initially economic and financial, then social and lastly political.

2.6.1. This political crisis has been generated by the gap between the growing concerns and resulting expectations with regard to the EU of Europeans calling for tangible benefits for their daily lives, and the current limited powers and financial resources allocated to the EU itself. This gap has triggered the rising intolerance and nationalist and populist parties which are calling into question both the European project and the EU itself.

2.7. The debate on the future of the EU is occurring at a time of great economic, social, political and institutional concern and uncertainty among the European people ([10]). Firstly, the economic and financial crisis is still having a heavy impact, particularly in the Member States hardest hit, in some regions and especially on medium and low incomes. Secondly, as a result, there is widespread scepticism as to whether the Member States and the EU will be able to maintain economic prosperity and social cohesion in the age of globalisation and international competition ([11]). Thirdly, there is the growing influx of migrants and refugees fleeing war and poverty in Africa and the Middle East. Fourthly, and most recently, there is the United Kingdom's decision to leave the EU, which has proven that belonging to the EU is not an option to be taken for granted, and neither is it irreversible: the decision to leave could spread to other Member States.

3. **Specific comments**

3.1. In terms of expenditure, the key element is the principle of European added value, which may seem paradoxical at a time when — on the one hand — demands for national governments to be given more independence are increasing, up to the extreme hypothesis of leaving the EU while — on the other — the logic of a fair return, of dividing Member States into net contributors and beneficiaries, and of *ad hoc* rebates for individual Member States, can no longer really be justified.

3.1.1. The Commission is correct to make this point, however, since a broad political consensus in favour of EU action could focus its budget on delivering at EU level real benefits for Europeans that individual Member States cannot achieve on their own.

3.1.2. Therefore, the EESC agrees with the Commission that the principle of European added value must be at the core of the discussion on the future of European finances. Specifically, it must ([12]):

— achieve the objectives set by the principles underpinning the EU's legal order, particularly Article 3 of the EU Treaty, which sets the objective of ensuring that EU citizens are guaranteed decent living conditions that preserve their well-being ([13]),

— shape a budget establishing European public goods, able to help defend Europe's fundamental freedoms, the single market and economic and monetary union ([14]).

3.1.3. It is here that complete compliance with Article 311 of the TFEU becomes essential, in keeping with which '…*the Union shall provide itself with the means necessary to attain its objectives and carry through its policies*'.

3.2. The reflection paper shows clearly that global challenges and crises require a European response which concentrates EU budget resources sufficiently and taps synergies with national budgets and channels them towards programmes with a high level of European added value able to:

— use medium- to long-term investments to redynamise economic, social and environmental development, employment, innovation and competitiveness, in the face of stagnant productivity and investments, an ageing population and climate change,

([10]) OJ C 75, 10.3.2017, p. 63, point 2.3.
([11]) Only one third of Europeans trust the EU and its institutions. European Commission, *Public Opinion in the European Union — Standard Eurobarometer 85*, May 2016.
([12]) COM(2017) 358 final, p. 9 (English version).
([13]) 'The Union's aim is to promote peace, its values and the well-being of its peoples.'
([14]) 'The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress …' (Article 3 (3) TEU).

— protect the most disadvantaged regions and most vulnerable social groups, which have been harmed by the continuing economic crisis and by the damaging effects of globalisation ([15]),

— respond promptly and flexibly — as regards both revenue and expenditure — to the asymmetric shocks which are hitting some Member States, the migration and refugee crisis, internal security concerns, external emergencies and common defence.

3.3. Among the aspects with the greatest European added value, the measures already identified by the EESC with regard to the MFF reflect the content of the EESC resolution on the white paper ([16]):

— a coordinated European industrial policy to boost employment and foster competitiveness in a social market economy, facilitating dialogue between all stakeholders, investment and support for small and medium-sized enterprises (SMEs),

— upward social convergence in parallel with economic convergence, in terms of employment and social outcomes, through the implementation of the European Pillar of Social Rights and the extension of the European Social Fund (ESF),

— a migration policy that affords refugees protection under international law and enables them to integrate into the EU, a Common Asylum System, action to combat illegal migration and human trafficking, and the promotion of legal paths of access,

— action to combat climate change on the basis of the Paris Agreement and ecological transition, promoting the 2030 Agenda for Sustainable Development across all EU policies,

— a reformed common agricultural policy (CAP), with a view to meeting objectives in terms of environmental quality, rural development, food security and support for farmers' incomes,

— a reformed cohesion policy, with clearly identified outcomes, systematic verification during implementation and *ex post* impact assessment, promoting transparency and mobilising partnerships,

— financing of major investments in infrastructure, trans-European networks, and research and innovation, beginning with the European Fund for Strategic Investments (EFSI) and Horizon 2020,

— an independent eurozone budget able to provide a temporary but significant transfer of resources in the event of regional shocks, counteract severe recessions in the area as a whole and ensure the necessary financial stability ([17]), with a macroeconomic stabilisation function to safeguard investment and to prevent unemployment and insecurity.

3.3.1. The macroeconomic stabilisation function is particularly important, as one of the causes of the strategic crisis in the EU and the rise of populism is the negative impact on those social groups and economic sectors that are 'losing out' from globalisation and changes in technology and IT. While Member States are less able to act independently and change the labour market and welfare system, no social safety net has yet been put in place at EU level enabling everyone to reap the benefits of growth and global competition ([18]).

3.4. The EU budget must therefore be able to provide the resources needed to achieve the strategic priorities, using suitable rationalisation, efficiency and effectiveness criteria for its structure and for the way in which it is evaluated and updated ([19]):

— the adoption of a more decidedly performance- and results-oriented approach,

([15]) COM(2017) 240 final; Growing unequal? Income distribution and poverty in OECD countries, OECD, 2008; Divided we stand: why inequality keeps rising, OECD, 2011; In it together. Why less inequality benefits all, *OECD, 2015*.
([16]) EESC resolution of 6 July 2017: *The Commission's White Paper on the Future of Europe and beyond*, point 13. OJ C 345, 13.10.2017, p. 11.
([17]) OJ C 177, 18.5.2016, p. 41, point 3.5.
([18]) OJ C 75, 10.3.2017, p. 63, point 4. See also P. De Grauwe, *What Future for the EU After Brexit?*, CEPS, October 2016.
([19]) OJ C 75, 10.3.2017, p. 63.

— evaluating the quality of the regulatory framework for allocating the EU budget,

— analysing developments in expenditure as a continuous medium-term process in which individual years represent a specific development trajectory that is required to secure the relevant results,

— the need to take account of the very close links between the EU budget, economic policy governance and current European economy dynamics,

— the need for continuity in EU budget policy and the implementation and evaluation of its goals.

3.4.1. Specifically, the balanced budget rule should be flanked by other indicators gauging the performance of expenditure and the outcomes for people's well-being, to be identified in the framework of the European Semester, using appropriate methods and arrangements agreed with the European Parliament and national parliaments.

3.5. The galaxy of resources available at EU level has also become highly complex and opaque. In addition to the traditional grants and subsidies, it includes financial instruments for leveraging private capital (through the EFSI and the Structural Funds) and instruments such as the European Stability Mechanism (ESM), comprising eurozone countries but outside the scope of the EU, which aim to secure financial stabilisation ([20]).

3.6. As regards revenue, the EESC agrees with the analysis in the report on *Future financing of the EU* by the High Level Group on Own Resources chaired by Mario Monti ([21]). It is particularly important to agree on a new budget which consists predominantly of autonomous, transparent and fair own resources. These would reach the EU budget directly without going via the Member States but would not exacerbate the tax burden or further penalise either the most disadvantaged Europeans or SMEs.

3.6.1. Some of the new resources proposed by the report would provide European added value in terms of revenue, being levied at the most appropriate level both to act on transnational mobile tax bases and to counteract the global impact on the environment: taxing corporations (CCCTB) ([22]), especially multinationals, financial transactions, fuels and carbon dioxide emissions.

3.6.2. In this context, the EESC also points to the importance of combating tax evasion by means of increased transparency ([23]), along with all forms of unfair tax competition between Member States.

3.7. Brexit will inevitably have an impact on the post-2020 EU budget. While the actual figure has not yet been officially established by any EU institution ([24]), the following three options set out potential ways to offset the resulting budget deficit: (i) an increase in contributions by EU Member States; (ii) a cut in EU spending; (iii) a combination of the two. It is here that Brexit is revealed as both a threat and an opportunity for the EU budget.

([20]) Future financing of the EU. Final report and recommendations of the High Level Group on Own Resources, December 2016, p. 82-84.
([21]) Future financing of the EU. Final report and recommendations of the High Level Group on Own Resources, December 2016.
([22]) Welcomed as far back as 2011 by the EESC in its opinion on a *Common Consolidated Corporate Tax Base,* OJ C 24, 28.1.2012, p. 63 and in 2017 in the EESC opinion on a *Common (Consolidated) Corporate Tax Base*. Not published yet.
([23]) OJ C 487, 28.12.2016, p. 62.
([24]) Various research institutes estimate the UK's net average annual contribution to the EU budget at between EUR 8 billion (Institute for Fiscal Studies; Centre for European Policy Studies), EUR 10 billion (J. Delors Institute Berlin — Bertelsman Stiftung) and EUR 20-27 billion (European Policy Centre). See Institute for Fiscal Studies, 2016, *The Budget of the EU: a guide*. IFS Briefing Note BN 181. J. Browne, P. Johnson, D. Phillips; CEPS, 2016, *The impact of Brexit on the EU Budget: A non-catastrophic event*. J.Nunez Ferrer; D. Rinaldi, Policy Brief 347; J.Delors Institute Berlin — Bertelmans Stiftung, 2017, *Brexit and the EU Budget: Threat or Opportunity?* J. Haas- E. Rubio; EPC, 2017, *EU Budget post-Brexit — Confronting reality, exploring viable solutions*. E. Chonicz. Discussion Paper.

3.7.1. It is a threat because if the next negotiations on the post-2020 MFF are dominated by the 'fair return' principle, they will exacerbate the current divide between net contributor and net beneficiary Member States, moving further away from the principle of European added value and thus deepening the uncertainty seeping into the EU venture.

3.7.2. At the same time, Brexit is an important opportunity both to reform the EU budget, improving it in terms of quantity and quality by overhauling its spending mechanisms, and — accepting the proposal made in the Monti report — to establish a key system of own resources for the EU. An exemplary, efficient, effective and transparent EU budget can then be shaped, which will gain credibility in the eyes of Europeans and make the advantages of Europe and the costs of non-Europe more visible to them.

3.7.3. It should therefore be ensured that:

(a) the European Commission sets a figure on the impact of both 'hard' and 'soft' Brexit scenarios on EU budget revenue and expenditure as soon as possible; this should in fact have been done in the Reflection paper with a view to the proposal for the post-2020 MFF;

(b) a serious, transparent and public debate on the EU budget is launched involving all the institutional, political and social stakeholders, along with civil society and the European public;

(c) there is, however, no reduction in the resources earmarked for cohesion policies or social objectives, as these are crucial tools for the EU's development.

When shaping the EU budget and facing diverging and opposing interests, it will thus be possible, transparently and democratically, to make choices able to bring those interests together and produce solutions on which everyone can agree.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Appendix

to the Opinion of the European Economic and Social Committee

The following amendments were rejected during the discussion but received over a quarter of the votes.

Point 1.9.1.

Delete point:

> *~~The EESC would reiterate its support for a common consolidated corporate tax base (CCCTB), as well as taxation of financial transactions, fuels and carbon dioxide emissions which, if levied at European level, would be able both to act upon a transnational tax base and to counteract the global impact on the environment.~~*

Reason

This section relates to the EU's possible own resources. The reference to corporate tax is misplaced in this context, as it falls within the competence of the Member States, not of the EU. With regard to the taxation of fuels and carbon dioxide emissions, it is too early to address this issue here. There has not yet been any discussion in the Committee regarding a possible common European tax base for fuels and carbon dioxide emissions.

The amendment was rejected by 76 votes to 62 with 16 abstentions.

Point 3.6.1.

Amend as follows:

> *Some of the new resources proposed by the report would provide European added value in terms of revenue, being levied at the most appropriate level both to act on transnational mobile tax bases and to counteract the global impact on the environment~~: taxing corporations (CCCTB), especially multinationals, financial transactions, fuels and carbon dioxide emissions~~.*

Reason

In order to avoid misunderstandings, we should stick to general statements. There have not yet been any discussions in the Committee either regarding the taxation of multinational corporations as a source of own resources, or regarding a common European tax base for, and the taxation of, fuels and carbon dioxide emissions.

The amendment was rejected by 76 votes to 62 with 16 abstentions.

Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product (PEPP)'

[COM(2017) 343 final — 2017/0143 (COD)]

(2018/C 081/19)

Rapporteur: **Philip VON BROCKDORFF**

Consultation	Council of the European Union, 4.9.2017
	European Parliament, 11.9.2017
Legal basis	Articles 114 and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	5.10.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote	132/4/4
(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The EESC agrees with this proposed Regulation and its aim to boost investment across the EU but is unclear as to whether the investment arising from this initiative will remain within the EU.

1.2. The EESC welcomes any attempt to encourage EU citizens to make adequate provision for their retirement years. However, the EESC is also unclear as to the impact on labour mobility across the EU arising from the provision of pan-European personal pension products (PEPPs).

1.3. The EESC acknowledges that PEPPs are most likely to appeal to a limited number of groups, particularly, mobile professionals who work in a number of different Member States over their working life, and the self-employed. Every effort should be made to encourage the Member States to provide fair taxation on this type of product. Furthermore, the EESC points out that this initiative should not in any way be construed as lessening the relevance of either state or work-based pensions.

1.4. The EESC emphasises the need for consumer protection and risk mitigation for savers during the course of their working lives and on retirement. Greater clarity as to what is being guaranteed around the default option is also strongly recommended. Preferably, this issue needs to be addressed as early as possible by the Commission.

1.5. The EESC also emphasises the role of EIOPA ([1]) in monitoring the market and national supervisory regimes with a view to achieving convergence and consistency across the EU especially regarding the governance structure for PEPPs within any provider.

1.6. Given that the interactions between statutory, occupational and personal pensions are unique to each Member State, the EESC recommends that providers be able to adapt their PEPPs to national markets whilst respecting the need for convergence and consistency, as stated above. At the same time, the structure of national pension systems should be duly taken into consideration in order to prevent disruption and distorting competition.

([1]) European Insurance and Occupational Pensions Authority.

1.7. The EESC is unsure whether PEPPs will make any difference in Member States that rely heavily on statutory pensions and where traditions of private retirement savings are weak. The role of Members States in promoting PEPPs, therefore, is deemed critical to supporting this initiative.

1.8. The EESC concludes that PEPPs should not appear as a mere extension of what is currently available to those choosing voluntary, private savings plans.

1.9. To enhance the attraction of personal pension products, the EESC underlines the importance of consumer protection. In this connection, the EESC seeks clarity as to whether the proposed 1,5 % shall be applied as a flat percentage or subject to a cap on absolute values. The Commission should also examine waiving the fee for changing providers following a defined period of time, to the advantage of savers and future prospect of PEPPs. Moreover, the regulation must also lay down basic rules on access to the accumulated funds by the saver's heirs, in the event of the death of the saver.

2. **Commission proposal**

2.1. It is estimated that only around 27 % of the EU's 243 million citizens aged 25 to 59 years are currently saving for a pension. The European Commission considers that offering a pan-European personal pension product would encourage further savings. To meet this objective, on 29 June 2017 the European Commission published its proposal for a Regulation setting out a framework for a new pan-European personal pension product (PEPP). This proposal is fully in line with the EU's 2015 Action Plan on Building a Capital Markets Union (CMU) and is aimed at expanding the personal pension market to EUR 2,1 trillion by 2030.

2.2. Once adopted, the Regulation will allow pan-European personal pension products to be offered across Member States. The proposed Regulation provides the framework for an EU-wide voluntary system in parallel to existing personal pension schemes. PEPPs will not replace existing national pension structures. Instead they will complement existing personal pension schemes. However, PEPPs will be offered by different types of providers, namely insurers, asset managers and banks. They would be available for distribution and purchase online across all Member States.

2.3. As a key component of the CMU Plan, PEPPs would offer long-term investment and growth opportunities in an EU-wide capital market with capital flowing across the EU. This would boost business investment and provide capital for infrastructure projects. An increase in both private and public investment could help increase job creation across the EU.

2.4. The Commission proposal would facilitate the pooling of pension assets by providers leading to greater economies of scale and lower costs for providers besides increased competition as new providers enter the pensions market. With more providers than at present, savers would benefit from lower prices due to increased competition between providers, and possibly better returns to savers. It is however of crucial importance that savers are fully aware of the risks that they bear and the conditions attached to their PEPP.

2.5. The combination of increased choice, simplification, lower prices and possibly better returns to savers could encourage more individuals to purchase such products either to supplement pension entitlements if retirement income is expected to be inadequate or to provide retirement income in cases where individuals are not covered by a statutory pension scheme or an occupational pension scheme.

2.6. The Commission believes that PEPPs are likely to be particularly appealing to mobile workers who work in different countries across their working life and self-employed individuals. They could also create additional retirement-income options in those Member States where take-up of personal pension products is currently limited.

2.7. Whereas the proposed Regulation provides for standardised product features aimed at offering protection to consumers, the proposed framework would allow for greater flexibility in designing pension products.

2.8. The main features of the proposed Regulation stipulate that:

— Providers must be authorised by the European Insurance and Occupational Pensions Authority (EIOPA) and will be recorded in a central register, while national authorities will continue to supervise providers. The EIOPA will monitor the market and national supervisory regimes with a view to achieving convergence. This will oblige national authorities to supervise providers operating under different national frameworks (i.e. compartments). However, it is unclear how this would work in practice, considering in particular that personal pension products are largely defined at national level and that specific knowledge of each national market may be required for adequate supervision.

— Providers must observe transparency in costs and fees and meet other disclosure requirements in the form of a Key Information Document (before a contract is entered) and provide standardised periodic benefits statements.

— PEPPs will offer up to five savings options with a default low-risk investment option with a limited guarantee ensuring recovery of the capital investment. Consumers can waive the advice requirement in relation to the latter subject to providers enquiring as to the knowledge and experience of the saver.

— Individuals will have the right to switch providers domestically and cross-border every five years at a capped cost.

— Providers may invest in a range of options subject to the 'prudent person' principle and the best long-term interest of the saver.

— PEPPs will allow continued contributions where members move between Member States and allow the transfer of accumulated assets without liquidation.

— A range of pay-out options will be available. PEPPs shall privilege annuities where the pay-outs to the policyholder are fixed and guaranteed.

— User-friendly complaint and dispute resolution procedures must be provided.

2.9. Finally, the Commission believes that a favourable tax environment for PEPPs is essential to the competitiveness and appeal of this new product, and recommends that in the case of PEPPs, Member States should offer the same tax treatment as comparable domestic products. Alternatively, they should offer the most favourable treatment where different personal pension plans are taxed differently ([2]).

3. **General Comments**

3.1. Personal pension products are not fully developed across the EU. Their role, however, could be fundamental to ensuring adequate retirement incomes for those workers where statutory and occupational pensions are weak or underdeveloped. Moreover, it is widely recognised that multi-pillar pension systems are the most effective way to ensure the sustainability and adequacy of retirement income.

3.2. The EESC, therefore, welcomes any attempt to encourage EU citizens to make adequate provision for their retirement years. The combination of ageing populations and falling birth rates could leave future generations footing the bill, unless people work for longer. In all Member States, but especially in those where the multi-pillar pension system is not fully developed and where a statutory pension scheme is the main provider, encouraging people to make personal savings for their retirement makes perfect sense.

3.3. The EESC also welcomes the objective of introducing PEPPs as a potential way to increase both private pension coverage and the allocation of funds to long-term investments. Increasing long-term savings could also have a positive impact on national economies.

3.4. The EESC is aware that Europe's pension landscape is currently fragmented. In some countries, citizens have several personal pension products to choose from; in others there are very few. A patchwork of European and national rules and divergent tax treatments has resulted in a limited transfer of financial assets across the EU due in part to the lack of portability of pension products across the EU over an individual's working life. Assuming the Commission projections are

([2]) C(2017) 4393 final.

correct, PEPPs, together with other measures forming part of a wider package of reforms, would help increase savings from EUR 700 bn to over EUR 2 trillion by 2030. This would be a major boost for investment across the EU.

3.5. The EESC also notes that the Commission proposal aims to increase the number of providers. Increased competition across the EU should help reduce prices whilst providing a degree of reassurance about the quality of pension products being offered by insurers, investment firms, pension funds, asset managers and banks across the EU. Increased cross-border competition is hugely important and should bring about obvious advantages to citizens by way of reduced costs, product choice and pension portability.

3.6. The importance attached to safeguards as well as oversight by an EU-wide supervisory authority is also welcome. The EESC expects the EIOPA to play a key role in supervising providers and monitoring the market.

3.7. The EESC also highlights the importance of consumer protection through the provision of clear information to savers as well as capital protection under the default low-risk option; information on accrued savings; simplified administrative procedures and user-friendly procedures for complaints and out-of-court redress in cases of disputes between savers and providers; reasonable cost of switching from one provider to another; and protection to savers in the case of withdrawal due to, for example, disability or ill-health.

3.8. Since PEPPs would be portable, the EESC believes that the facility to switch providers across borders could contribute to enhancing labour mobility, although the extent to which this would increase labour market mobility is unclear.

3.9. The EESC agrees that this proposal could be important as far as the creation of new pools of capital are concerned. Up to now, the Capital Markets Union (CMU) with initiatives — such as liberalising rules for venture-capital funds and making it easier for small firms to list on stock exchanges — have had limited success. The EESC believes that PEPPs could go a long way towards creating a new source of funds that could be channelled towards investment.

3.10. The EESC also notes that this initiative is also relevant in a post-Brexit scenario. The CMU was conceived, at least in part, to bind continental Europe's markets closer to Britain's. As the exit of Britain looms closer, the need to develop a pan-European capital market has assumed greater importance than ever. The introduction of PEPPs will take place at a very opportune time, especially with top financial institutions switching business from Britain to other Member States. All of this could help ease the flow of capital across the EU with less reliance on bank finance.

3.11. The EESC acknowledges that PEPPs are most likely to appeal to a limited number of groups particularly, mobile professionals who work in a number of different Member States over their working life, the self-employed and those living in markets where personal pension products are not developed. However, the EESC understands that the Commission considers occupational pensions just as important, as underlined by the revised Institutions for Occupational Retirement Provision (IORP) Directive which lays down basic governance requirements for occupational pension funds. As was the case for the revised IORP, the aim of this proposed Regulation is also to improve governance and transparency, to promote cross-border activity and to develop further providers of PEPPs as long-term investors.

4. **Specific comments**

4.1. The EESC is of the view that PEPPs should not appear as a mere extension of what is available to those choosing voluntary, private savings plans. As such, the role of Member States in promoting PEPPs and the benefits of saving in one is critical. On the basis of the national treatment principle the Commission can require PEPPs to be afforded the same favourable tax treatment that Member States give to their own comparable national products. In those cases where the PEPPs product features do not match all the criteria required to grant tax relief to existing national pension products, the Commission invites Member States to provide the same tax relief as the one granted to these national pension products.

4.2. The EESC is unsure whether PEPPs will make any difference in Member States that rely heavily on statutory pensions and where traditions of private retirement savings are weak. As stated earlier, PEPPs are more likely to appeal to self-employed, mobile professionals whereas low income earners, workers with unstable and intermittent contracts of employment or seasonal workers are unlikely to afford a personal pension product.

4.3. For this reason, the EESC stresses the importance of incentivising citizens to start saving early during the course of their working lives through the provision by the Member State of tax credits. The EESC also recommends that citizens be provided with professional guidance on the setting of minimum investment periods to enable them to reap the benefits of long-term investment.

4.4. The EESC agrees with the Commission's proposals aimed at providing savers with up to five investment options, all with risk mitigation. The main challenge here is the divergence across Member States. National authorities will continue to supervise providers operating in their jurisdictions and therefore the role of EIOPA in monitoring the market and national supervisory regimes with a view to achieving convergence is deemed critical to provide a degree of consistency across Member States.

4.5. The EESC also agrees with the Commission's case for subjecting PEPP providers to appropriate regulation encompassing the long-term nature of products and their relevant specifications. The EESC recalls that the Solvency II Directive (2009/138/EC), the EU-wide insurance regulatory regime, aims to unify a single EU insurance market and enhance consumer protection by establishing an 'EU passport' (single licence) for insurers to operate in all Member States if they fulfilled EU conditions. Solvency II was especially aimed at protecting customers with insurers being the main providers of personal pensions. The EESC is of the view that other financial institutions should be subject to the same stringent requirements to provide the same level of protection.

4.6. The EESC is of the view that more attention needs to be given to decumulation. Savers purchasing PEPPs will need significant support to answer questions regarding how much is needed to retire comfortably and the best way to draw down retirement assets. Lessons need to be gleaned from the experience of retirement decumulation approaches from occupational pensions to allow for advice on the best decumulation strategies. The EESC considers such strategies as intrinsic to pension products and those about to retire should be made aware of practices and rules on decumulation and protection mechanisms.

4.7. The importance of financial literacy cannot be stressed enough ([3]). The EESC is of the view that the successful introduction of PEPPs will depend largely on whether the information provided is clear enough to enable savers to compare and contrast products and ultimately choose the product that best suits their needs. Moreover, this needs to be standardised across the EU given the importance of portability.

4.8. Pre-contractual information about the decumulation phase and the relevant tax treatment is considered highly relevant. Though the EESC agrees that the direct responsibility for providing high-quality information rests on providers, the role of national authorities remains critical. Pension products are inextricably linked to Member States' social policies and tax regime. This necessitates an information approach specific to the Member State and hence the role of national authorities in ensuring that the information reaching prospective clients is factual, usable and specific.

4.9. The EESC considers that the arrangements on switching provider need to be made more attractive for consumers and afford them greater protection. The PEPP holder should at any time have the right to change provider. A related issue is the fee charged in such circumstances. The EESC, therefore, seeks clarity as to how the proposed 1,5 % cap of the positive balance will apply. Though a 1,5 % cap may seem reasonable on paper, unless there is also a cap in absolute terms, a flat percentage would result in savers being charged relative to the absolute value of savings. The EESC deems this unfair and would effectively result in limiting savers' switching options. The Commission should also examine waiving the fee for changing providers following a defined period of time, to the advantage of savers and future prospect of PEPPs.

([3]) OJ C 318, 29.10.2011 p. 24.

4.10. The EESC sees a need for clear rules on access to funds accumulated in a PEPP in the event of the death of the saver. Those entitled to these funds should receive them no later than two months after submitting the necessary documents, and the product provider should not be able to charge any kind of fee.

4.11. As stated earlier, tax incentives play an important role in an individual's decision to defer consumption and save for retirement. The EESC agrees with the Commission on the role tax incentives could play in determining the success or otherwise of PEPPs. However, the EESC notes that it is up to the Member States to provide their citizens with access to all possible tax incentives.

4.12. As PEPPs are mainly targeted at mobile professionals and self-employed persons who can afford to contribute to a PEPP, the EESC is of the view that the provision by Member States of tax incentives discriminates against lower income earners that have no possibility to contract a PEPP. In the light of this, Member States therefore should carefully consider whether to provide such tax incentives.

4.13. The EESC acknowledges that pension products carry some risk given their long-term nature. However, a certain level of product sophistication would go a long way to reducing risks and uncertainties, while taking account of savers' needs and preferences. Reducing risk in the case of individuals with no previous experience of pension products is considered particularly important, and the EESC agrees with the range of options that would be made available to savers with one mandatory default investment option where the saver is allowed to recoup at least his or her nominal capital invested.

4.14. The situation where the level of consumer protection varies depending on the PEPP provider should also be avoided. The EESC is of the view that financial institutions offering long-term products with a retirement purpose should be subject to the 'same risks, same rules' principle.

4.15. The EESC also points out that, as highlighted in the press release of *Better Finance* (European Federation of Investors and Financial Services Users) ([4]) of 9 October 2017, long-term personal pension products 'are failing to provide for an adequate replacement income owing to insufficient and sometimes even negative long-term real (after inflation) returns'. The responsibility of providers in providing savers with all the necessary protection and improved returns is crucial if PEPPs are to succeed. However, since most European pension funds are currently invested in bonds, the prospects for improved returns, at least in the short and medium term, do not appear too good.

4.16. Finally the EESC observes that the roles of and interaction between statutory, occupational and personal pensions are unique to each Member State. These have shaped national pension markets for decades and it is not surprising to find such diverse pension products across the EU. Against this background, it is necessary for providers to be able to adapt their PEPPs to national markets.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([4]) Pension Savings: The Real Return, A Research Report by BETTER FINANCE, 2017.

Opinion of the European Economic and Social Committee on the 'Reflection Paper on the social dimension of Europe'

(COM(2017) 206),

on the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Establishing a European Pillar of Social Rights'

(COM(2017) 250 final)

and on the 'Proposal for a Interinstitutional Proclamation on the European Pillar of Social Rights'

(COM(2017) 251 final)

(2018/C 081/20)

Rapporteur: **Gabriele BISCHOFF**

Co-rapporteur: **Jukka AHTELA**

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1. **Conclusions**

1.1. Faced with challenges such as the future of work, rising inequalities and poverty, globalisation and migration, citizens are increasingly calling into question an EU, together with Member States, that are not able to deliver security, social and economic progress and quality employment or which weaken national protection in the Member States. The debate on the social dimension of Europe and the European Pillar of Social Rights (EPSR) could be instrumental to reaching a new consensus on these pressing issues and could help to unblock the EU.

1.2. The EESC strongly emphasises that the decisions taken regarding which scenarios or pathways to follow regarding the social dimension is not an academic one but will fundamentally impact on people's lives. The EESC believes that a realistic future for the European Union can only be based on marrying a sound economic basis with a strong social dimension. In particular, modern welfare provision and fair life opportunities help to empower people and promote social harmony and economic development. The EESC reiterates that delivering on the Treaty objectives of balanced economic growth and social progress leading to improved living and working conditions should be the guiding principle in determining the future orientation of the EU's social dimension.

1.3. The Committee understands that the EPSR is intended as a political declaration of intent and, in itself, does not create any new actionable legal rights. The Committee therefore believes it would be an important signal that the Council is able to support its Proclamation at the Gothenburg Social Summit in November 2017. The EESC believes that a clear road map for the implementation of the Pillar would help foster convergence and achieve its objectives.

1.4. However, the Committee also recognises that in the current political context, there are differences of opinion as to how the EU should move forward. The EESC strongly believes that deepening the social dimension is better done with all 27 Member States, focusing on key projects that deliver social and economic progress. However, if this is not possible, alternative pathways should be considered, e. g. with some countries going ahead and inviting all others to follow. The Committee also stresses that more clarity is needed on which measures should apply to the EU-27 and which should cover the Eurozone.

1.5. Growing inequality, poverty and social exclusion should be fought at all levels by all stakeholders. With a view to this the EESC believes that further efforts aimed at defining common principles, standards, policies and strategies at appropriate levels are needed on better convergence of wages and establishing or increasing minimum wages to adequate levels with full respect for the autonomy of social partners. The EESC already emphasised in its first opinion on the EPSR ([1]) that the ILO study ([2]) is a useful reference point. It highlights that a range of indictors can be used to compare minimum wage levels, which take into account national circumstances, but the most popular is the ration of minimum to median (or mean) wages. Furthermore it is important to ensure that all citizens are covered by a minimum income. The EESC stresses that money allocated for social cohesion and social investment should be increased to face future challenges.

1.6. Social policy is a shared competence in the EU legal framework. It will be important to reach a consensus on who should do what in the area of social policy, and notably in which areas the EU should act and how, coupled with more transparency and accountability for the actions taken or, indeed, the failure to act. Within this context, reforms and political initiatives have to be pursued to address multiple challenges and make societies and economies fit for the future. If after an appropriate time the political commitment to the implementation of common principles should prove inadequate, new appropriate measures, including legal and non-legal initiatives, should be considered.

1.7. All relevant representative organisations ofcivil society have to be duly involved in the development and implementation of relevant policies, while recognising the specific role of social partners and respecting their autonomy. Promoting collective bargaining and social dialogue at all levels will also be important in providing well-functioning labour markets, fair working conditions for all, increased productivity and sustainable social security.

1.8. At the heart of this political project are common EU values, enshrined in fundamental rights. The EESC remains very concerned about the lack of enforcement of existing social rights and the ‘different worlds of compliance’ with EU law. The Commission, ‘as guardian of the Treaties’ is responsible for enforcement but Member States have a duty to properly implement and comply with EU rules. The EESC believes that it could play a more active role in promoting, raising awareness of and monitoring the state of play by creating a permanent forum on fundamental rights and the rule of law.

1.9. The discussion on the social dimension of Europe cannot take place in isolation and has to be connected to the debates on deepening EMU, how to harness globalisation while addressing its challenges and how these objectives will be adequately and effectively resourced.

1.10. To improve the social dimension action is especially needed in two main areas — EMU and the single market. Social policy has to be embedded in a different EU economic policy with a good macroeconomic policy mix and progress towards deepening EMU. Regarding EMU, the European Semester will play a key role in rebalancing economic and social policy as well as facilitating well-designed reforms in the Member States concerned. The Committee emphasises the need for an economic and social European Semester. The Pillar is also intended to impact on European economic governance. The Social Scoreboard for the EPSR needs to be improved with more adequate and suitable indicators.

([1]) OJ C 125, 21.4.2017, p. 10.
([2]) Building a Social Pillar for European Convergence, ILO 18 July 2016.

1.11. The Committee remains convinced that a good future is possible and that a stronger EU can help to better shape globalisation and digitalisation so as to provide good prospects for all citizens. Everyone must, however, realise what is at stake — what could be lost by going backwards or gained by moving ahead.

2. **Introduction (Background, challenges and context)**

2.1. 10 years after the financial crisis, its economic, social and political effects continue to be apparent and have profoundly impacted on the EU and its citizens. The EU needs a vision for the future and to find a new direction, which will enable it to address key challenges such as the future of work, globalisation, migration, rising inequalities and poverty.

2.2. The European Economic and Social Committee believes that a realistic future for the European Union can only be based on marrying a sound economic basis with a strong social dimension. It is convinced that the European Union needs a renewed consensus on a sustainable economic and social strategy to deliver its promise to work for balanced economic growth and social progress leading to the increased well-being of its citizens. It therefore welcomes the debate on the social dimension of Europe, anchored in the wider discussion on the future of Europe, as well as the Commission's proposal for an interinstitutional proclamation on the European Pillar of Social Rights (EPSR).

2.3. The reflection paper on the social dimension of Europe, published on 26 April 2017, is one of five such documents produced to feed the broad debate among the leaders of the 27 Member States, EU institutions, social partners and citizens, initiated by the Commission's White Paper on the future of Europe ([3]). The social dimension paper is the Commission's contribution to the discussion on how to adapt European social models to current and future challenges, and on the role that the European Union should play in this and to what extent.

2.4. The paper explores the question of whether, and if so how, the social dimension can be supported in the light of the different scenarios developed in the White Paper. Whereas the White Paper sets out five, non-exhaustive or prescriptive scenarios, the reflection paper only outlines three possible paths for the social dimension of Europe. It also takes stock of the four major tools the EU currently has to help deliver the objective of inclusive growth: legislation, guidance, funding and cooperation.

2.5. The EESC fully supports the Commission's White Paper initiative: it is time for the European Union to engage in a serious reflection about the way forward for the European Union, which may soon be reduced to 27 Member States. The social dimension is an integral part of this discussion.

2.6. At the same time as the social dimension reflection paper, the Commission also presented a Recommendation and a proposal for an interinstitutional Proclamation of the European Pillar of Social Rights (EPSR/the Pillar) ([4]). This followed an extensive consultation during 2016 on a preliminary outline for the Pillar. The EESC set out its initial views regarding the Pillar in an opinion ([5]) adopted in January 2017, drawing on the main outcomes of debates organised in the 28 Member States.

2.7. In this opinion, the EESC is responding to the request from the European Commission to draw up an opinion on the Reflection Paper on the social dimension of Europe. In doing so, the Committee also links this initiative with the Recommendation and proposed Proclamation of the Pillar.

2.8. 'Social Europe' is a very broad concept and, as outlined in the reflection paper, the understanding of what this means varies greatly. Some might even contest the very need for a social dimension of the EU as they regard EU social policy as a threat to Europe's global competitiveness. Others, however, view 'social Europe' as core to the EU's contribution to democratic, cohesive, culturally diverse and prosperous societies.

2.9. A social dimension has always been central to the European Union but, while there is quite a substantial social *acquis* of the EU — developed over time in parallel with Single Market, Economic and Monetary Union, fundamental rights of workers and citizens — it is sometimes felt to be invisible and absent compared to Member States' national policies. Nevertheless social realities within Europe differ greatly. The risk is of even further divergence, particularly in a scenario

([3]) https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en
([4]) https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en
([5]) OJ C 125, 21.4.2017, p. 10.

where the EU would actively decide to take a step backward regarding its integration. The Reflection Paper also identifies several drivers of change with consequences for the Member States' social models, including demographic change towards an ageing population, a more diverse and complex society and changing lifestyles, and the transformation of work, leading to increasingly diverse and irregular working patterns and working conditions.

2.10. The EESC believes that a realistic future for the European Union can only be based on marrying a sound economic basis with a strong social dimension. The EU shares competence with the Member States in the social policy field, although responsibility lies primarily at the national level, with governments, the social partners and civil society actors. Going forward, and in the overall context of the consensus arrived at on the future of Europe, it will also be important to reach consensus on who should do what in the area of social policy, and notably in which areas should the EU act and how.

2.11. The EESC has also highlighted the problem of the lack of enforcement of existing social rights. The Commission, in its role as 'guardian of the Treaties' has the key responsibility for enforcement. However, it is the responsibility of the Member States to properly implement EU legislation and to comply with it. There are 'different worlds of compliance ([6])' with EU law in the Member States and a certain reluctance by the Commission to properly address this issue. This is also a barrier to more convergence that has to be tackled. The Committee has already emphasised the need to promote and enforce existing social and fundamental rights and to monitor violations ([7]). The EESC must play a more active role here and can create a permanent forum on fundamental rights and the rule of law to monitor the state of play. Transparency and clarity about who does what is essential, so that citizens can understand where responsibilities lie and who should be accountable.

2.12. The EESC has in many opinions ([8]) stressed the need for a macroeconomic policy mix which supports, rather than works counter to, social policy objectives. Recital 11 of the EPSR Recommendation which states 'economic and social progress are intertwined and […] the establishment of a EPSR should be part of wider efforts to build a more inclusive and sustainable growth model by improving Europe's competitiveness and making it a better place to invest, create jobs and foster social inclusion', is therefore welcome. The discussion on the social dimension must therefore be demonstrably linked to the discussion on the future architecture of the EMU, also the subject of a separate Future of Europe reflection paper.

2.13. A key question is: what impact will the EPSR have? There are a lot of expectations and questions such as will it address the social deficits of the common market or help to end the imbalance between economic freedoms and social rights ([9])? The truth is that creating high expectations can have a boomerang effect. The EESC, therefore, recommends a realistic but ambitious approach.

2.14. The EESC has previously stressed, in the context of the discussion on the EPSR, that the EU needs to deliver a positive project for all to counter the rise in populism, nationalism and scepticism among European citizens and to prove that the EU is still capable of delivering on the promise to create economic growth and jobs and improve their living and working conditions. It reiterates that this should be the guiding principle in determining the future orientation of Europe's social dimension.

3. **The reflection paper on the social dimension of Europe**

3.1. In its resolution on the 'White Paper on the Future of Europe', the EESC already underlined that the envisaged debates with the governments and civil society in the Member States should not be about choosing between the five different scenarios outlined in the White Paper, but should be used to illustrate the potential consequences of different choices and pathways. The pathways within the scenarios described are, therefore, not perceived as the only possible

([6]) Complying with Europe: EU Harmonisation and Soft Law in the Member States, Gerda Falkner, Oliver Treib, Miriam Hartlapp, 2007.
([7]) e.g. OJ C 376, 22.12.2011, p. 74.
([8]) OJ C 271, 19.9.2013, p. 1.
OJ C 451, 16.12.2014, p. 10.
OJ C 13, 15.1.2016, p. 33.
([9]) OJ C 143, 22.5.2012, p. 23.
OJ C 271, 19.9.2013, p. 1.

options or as 'models' describing different, isolated pathways. The same approach should apply to the social dimension reflection paper.

3.2. The reflection paper refers to the diverse social realties within the EU, identifies possible drivers of change and sets out three possible pathways:

— Limiting the social dimension to free movement (only free movement),

— Those who want to do more in the social field do more (enhanced cooperation),

— The EU-27 deepen the social dimension of Europe together (deepen social dimension with 27).

3.3. To better understand the possible implications, the EESC has considered the three pathways in terms of the challenges and drivers of change described in the reflection paper, and the challenges the EESC addressed in its initial opinion on the EPSR. These are set out by way of indicative examples in the Appendix for illustrative purposes only.

3.4. 'Only free movement' — the first pathway — would represent the biggest change in relation to the status quo and could be seen as a big step backwards. This would become a driver for even more divergence in the EU, with considerable consequences for the life of EU citizens and which could lead to centrifugal forces that could ultimately result in the disintegration of the EU. On the other hand, free movement and the regulation on intra-EU mobility could be of higher quality and greater scope, and also make enforcement and monitoring by the Commission easier (i.e. less but better).

3.5. 'Enhanced cooperation' — the second pathway — could at least trigger more convergence between some Member States, but would also create wider gaps with others (semi-convergence). It would be a step forward with regard to the status quo and escape the current problem of always finding the lowest common denominator or including too many opt-outs that make enforcement of these rules quite complicated. It would, however, lead to different levels of rights for citizens, depending on the Member State in which they live. It would also create new challenges and uncertainties for businesses that operate across the EU and need a level playing field, and which would also be confronted with different worlds of compliance. This could also lead to an erosion of support for the common market if citizens in countries that are not involved increasingly feel left behind.

3.6. 'Deepen the social dimension with all 27' — the third pathway — would bring a significant change to the current situation and would be a major driver for EU-wide convergence. It could include binding measures and benchmarks for the EU27 and EU funding linked to performance regarding the benchmarks and joint goals. However, even if the EESC believes that deepening the social dimension is best done with all 27 Member States, taking into consideration the already complex negotiations about the vague concept of the EPSR, it does not seem realistic to anticipate that this pathway would be supported, especially by those Member States that want to maintain their comparative advantage in terms of lower wage and social standards or by those that fear that their national models and high standards would be negatively affected.

3.7. The EESC takes the view that an approach of 'deepening the social dimension where possible and focusing more on outcomes' would also support a major driver for more convergence. It therefore supports more binding measures based in the European Semester ([10]) — with benchmarks, at least for the Eurozone but preferably for the EU-27, related to employment, education, and welfare (for example with a common reference framework for income support for those in need). This should be accompanied by a roadmap setting out joint initiatives in key areas where EU-actions provide clear added value, and, where possible, focused on outcomes instead. Money allocated for social cohesion and social investment should be increased to face the challenges of skills and competences, digitalisation and demographic change in the European Union.

([10]) This is the proposal from the Commission regarding 'Deepening the EMU'.

4. **Proclamation of the European Pillar of Social Rights**

4.1. The EESC has already stated that the EPSR should contribute to a fair balance between the economic and social dimensions of the European Union. The issue of balancing economic and social objectives surpass the construction of a single pillar and touches upon the horizontal foundations of the European Union.

4.2. The stated objectives of the Pillar is to contribute to a 'fair and truly pan-European labour market' and 'serve as a compass for renewed convergence within the euro area' goes beyond the competences in the field of Social Policy Title X TFEU. They strike at the core of economic and monetary policies, as well as the employment strategy under Titles VIII and IX TFEU.

4.3. The Pillar outlines 20 'principles and rights' which the Commission deems essential for fair and well-functioning labour markets and welfare systems in the 21st century, grouped under three categories: 1) equal opportunities and access to the labour market, 2) fair working conditions, and 3) social protection and inclusion.

4.4. The establishment of the EPSR has both a retrospective and a forward-looking character. It seeks to reflect the existing EU *acquis* of social rights, and indicates if and how this should be complemented, where necessary, to take account of the major transformations in the world of work and in society, so as to help achieve well-functioning labour markets and welfare systems in a 21st century Europe.

4.5. Some clarification is needed regarding the legal nature of the Pillar, which is presented in the form of two separate, though almost identical, instruments: a Commission Recommendation ([11]) and a proposal for an Interinstitutional Proclamation ([12]). According to the accompanying Communication, the choice of instruments takes account of broader political considerations and legal limitations, notably restrictions on the EU's competences in the social policy sphere.

4.6. The Recommendation, in exercise of the Commission's competence under Article 292 TFEU, is effective immediately. It does not indicate expressly whom it is addressed to, but recitals 17-20 clarify that 'delivering on the European Pillar of Social Rights is a shared commitment and responsibility between the Union, its Member States and the social partners… and should be implemented at both Union and Member State level within their respective competences and in accordance with the principle of subsidiarity'. In this context, the EESC would also highlight that the autonomy of the social partners should be respected.

4.7. In parallel, the European Commission also proposes that the EPSR should 'be solemnly proclaimed jointly by the EU Institutions'. There is no legal basis in the EU Treaties for the Proclamation, although this instrument has been used once before, with the Charter of Fundamental Rights of the European Union (CFREU), which was first proclaimed at the Nice European Council on 7 December 2000. The Proclamation needs to be distinguished from an interinstitutional agreement within the meaning of Article 295 TFEU, and, according to the legal assessment of the Council, the proclamation 'constitutes an atypical act, which is not legally binding and does not create directly enforceable rights'.

4.8. The EPSR Proclamation process is also distinct from the Community Charter of the Fundamental Social Rights of Workers, adopted on 9 December 1989. The latter also has a purely declaratory character, but was signed by all the Member States except the UK. It was not a joint declaration adopted together with other European institutions, although the European Commission did present a Social Action Programme to implement the Charter (COM(89) 568 final). Furthermore, it contains provisions on its enforcement.

4.9. Insofar as 'delivering on the European Social Pillar' is a shared commitment and responsibility between the Union, its Member States and the social partners, it is consistent for the Council and the European Parliament to join the Commission in the solemn proclamation of the Pillar. The EPSR is also meant to have an impact on the economic governance of the EU (European Semester, Social Scoreboard) and therefore it would be an important signal that the Council achieves a consensus to support the Proclamation. Despite acknowledging that the social partners are competent in many domains, the Committee notes that they have not been formally included in the proclamation process ([13]).

([11]) OJ L 113, 29.4.2017, p. 56.

([12]) Additionally, the Recommendation and Proclamation were accompanied by a headline Communication and a number of other accompanying non-legislative initiatives including a Social Scoreboard to monitor progress, two social partner consultations, and a legislative proposal for a Directive on Work-Life Balance, which is the subject of a separate opinion by the EESC.

([13]) See European Commission Communication Establishing the European Pillar of Social Rights, p. 6, COM(2017) 250 final.

4.10. The Committee understands that the Pillar is intended as a political declaration of intent and, in itself, does not create any new actionable legal rights. The Commission makes a distinction between rights and principles: the former are said to reaffirm some of the rights already present in the Union *acquis*, whereas the principles are said to be new and tend to address the challenges arising from societal, technological and economic developments. Indeed, according to the Communication, neither the principles nor the rights are directly enforceable.

4.11. Despite the lack of a legally binding character, such a Proclamation would entail a political commitment on the part of the EU institutions, as well as the Council and the Member States, to deliver on the EPSR, while respecting the division of competences and the principle of subsidiarity.

4.12. The CFREU, unlike the EPSR, has the same value as the Treaties and is thus part of primary law, although it does not create new competences at EU-level and, while legally binding for the EU institutions, it is not directly enforceable by EU citizens. It has a broader approach to economic and social rights alike. If, after an appropriate time, the political commitment referred to above has not led in all Member States to concrete initiatives implementing the pillar, appropriate measures, including legal and non-legal initiatives, should be considered. The EESC already asked for a framework directive for a minimum income ([14]). New legal opinions, e.g. commissioned for the Ministry of Labour in Germany, explore how this could be done ([15]).

4.13. The EESC already highlighted in an opinion in 2011 ([16]) that fundamental social rights are 'indivisible' from civil and political rights and therefore require special strategic attention. It proposed further measures and promotional activities in order to boost the effectiveness of a fundamental rights implementation strategy. The Commission does not sufficiently address the problem of the lack of enforcement of existing social rights and the EESC believes that there is a certain risk that the EPSR blurs the specific role the Commission has to play as 'guardian of the Treaties'.

5. **Relationship between the Reflection Paper on the social dimension and the European Pillar of Social Rights**

5.1. The relationship between the EPSR and the social dimension reflection paper, as well as the other reflection papers in the wider future of Europe debate, must also be considered. An analysis of the EPSR shows that several of the scenarios from the White Paper/social dimension reflection paper can indeed be combined in the implementation of the Pillar.

5.2. The EPSR is aimed primarily at the Member States in the euro area. In this respect, the philosophy of the EPSR comes closer to a scenario in which 'those who want to do more, do more'. Monitoring the implementation of the Pillar through the Social Scoreboard with more adequate and suitable indicators and which should be integrated into the European semester, could possibly offer some progress in this direction. Civil society and the social partners should be consulted on these indicators as the current proposal is not sufficient.

5.3. Some of the suggested 'follow-up' measures advanced in the Communication on the EPSR accord with the EU-27 scenario, while others might seem to be primarily aimed at the 'those who want to do more' scenario. Thus, the measures, such as the initiative to promote Work-Life Balance for Working Parents and Carers, presented as part of the Social Pillar package, are intended to be applicable to the EU-27. In the same vein, measures related to the enforcement of existing legislation and social dialogue are also meant to apply to the EU-27. The need to function at a more restricted geographical level could also pose new challenges for the social partners, who are represented at EU level.

5.4. Other measures proposed in the Recommendation, such as those related to the European Semester and completion of Europe's Economic and Monetary Union, are only applicable to and intended for the euro area. They fit better with a 'those who want to do more' scenario. In fact, the Reflection Paper mentions, as an example of such a scenario, stronger convergence towards more integrated labour markets and towards the most effective social systems and strongest education and health systems.

([14]) OJ C 170, 5.6.2014, p. 23 (this opinion did not receive the support of the Employers' Group; see http://www.eesc.europa.eu/resources/docs/statement-minimum-income.pdf).
([15]) 'Ein verbindlicher EU-Rechtsrahmen für soziale Sicherungssysteme in den Mitgliedstaaten', Legal opinion by Prof. Dr Thorsten Kingreen, September 2017.
([16]) OJ C 376, 22.12.2011, p. 74.

5.5. EU financial support through the European Social Fund fits better with an EU-27 approach. The idea of making more funding available is in fact mentioned in the Reflection Paper as an example of the EU-27 deepening the social dimension.

6. **Relationship with the other Future of Europe reflection papers**

6.1. The discussion on the social dimension of Europe cannot take place in isolation and it is, therefore, also important to consider the relationship with the other Future of Europe reflection papers and their key messages on the social dimension and the way forward, even though the EESC will produce separate opinions on some of these papers ([17]).

6.2. The reflection paper on '**Deeping the Economic and Monetary Union'** outlines jobs, growth, social fairness, economic convergence and financial stability as part of the guiding principles for the deepening of the EMU. This rather seems like a quite limited concept of the social dimension of EMU. First of all, it is not consistent concerning economic and social convergence or especially upward convergence and secondly mainly referring to 'social fairness'. There is no explanation about the concept or perception of 'social fairness', and why it does not refer instead to 'social justice' in accordance with Article 3 TFEU.

6.3. The EMU reflection paper refers to the strengthening of the coordination of economic policies within the EU Semester, as the key tool. Within the Semester, the EPSR would work as a 'renewed compass for many such policies towards better working and living conditions'. This would make it necessary to 'foster further the cooperation and dialogue with Member States, involving national parliaments, social partners, national productivity boards and other stakeholders' with the aim of ensuring 'stronger domestic ownership and encourage better reform implementation.' In the reflection paper, the Commission also emphasises the link between national reforms and existing EU funding. In essence, the discourse on the need for more ownership, involvement of social partners and conditionalities for EU funding are nothing new and just highlights the need for better governance and delivery of the European Semester.

6.4. The proposals with regard to a renewed convergence process in the EMU reflection paper are centred on using the EU-level framework to converge, strengthening the coordination of economic policy and reinforcing links between national reforms and existing EU-funding. Views differ on making EU funding conditional on reforms and the EESC recommends that this should only be only possible with the full involvement of the European Parliament in the whole process, on equal terms and with a clear role for the national parliaments also. Greater convergence and stability are expected to occur **by pursuing the right structural reforms**. While the EESC shares the view that well designed reforms in the Member States concerned can be essential to achieve more upward convergence and make social systems more adequate and resilient, it also emphasises the need for an improved macroeconomic policy mix and a better involvement of social partners within the macroeconomic dialogue, the design of the European Semester process and the connected reforms.

6.5. Within the toolbox of the EMU, the Social Scoreboard within the context of the EPSR is seen as one element of the Economic Union, together with the National Boards, to monitor productivity developments. This indicates the connection between deepening EMU and EPSR. The EPSR is intended to be **a compass to achieve certain structural reforms** in the areas described by the 20 principles.

6.6. Annex 2 to the EMU paper mentions the importance of a new start for social dialogue and qualifies the attempt of the European Commission to establish an EPSR as 'an important step' (pp. 32-33). In this regard, it is crucial to have a broad understanding of social dialogue, which cannot just be limited to the framework of the Social Policy Title. Although the obligation of the European Union to promote the role of social partners is mentioned in the Social Policy Title, this obligation needs to have implications, where applicable, outside this single policy.

6.7. In the reflection paper on 'Harnessing Globalisation', the European Commission tries to address growing fears and criticism about current globalisation policies and outcomes. The Commission therefore emphasises that globalisation can be beneficial where properly harnessed, so that not too many people feel left behind.

([17]) Deepening EMU by 2025 (ECO/438) (see page 124 of this Official Journal), EU finances by 2025 (ECO/439) (see page 131 of this Official Journal).

6.8. According to the Commission, robust social policies play an important role in protecting and empowering citizens in this process. They see this as a prerequisite for fostering citizens' trust and confidence regarding challenges and benefits of globalisation.

6.9. The **Harnessing Globalisation** reflection paper refers specifically to the one on the social dimension. The EESC supports the view that 'a better distribution of the benefits of globalisation, coupled with effective social protection, will help people find a decent job and adapt to change. More broadly, a fair and equitable redistribution of wealth, as well as focused investments fostering social inclusion of more vulnerable categories of people including migrants, will help to strengthen social cohesion'. This is very much in line with the emphasis the EESC put on the need for fair transitions in the context of digitalisation and globalisation. The Commission also stresses that 'the EU should also be an innovative and competitive economy with world-leading companies and citizens who can adapt to change and are able to generate the wealth needed to uphold our social model'.

6.10. The EESC also supports the view that it is essential to improve global social and labour standards and practices, in close cooperation with the ILO, the social partners and civil society organisations particularly involved in this agenda, such as social economy organisations.

6.11. The EESC agrees that the EU can shape the global rulebook not only because it is the world's largest single market and the largest trade and investor, but also because it believes in global solutions for global challenges. Therefore the European social model, our key values and fundamental rights should be our 'compass and reference model for a fair globalisation'.

6.12. Although the reflection paper on the **Future of EU Finances** was the last one to be published, the EU budget will be fundamental but will, of course, be determined by the choices made regarding the Future of Europe. The EU finances reflection paper assesses the implications for EU spending according to the five scenarios outlined in the White Paper, which will have a huge impact on citizens, regions and the groups of people who need the most support. Only in the fifth scenario — where Member States agree to do much more together — will a higher amount be spent on economic, social and territorial cohesion.

6.13. The departure of the United Kingdom from the EU will have major consequences for the EU budget. The EESC is conscious of the risk that this could result in a reduction of the social funds. The EESC emphasises that the European Social Fund is an important driver for more convergence and should not be reduced if the future challenges are to be met.

7. **The EESC's priority areas and action on different levels, by relevant actors**

7.1. In its initial opinion on the EPSR, the EESC has already identified the following main areas where it believes action at EU and/or national level, according to respective competencies, is necessary:

— investment and innovation,

— employment and quality job creation,

— anti-poverty measure, including minimum income,

— fair and smooth transitions supported by active labour market policies,

— framework conditions in labour markets to support new and more diverse career paths and which support fair working conditions for all,

— social protection for all (new forms of work e.g. platforms, etc.),

— social investment (skills, transitions etc.),

— social services of general interest.

7.2. In achieving a consensus on how to proceed, key projects within these areas should be identified. The EU should start with projects that have a direct positive impact and that will be supported by all.

8. **Next steps from the Gothenburg Social Summit (2017) and beyond: a road from principles to rights** ([18])?

8.1. It has been three years since President Juncker first stated that he wished to deliver a 'Social Triple A' for the EU ([19]). The Juncker Commission started quite late with its initiatives and needed considerable time for the consultations on the EPSR (1 year). Further time elapsed with the launch of the debate on the Future of Europe, without any practical recommendations from the Commission on how to proceed. The European Parliament elections will take place in 2019 and there will also be a new Commission. For many, this time-paradox — on the one hand running out of time to stabilise EMU and the European social model(s) before 2019 and on the other trying to gain time before major elections take place in autumn 2017 — unfortunately prevents the EU from getting back on track.

8.2. The Commission's proposal in April 2017 for a joint Interinstitutional Proclamation on the European Pillar of Social Rights has received mixed reactions. Some think this is important progress, others see it mainly as a symbolic act which is not tangible enough to address the social crisis, and there are even some who fear that it might go too far. After the Gothenburg Social Summit (November 2017), on the basis of the Proclamation of the EPSR and the discussions on the reflection paper on the social dimension of Europe, the EESC encourages all three EU-institutions to develop a positive agenda for the citizens of the EU aimed at reinforcing a European economic and social model fit for the future, by promoting economic growth, employment, the well-being of citizens and upward convergence in employment and social outcomes.

8.3. Much uncertainty still surrounds the Pillar, not least whether it will be proclaimed by all the Member States. If it is, a key question for the EESC will be to determine what steps need to be taken to ensure it can be an effective instrument. The EESC believes that further steps will need to be taken at the most appropriate level, including joint initiatives in key areas where EU action provides clear added value and, where possible, should be focused on outcomes. The EESC believes that a clear roadmap for the implementation of the EPSR would help to foster convergence and achieve its objectives.

8.4. The EESC also proposes that impact assessments should also include an evaluation of compatibility with the EPSR. Within the better regulation agenda, there should be more focus on whether and how initiatives facilitate social progress for citizens and can be easily complied with and enforced.

8.5. The EESC sees its role as monitoring this process, supporting it via debates at national level, and as insisting that more transparency and participation of civil society is necessary. It also warns against new complex processes or approaching the future of the EU mainly via an institutional perspective.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([18]) Note: this is an important chapter related to governance and implementation issues, such as the European semester and the role of the social partners, as well as what role the EESC can play. It must be fully developed. The following text provides an overview of the (political) steps taken regarding the EPSR.

([19]) 22 October 2014, European Parliament.

Appendix

Synopsis of the Social Dimension

Challenges	Scenario 1 **'Only Free Movement'**	Scenario 2 **'Enhanced Cooperation'**	Scenario 3 **'Deepen Social Dimension with all'**	EESC Scenario 4 **'Deepen Social Dimension where possible & focus more on outcomes'**
Demographic development and new family patterns	Could create new pull and push factors especially for qualified citizens to leave country, look for better pay. 27 solutions/less convergence to new family patterns/gender roles in society	Could also create new pull and push factors especially for qualified citizens to move to 'avant-garde' MS. Innovative solutions for new work-life balance, gender-equality/better participation of women in labour market, etc. in avant-garde countries.	Better use and design of EU labour market via common standards, more convergence. Same pension age in EU, linked to life expectancy (but big protest in many countries).	— Strong benchmarks for labour market outcomes (participation women/vulnerable groups/older people, decent work) — Benchmarks for social protection (benefits and services) — Legislative and non-legislative measures for work-life balance measures to improve living & working conditions

Challenges	**Scenario 1** **'Only Free Movement'**	**Scenario 2** **'Enhanced Cooperation'**	**Scenario 3** **'Deepen Social Dimension with all'**	**EESC Scenario 4** **'Deepen Social Dimension where possible & focus more on outcomes'**
Digitalisation/ **Transformation of work**	Instead of 1 EU regulation, will have 27 solutions concerning platform work, working time, AI, etc. but national answers will be limited	New solutions could be found to better protect and enable citizens and embark on changes, by limiting risks. Other MS might follow later. Easier to find qualified workers via common standards & single social security number.	1 standard/rules employment status platform workers, new innovative solutions & projects. EU IT systems	— Make future of work a positive project — Benchmark effective and targeted active labour market policies (ALMP) to reach good employment outcomes — Transition to Work 4.0 to be accompanied by a parallel transition to Welfare 4.0 — Framework conditions in labour markets need to support new and more diverse career paths — Need for framework for fair working conditions for all — Enable citizens to make the necessary transitions (skills, new jobs)
Globalisation	EU Social model no reference model for fair globalisation, harder to set standards globally	Avant-garde limited reference model for globalisation. Avant-garde via joint tools and funds provides better for transitions/provide skills	EU Social model can be stronger reference model for fair globalisation, helps to set standards globally by setting standards for biggest common market worldwide.	— An EU economic and social model based on increasing employment, social progress and productivity — Implementing SDGs, especially 1 (No Poverty), 3 (Good Health and Well-being), 5 (Gender Equality) and 8 (Decent Work and Economic Growth)

Challenges	Scenario 1 'Only Free Movement'	Scenario 2 'Enhanced Cooperation'	Scenario 3 'Deepen Social Dimension with all'	EESC Scenario 4 'Deepen Social Dimension where possible & focus more on outcomes'
Disparities between MS and within MS	Increase disparities, no EU funding any more for creating more convergence. MS have to create their own funds, will further increase disparities	Disparities between avant-garde countries and rest of MS increase. Could lead to different 'business-models' and new pull-push factors for companies	Would significantly decrease via upward convergence. Special monitoring/action via benchmarks and financial incentives	— Benchmarks in social protection (eligibility conditions, benefits duration and levels) — European Fund for Strategic Investment and European Structural and Investment Funds (ESIF) to create jobs and promote territorial and social cohesion
Rise in inequalities/poverty	Will continue even faster in some MS, others will be able to protect their citizens better by limiting intervention of ECJ rulings etc. Will increase inequalities by more social/wage dumping	Reduced inequalities through better compensation via social policies in avant-garde countries, probably more inequality in others	Could be reduced via common standards and policies.	— Workers to be covered by fundamental labour standards and adequate social protection — Further efforts towards convergence of wages and establishing minimum wages in Member States — Examine the idea of a European minimum income — EU and national initiatives to enhance social protection (social security, social assistance, social services, healthcare, housing)

Challenges	Scenario 1 **'Only Free Movement'**	Scenario 2 **'Enhanced Cooperation'**	Scenario 3 **'Deepen Social Dimension with all'**	EESC Scenario 4 **'Deepen Social Dimension where possible & focus more on outcomes'**
Competiveness of companies	Less EU regulation but more costly to comply with 27 different regulations concerning health & safety, working time etc.	In general, more complexity in monitoring/enforcing rules. Competitiveness could also improve by more convergence & new innovative solutions in avant-garde countries but also for some business models by less regulation in 'left-out-countries'	Equal level playing field, less bureaucracy by 1 standard and best use of EU labour market and skills policies (e.g. improved Erasmus* etc.) Reduced costs via joint IT solutions and also through simple recognition of diplomas etc.	— Sound macroeconomic policies fostering a favourable business environment for employment growth — Rooting the agenda for new skills and jobs in the notion of balanced flexicurity — Solution oriented social dialogue contributing to competitiveness
Acceptance of EU integration by citizens	Social regulation can be done closer to citizens, but acceptance for integration could diminish if race to the bottom increases	Acceptance in countries left out probably shrinks, if social realties get worse because MS might lower social standards to attract business. In avant-garde it might increase		— EPSR to be a positive project for all to help regain trust in the EU's ability to improve life prospects, sufficient employment opportunities and fair working conditions for all — More effective and democratic economic governance, notably in the euro area, to tackle imbalances

Challenges	**Scenario 1** **'Only Free Movement'**	**Scenario 2** **'Enhanced Cooperation'**	**Scenario 3** **'Deepen Social Dimension with all'**	**EESC Scenario 4** **'Deepen Social Dimension where possible & focus more on outcomes'**
Conclusions	— Divergence driver — Big change/step back — Considerable consequences for life of citizens — 'Kind of Soft-Brexit-Scenario' for all — Risk 'race to the bottom' — Free movement mobility regulation could be of higher quality (less but better) and also better implemented/controlled by Commission	— More convergence between some MS, but wider gaps with others (increase semi-divergence) — Not policy by lowest common denominator — Rights of citizens vary in MS — Risks erosion of single market	— Driver for convergence, major change — Joint values/rights strengthened — Binding measure, benchmarks 27 MS (employment, education, welfare systems) — EU funding linked to performance benchmarks (conditionalities)	— Driver for convergence, major change — Joint values/rights promoted and enforced — Common reference frameworks for income support for those in need — Binding measures in the European Semester, benchmarks 27 MS (employment, education, welfare systems) — Increased EU funding for social cohesion and investment (respecting the Stability and Growth Pact, no conditionalities)

Tools to achieve the goals in Scenarios 1-4

— EU Semester

— Social Scoreboard as part of EU Semester

— Financial incentives via MFF

— EPSR, guiding rights and principles

— Road map to implement EPSR (including legislative and non-legislative measures).

— Social dialogue

Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council laying down the legal framework of the European Solidarity Corps and amending Regulations (EU) No 1288/2013, (EU) No 1293/2013, (EU) No 1303/2013, (EU) No 1305/2013, (EU) No 1306/2013 and Decision No 1313/2013/EU'

(COM(2017) 262 final — 2017/0102(COD))

(2018/C 081/21)

Rapporteur: **Pavel TRANTINA** (CZ/III)

Co-rapporteur: **Antonello PEZZINI** (IT/I)

Consultation	European Parliament, 20.6.2017
	Council of the European Union, 20.6.2017
Legal basis	Article 165(4) and Article 166(4) of the Treaty on the Functioning of the European Union
Section responsible	Section for Employment, Social Affairs and Citizenship
Adopted in section	27.9.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote	124/0/1
(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The EESC welcomes the European Commission's proposal, recognising it as a good start for a broader discussion, but with a lot of elements to clarify and improve. We are happy to see that some of the priorities that were highlighted by the civil society organisations in the various stakeholder consultations organised by the Commission were included in the legal basis (i.e. more funding, local volunteering, focus on improving access for young people from disadvantaged backgrounds or with specific needs, focus on quality assurance of placements, simplification of administrative procedures).

1.2. The EESC considers that the added value of projects financed by the European Solidarity Corps (ESC) lies in their message of European solidarity. Compared with the previous initiatives, the ESC projects seek to establish among participants and the communities hosting them a full awareness of European citizenship and a sense of belonging to one Union. In the Committee's view, the innovative aspect of the ESC — which consists in the fact that it is founded on values linked to the European identity and that that these values are woven into project design and translated into practical achievements — is of key importance. These values are clearly set out in the EU Treaty: they are the values of peace, respect for human dignity, freedom, democracy, equality, human rights — including those of minorities —, tolerance, non-discrimination, equality between women and men, the rule of law, and respect for and application of the principles of a social market economy.

1.3. The EESC welcomes the announcement of this new investment in young people, but is concerned that it has been achieved largely through the reallocation of the European Voluntary Service budget from Erasmus+ from 2018 onwards. It believes that investment in the ESC budget must not come at the expense of successful programmes already offering invaluable opportunities to young people, particularly Erasmus+, which is already underfunded. We therefore ask for more 'fresh money' to be invested in the programme.

1.4. The EESC is very concerned about the merging of the ESC goals with youth employment policies. It therefore suggests that the inclusion of job and traineeship placements in the programme should be reconsidered. The EESC suggests that the job and traineeship placements part should be offered through other already existing EU programmes focusing on employment and traineeships, the solidarity aspect of which should be strengthened. Concentrating the ESC on the voluntary 'strand' alone would enable greater clarity and focus and would help avoid confusion with the other EU programmes available to young people.

1.5. Following a broad consultation with key stakeholders, the EESC has come up with the following suggestions for improving the draft legal basis (see section four for greater detail):

— the definition of volunteering and solidarity actions should be changed;

— provision of placements should be limited to non-profit organisations, foundations and social enterprises;

— the internet registration portal must become a genuinely effective interactive and management instrument;

— more support and preparation should be provided for young people, including the disadvantaged, before their placement and youth organisations should be supported in providing such preparation;

— youth organisations and social partners must be involved in the co-management of the ESC;

— contrary to the current approach of Erasmus+, accessibility must be enhanced, administrative burdens lowered and the approach of national agencies changed so as to make them more user-friendly.

Details of EESC proposals, as well as other suggestions, are set out below.

2. **Summary of the Commission initiative**

2.1. The establishment of the initiative now known as the European Solidarity Corps (ESC) was announced by the European Commission president, Jean-Claude Juncker, in his 'State of the Union' speech in September 2016. He identified solidarity as one of the building blocks of the European Union and expressed his willingness to engage more young people in solidarity actions and volunteering.

2.2. The ESC was officially launched on 7 December 2016 with the aim of welcoming the first 100 000 participants by 2020. The key objective of the European Solidarity Corps is to strengthen cohesion and foster solidarity in European society by allowing young people to participate in a wide range of solidarity-based activities, e.g. helping to deal with emergencies such as the refugee crisis, but also when ad hoc action is needed (for instance, in the case of natural disasters).

2.3. If approved, the ESC will be (re)launched on 1 January 2018 with a budget of EUR 341 million to be divided among three main activities:

— Solidarity placements, which will support young people carrying out volunteering activities for up to 12 months, traineeship placements for 2-6 months on average, and job placements, in compliance with relevant national legislation, for 2-12 months. Volunteering team placements in groups of 10-40 young volunteers from different countries for a period of between two weeks and two months will also be supported.

— Solidarity projects will allow small groups of at least five registered participants to set up and implement solidarity projects at the local level on their own initiative, for 2-12 months.

— Networking activities will enable the exchange of good practices between registered participants and participating organisations, provide post-placement support and establish alumni networks.

These placements will be available to young people aged between 18 and 30. Currently, the programme is restricted to the EU28 only.

2.4. The programme will last for three years, from 2018 to 2020. 80 % of the ESC budget will be allocated to volunteering placements and 20 % to job placements (i.e. jobs and traineeships) Of the EUR 341 million allocated to the programme, almost 58 % (around EUR 197,7 million) will come from Erasmus+. The vast majority of this money (EUR 191 million) will come from the European Voluntary Service (EVS).

2.5. Registered participants are asked to create a profile on the internet portal with an indication of their preferences for areas of work/type of placement and will receive placement offers from public or private entities or international organisations that have been awarded the ESC quality label. To receive the ESC label and access the database, the organisation will have to go through an accreditation process (similar to that of the EVS) proving its compliance with the requirements of the ESC Charter ([1]) (i.e. ensuring, inter alia, skills development, safe and decent working conditions and adequate training).

2.6. The European Commission and the Education, Audiovisual and Culture Executive Agency (EACEA) will oversee the implementation of the ESC at EU level, and the Erasmus+ National Agencies will monitor its implementation at national level.

2.7. For volunteering placements, living expenses (food, accommodation), travel, insurance and around EUR 155 per month will be provided to all participants. For job and traineeship placements, the employment contract, wages and traineeship written agreements and remuneration will be set according to national law. Financial support for travel is anticipated for these placements.

2.8. A financial top-up for disadvantaged young people is envisaged and some costs to hosting organisations (i.e. administrative, management, support) may also be covered. Pre-placement support (i.e. language learning) will mostly be provided online but organisations are free to complement this with their own support systems. ESC resource centres will be set up in Erasmus+ national agencies to provide support to participating organisations.

3. **General comments on the European Solidarity Corps**

3.1. The EESC welcomes the creation of a new programme focusing on youth, and particularly on youth volunteering, which is lacking in the current EU structure. It likewise welcomes the variety of the types of placements that the ESC offers, such as 'solidarity projects' at local level, recuperating an element of the former Youth Initiatives, which were very successful.

3.2. The EESC hopes that through this programme a wider volunteering strategy at EU level can be developed not only for the 100 000 young people in the programme, but for around 100 million young and adult EU citizens currently engaged in volunteering across Europe. As the EESC already stressed it its opinion on EU policies and volunteering ([2]), a more coordinated approach towards volunteering policy is needed from the EU institutions. It should be recognised as a cross-cutting policy area and coordinated by a special unit within the European Commission, boosted by the required policy structures in other EU institutions. To this end, the Policy Agenda for Volunteering in Europe (PAVE) offers a number of inspiring proposals for the further development of volunteering at EU and Member State level, as well as for social partners and NGOs. The ESC could also strengthen and foster the creation of national structures of volunteering and break down the many obstacles that still exist for cross-border volunteering.

3.3. The European Solidarity Corps should contribute to European social values. The EESC is very concerned about the merging of the ESC goals with youth employment policies. Such an approach risks replacing paid work with unpaid labour for Europe's young people. In this regard, the EESC is concerned that the definition of 'volunteering' put forward by the legal basis document of the European Solidarity Corps (full-time, unpaid voluntary service carried out continuously, five days a week for seven hours a day) is very close to the description of a job placement. However, volunteering is not usually a full-time job, but rather takes place in the volunteer's free time.

([1]) https://europa.eu/youth/solidarity/charter_en

([2]) EESC opinion on *Communication on EU Policies and Volunteering: Recognising and Promoting Cross-border Voluntary Activities in the EU* (OJ C 181, 21.6.2012, p. 150).

3.4. The EESC suggests that the employment and placement part should be offered through other already existing EU programmes focusing on employment and traineeships, the solidarity aspect of which should be strengthened. Concentrating the ESC on the voluntary 'strand' alone would enable more clarity and focus and would help to avoid confusion with other EU programmes available to young people.

3.5. If, however, job and traineeship placements are kept in the ESC, the EESC would like quality standards (European Quality Charter on Internships and Apprenticeships, the forthcoming Framework of Actions for Apprenticeships, jointly agreed by the European social partners) to be observed and remuneration to be fully aligned with national legislation on wages and/or applicable collective agreements. Likewise, placements should be limited to non-profit organisations, foundations and social enterprises. It would also be necessary to provide job coaching for apprentices and trainees, contracts that cover health and social insurance and clear objectives in the field of education and training.

3.6. The implementation of the ESC should be monitored with the participation of youth organisations and social partners, both of which should play a special role in ensuring that a clear distinction is made between volunteering activities and any possible job placements.

3.7. The EESC is convinced that the ESC should be fully implemented under Erasmus+, rather than by establishing an entirely new programme administered by Erasmus+ bodies. This could also help to fully align the conditions for the remaining part of the EVS with the ESC. Moreover, it would mean that the programme would not be under threat after 2020. In any event, however, additional funding and support are needed.

3.8. In light of the experience it has gained in the past, the EESC considers it important to:

— ensure that all initiatives in support of non-profit solidarity activities should match real, clearly identified needs in the target community;

— avoid duplication, administrative burdens and obstacles to well-functioning systems such as the European Voluntary Service;

— give priority to grassroots initiatives that fit in with the needs of local communities, rather than transnational ones that call for more preparation and training and a longer period for settling in;

— contemplate lowering to sixteen the minimum age for participants in these initiatives, as well as in other activities;

— approve volunteering activities only if they conform to the quality criteria established by the Policy Agenda on Volunteering in Europe (PAVE) and the European Charter of the Rights and Responsibilities of Volunteers;

— issue certificates upon completion of the activities carried out, as stated in the recommendation of 20 December 2012 on the validation of non-formal and informal learning to promote employability;

— provide support measures for organisations and individuals so that they can develop their capacity in terms of organising volunteering activities;

— safeguard flexibility through the ESC by offering part-time activities to allow volunteers with disabilities or those with fewer opportunities for travelling to participate in local projects;

— identify possible synergies between ESC projects and local/national programmes;

— involve key stakeholders in the preparation, running and evaluation of the programme;

— facilitate access to the programme for those with health and social disadvantages (including young people leaving children's homes, living in remote areas, etc.);

— pay particular attention to the safety standards in programmes involving working directly with children;

— give the programme broad and effective support so it reaches those who would otherwise not have sought it out for themselves.

4. **Specific comments on the European Solidarity Corps**

4.1. Definition of volunteering and solidarity actions

The definition of volunteering in the present document is restrictive and does not reflect the diversity of volunteering in Europe. It currently defines volunteering as 'a full-time [i.e. an activity carried out continuously, five days a week for seven hours a day] unpaid voluntary service for a period of up to twelve months'. One way to solve this issue could be to use the word 'volunteering' to describe all actions where young people are acting as volunteers (for example volunteering placements, group volunteering, or free-time volunteering initiatives).

The definition of solidarity actions is equally vague and very broad, raising questions about the types of projects that will be hosted under the ESC.

4.2. Provision of placements

The current proposal does not formally distinguish between volunteering and job or traineeship placements, thus creating unnecessary confusion between two distinct realities i.e. volunteering and work. The same quality criteria being applied to all activities and to all participating organisations also raises questions regarding the quality assurance of offers, since the same criteria would be used to accredit for-profit companies, civil society organisations and other public and private organisations. The EESC is therefore convinced that provision of placements should be limited to non-profit organisations, foundations and social enterprises.

4.3. Impact of ESC on Erasmus+

The EESC welcomes the announcement of this new investment in young people, but is concerned that it has been achieved largely through the reallocation of the EVS budget from Erasmus+ from 2018 onwards. This leads us to question where the priorities of the Commission lie at a time when the success rates of applicants in other parts of the current Youth Chapter of Erasmus+ are rapidly decreasing and many quality projects remain unfunded (as was also discovered in the EESC's information report on Erasmus+ ([3])). The EESC believes that investment in the ESC budget must not come at the expense of programmes already offering invaluable opportunities to young people, particularly Erasmus+ which is already underfunded. Moreover, the future of the Erasmus+ programme, with its broad life-long learning dimension bringing together formal and non-formal education, could be at stake.

4.4. An internet registration portal as a genuinely effective interactive and management instrument

The EESC believes that an internet registration portal may indeed simplify procedures and make the ESC easier to access for more young people. Nevertheless, the overreliance on the portal for registration, selection of participants and pre-placement support is not enough to ensure the quality and fairness of the selection and follow-up procedures. The passive nature of the selection process (i.e. participants needing to wait to be contacted by accredited organisations) is disempowering, creates an unbalanced relationship between participants and hosting organisations, and is a potential source of frustration with the ESC programme.

The EESC therefore suggests significantly changing the portal in such a way as to make it interactive for both sides and enable it to support simplification of administration throughout the lifecycle of the project — from the initial registration of interest, through an active search for hosting organisations, application, selection, preparation, performance and evaluation, and even networking opportunities for alumni. No data should need to be entered twice.

Equal opportunities must be ensured for all, including those who do not have easy access to the internet. For these, offline support must be available.

([3]) SOC/552: Erasmus+ mid-term evaluation, adopted on 31 May 2017.

4.5. Pre-placement preparation, including support for young people from disadvantaged backgrounds

Simply providing online training before a placement is insufficient to guarantee a successful experience. The EESC believes that more support and preparation should be provided young people — especially those disadvantaged in any way — before their placement and that youth organisations, with their expertise, are able to act as supporting organisations in all phases of the programme and should receive appropriate incentives to do so.

4.6. Involvement of youth organisations and social partners in the co-management of the ESC

In order for the programme to be a success, key stakeholders must be involved in its design from the very beginning. Currently the proposal does not provide for the involvement of youth organisations and other volunteer organisations, or social partners, in the implementation, co-management and monitoring of the ESC. The proposal gives priority to the Erasmus+ national agencies in managing the programme with a structure very similar to that of the EVS programme. The allocation of the budget according to key activities will also be decided by the Commission's annual work programmes following their own set of criteria. The EESC continues to believe that youth organisations and other CSOs, including social partners, should be regularly consulted in the programming, implementation and monitoring of the initiative, through advisory groups and other formal and informal means. Young people should also be involved in the monitoring and evaluation process at all levels (EU, national and local), for instance by means of a tool for rating their experience.

4.7. Accessibility, administrative burden and national agencies

As the EESC pointed out in its information report on the mid-term evaluation of Erasmus+ ([4]), 'applying for and participating in Erasmus+ is still a challenge for volunteer-based organisations that are not fully professionalised. The absolute amount of work involved might not always be excessive, but limited human and financial resources mean either that these organisations do not try or that they look for alternative approaches that are less onerous'. It is therefore of utmost importance that the National Agencies change their approach in the most user-friendly way possible in order to attract and support potential ESC applicants and their potential hosting organisations in their efforts. Less formal controls and more informal guidance would help a lot in making the programme a success. National Agencies must be properly supported to this end and given additional funding for staff to support applicants.

4.8. Other issues for consideration

a) How can we guarantee that information about the initiative reaches all young people, all regions and all organisations for newcomers, particularly those in more vulnerable situations? Or will this be a kind of 'closed shop' for the lucky few?

b) How can we ensure that young people with fewer opportunities will really be able to access the programme? It is crucial to provide financial support for outreach activities aimed at organisations involved in the programme. The role of supporting organisations would be key to maintaining outreach activities and supporting subsequent engagement. The programme should also enhance young people's engagement in serving society beyond the activity of the ESC.

c) The quality of the programme for the participants should be ensured, but how will we evaluate the quality of solidarity (the outcomes of the individual projects)?

d) Should we mainstream the ESC to other European programmes? A dimension of local volunteering could also be included in the Erasmus+ student mobility programmes and could be linked to the ESC.

e) What objective criteria will be used by the Commission to annually adjust the budget available for each specific action? Adjustments based on the level of demand for each activity would help avoid pressure on some activities on the one hand and assist in preventing disengagement of young people and participating organisations on the other.

([4]) SOC/552: Erasmus+ mid-term evaluation: last paragraph of the section 'Has the administrative burden of managing Erasmus+ projects in your field of work been reduced?' in the technical appendix.

f) How can we ensure that funding applications will be flexible enough for volunteering organisations and youth groups? A simplified process would be helpful in ensuring that micro grants (under EUR 5 000) could be submitted at any time with no fixed deadlines and with a simplified application form.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a renewed EU agenda for higher education

(COM(2017) 247 final)

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on school development and excellent teaching for a great start in life

(COM(2017) 248 final)

(2018/C 081/22)

Rapporteur: **Pavel TRANTINA (CZ/III)**

Co-rapporteur: **Antonello PEZZINI (IT/I)**

Consultation	European Commission, 5.7.2017
Legal basis	Article 165(4) and Article 166(4) of the Treaty on the Functioning of the European Union
Section responsible	SOC Section for Employment, Social Affairs and Citizenship
Adopted in section	27.9.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	148/1/3

1. **Conclusions and recommendations**

1.1. While the EESC welcomes the initiatives and agrees with their principles, it would like to use this opportunity to express its views on the importance of providing the necessary means to support the improvement of education systems in Europe to achieve high quality education for all, as well as on the importance of improving the ability of education to meet societal challenges and prepare students effectively for quality life and jobs. By leveraging its own values, Europe can and must play a leading innovative role in building a sustainable and inclusive economy. An economy of this kind should be capable of enhancing competitiveness and safeguarding the future of its particular social model. Cooperation in education gives real meaning to the very concept of the EU, and promotes the image of the 'community', i.e. the EU, as something constructive.

1.2. Given the current political climate in Europe, the EESC calls on the Commission and the Member States to include the need to value cultural diversity and tolerance in education policies as another area for fostering active citizenship within the scope of EU objectives aimed at promoting EU fundamental values. We are all responsible for educating people and making them truly aware of common European history and values, as well as of the importance of tolerance and human rights.

1.3. The EESC believes that in order to be able to respond to the increasing challenges of today, a more ambitious initiative is needed, one that would lead to a more holistic education strategy that changes the current paradigm, in order to support our children and youth and provide quick solutions to existing challenges.

1.4. Improving the status of teachers and school heads and supporting them is fundamental in improving education. Further training needs to be provided not only to teachers and school heads but also to the real-life educators of children and young people outside the educational setting, e.g. their parents, the community and non-formal education providers. It is important to build alliances with these groups.

1.5. More specific suggestions should be issued to Member States regarding education and teacher support, including on improving the school environment as a component of their working conditions and learners' learning conditions. Some suggestions could be formulated in the context of the European semester, as part of the country-specific recommendations.

1.6. In view of the upcoming high-level education summit planned for early 2018, which will be hosted by the Commission, the EESC strongly encourages the Member States to take a significant step forward and establish — including through the use of effective social and civil dialogues — the education, training and lifelong learning systems that will provide learners with a promising future in Europe.

1.7. The EESC considers the following two elements to be the cornerstone for improving and modernising education systems: the availability of sufficient, equitably allocated funding, and coordinated governance in the framework of high-quality and effective social dialogue. This should be given greater recognition in future debates. Educational resources should not only focus on performance, but also on inclusiveness, for learners from disadvantaged backgrounds and for refugees.

1.8. The EU must invest more in education and training, research and innovation by increasing funds allocated to the Erasmus+ and Horizon 2020 programmes and their planned successors. This can increase the number of jobs in the future and open new opportunities.

1.9. Furthermore, the EESC would like to highlight the importance of involving the social partners and other civil society organisations effectively in this process.

1.10. Although the focus of the communication is on schools and higher education, cooperation and links between formal, non-formal and informal learning and the validation of their outcomes must also be addressed.

1.11. The EESC stresses the importance of adopting a comprehensive approach to entrepreneurship. Defined entrepreneurial learning outcomes for all educators are needed, in order to introduce effective entrepreneurial learning methodologies into the classroom. Developing social projects inside or outside schools is an ideal opportunity to acquire these skills and the necessary mindset, and also helps build better links with other learning environments.

1.12. The EESC believes that the wider purpose of education lies within the balance and close cooperation between the STEM subjects and the social sciences and humanities. The EESC therefore calls for a more interdisciplinary approach to education and lifelong learning that is centred on partnerships and flexible pathways that go beyond a single level of education and particular field of study.

2. **Summary of Commission initiatives**

2.1. Following its Communication on improving and modernising education (7 December 2016), the European Commission has launched a new youth initiative on schools and higher education entitled 'Strategy for high quality, inclusive, and future-oriented education' on 30 May 2017. The package comprises two renewed EU agendas to modernise education, one in schools and the other in higher education.

2.2. With regard to schools, evidence from the Member States has identified three areas where action is needed and where EU support can help to address important challenges:

— raising the quality and inclusiveness of schools,

— supporting excellent teachers and school leaders,

— improving the governance of school education systems.

2.3. The Commission is proposing to complement measures taken by the Member States in these three areas by supporting mutual learning, strengthening evidence for what works in education and providing assistance with national reforms in those Member States that desire it. Examples of such support include: boosting competence development and intercultural learning through school partnerships, mobility and e-Twinning projects under Erasmus+; strengthening peer learning in the career and professional development of teachers and school leaders; and setting up a new support mechanism to help Member States seeking assistance in designing and implementing education reforms.

2.4. The renewed higher education strategy builds on the 2011 modernisation agenda. In the communication, the Commission sets out its plans for four key areas:

— ensuring graduates leave higher education with the skill sets that both they and the modern economy need,

— building inclusive higher education systems,

— making sure higher education institutions contribute to innovation in the rest of the economy,

— supporting higher education institutions and governments in making the best use of the human and financial resources available.

2.5. Finally, in order to ensure that higher education can help boost growth and job creation, universities need to tailor curricula to the current and anticipated needs of the economy and society, and prospective students need up-to-date, solid information that will help them decide what courses to choose. This is why the Commission also presented a parallel proposal for a Council recommendation on tracking graduates, as part of the new Skills Agenda for Europe, which will also cover graduates of vocational education and training programmes in addition to higher education graduates. This should encourage and support Member State authorities in improving the quality and availability of information on how graduates progress in their careers or further education after finishing their studies.

3. **General comments on the new EU education strategy**

3.1. The EESC welcomes the initiatives and would like to express its views on the importance of providing the necessary means to support the improvement of education systems in Europe to achieve high quality education for all, as well as on the importance of improving the ability of education to meet societal challenges and prepare students effectively for quality life and jobs. It approves of the emphasis given to early childhood education, investment in teachers' education, promotion of cooperation among different stakeholders, improving school governance, synergies with research and the overall focus on social inclusion.

3.2. While it has been broadly emphasised that education is a key vector for reducing socioeconomic inequalities and promoting social inclusion ([1]), in the recent Commission recommendation for the European Pillar of Social Rights and the 2015 Paris Declaration ([2]) it was noted that inequalities are continuing to rise in most EU countries. Changes taking place around the world affecting work, skills demand and societies have never been so rapid; the EU should therefore encourage the Member States to adapt their education systems to this new reality. Continuous evaluation of skills mismatches and labour market outcomes should help in this regard. To build a society of truly equal opportunities, it is also necessary to make curricula and teaching practices more flexible, innovative and holistic by taking stock of the many examples of best practice that have been highlighted in the past years.

([1]) Education is a key component of recent EU declarations: EU Social Pillar (April 2017); New skills agenda for Europe (June 2016); Reflection paper on the social dimension of Europe (April 2017); Rome Declaration (March 2017).

([2]) An informal meeting of education ministries in March 2015 in Paris adopted the Declaration on 'Promoting citizenship and common values of freedom, tolerance and non-discrimination in education'.

3.3. That said, the EESC is keen to note that education is a common good and should remain a key instrument in promoting the public interest by targeting investment to reduce the private and public costs of a lack of education in many fields such as preventing violence, improving health through sport and promoting well-being, raising awareness about climate change and guaranteeing social peace in increasingly diverse societies. In this respect, education reforms should not only aim at transmitting tomorrow's skill sets, competences and knowledge that young people need in order to access the labour market, but also at enhancing the ability of learners to respond to urgent societal issues that affect the everyday lives of European citizens.

3.4. The transition from one level of education to another and cooperation between different education providers in both formal and non-formal settings require particular attention in the Commission's planned strategy. While the EESC welcomes the emphasis on building inclusive and connected higher education systems and encouraging schools to develop better links and cooperation with higher education in the field of science, technology, engineering and mathematics (STEM), the Committee believes that the wider purpose of education lies within the balance and close cooperation between the STEM subjects and the social sciences and humanities. The EESC therefore calls for a more interdisciplinary approach to education and lifelong learning that is centred on partnerships and flexible pathways that go beyond a single level of education and particular field of study. Such an approach would also help combat various inequalities, e.g. gender inequality in STEM subjects and science in general, as it would eliminate stereotypical views on what is more appropriate and/or common based on gender, race and other personal traits.

3.5. The Committee once again ([3]) calls upon the Commission to take a proactive role in introducing more innovative solutions in the fields of education and skills development, as well as in monitoring and promoting the practices and innovative approaches already in place among the Member States. The EESC strongly believes that now is the time for a genuine paradigm shift in the goals and functioning of the education and training sector, as well as in the understanding of its place and role in society, and for recognition of the fact that education itself is a factor in productivity. A proactive EU level is a key element here in shaping better education for tomorrow.

3.6. As the EESC has already stated in one of its previous opinions, 'the mobilisation of all stakeholders and support for creating "learning partnerships" in society, involving schools, businesses, town councils, social partners, civil society organisations, youth NGOs, youth and other community workers, parents and school students in the design and implementation of "curricula" is crucial […] for paradigm change in education' ([4]).

3.7. Right from their early school years, young people must be assisted in developing competence portfolios that do not only refer to their knowledge, but also to their skills, innovative capacity and creativity, their critical spirit and their awareness of common European history. These competence profiles should also devote ample scope to their various digital skills, their interpersonal and teamwork experiences, and to their ability to acknowledge various cultures. This should be achieved with the support of their educators and youth workers.

3.8. The original name of the initiatives ('youth initiative') was sending a wrong message, as it seemed to be only targeting young people whereas formal education systems increasingly receive adult learners. It is regrettable that 'adults' are barely mentioned in the higher education communication, while higher education can play a key role in lifelong learning at all ages, and also to update the skills, competences and knowledge of employed and unemployed people.

3.9. The key to improving and modernising education systems is to ensure sufficient, equitably allocated funding and coordinated governance in the framework of high-quality and effective social dialogue. The Commission does not sufficiently acknowledge this in its working documents, and does not place enough emphasis on the fact that resources in education should not only focus on performance, but also on the inclusion of individual learners from disadvantaged backgrounds and on the integration of refugees. Furthermore, it barely acknowledges the importance of consulting and involving different stakeholders in this process, in particular civil society organisations.

([3]) OJ C 173, 31.5.2017, p. 45.
([4]) OJ C 214, 8.7.2014, p. 31.

4. **Specific comments on the new EU education strategy**

In response to the two EC initiatives, and to EU and Member State policies more generally, the EESC will focus here on the following three cross-cutting priorities for schools and higher education.

4.1. Basic hard skills are necessary, but so too are soft and cross-cutting skills, competences and knowledge.

4.1.1. The EESC stresses the importance for the Commission to ensure that Member States adopt a holistic definition of learners' needs, i.e. including hard and soft skills as well as competences and interdisciplinary knowledge. These three aspects should not only cover the capacities needed for work, but also embrace the broader purpose of pursuing the personal development of all individuals throughout their lives. Education improvements, especially in higher education systems, therefore also need to focus on how to better foster active citizenship, youth empowerment, lifelong learning, and knowledge about how the EU works and the benefits it provides. It is worth reminding ourselves that education cannot tackle socioeconomic disparities on its own, as synergies with complementary social and employment policies are a prerequisite for a more sustainable solution.

4.1.2. Particular attention should be given to the development of so-called 'soft skills', as employers increasingly value these and they are also helpful outside of work contexts. The EESC therefore encourages measures such as those specified in the Commission communication: projects to assess creativity, problem-solving, collaboration ([5]), teamwork and critical thinking. Policymakers need to be given adequate support and training to understand the overall dimension of these skills.

4.1.3. While the EESC welcomes the support for cooperation between universities and the world of work, the latter should not be restricted to the business sector alone. Building partnerships between businesses and educational institutions should not be justified purely by the criterion of whether or not young people are 'directly employable'. Businesses must be in a position to fully harness human potential, by mobilising the right skills and making the new opportunities provided by the digital revolution available to all age groups. Businesses should also support young people in pursuing training once they enter the world of work: education is a continuous process that cannot satisfy every need in the limited number of years of formal education.

4.1.4. However, as the EESC has already pointed out, there is a need to 'encourage the introduction into schools of dual systems of education and training that combine classroom learning with workplace experience, raising awareness among education authorities and businesses of the importance of such initiatives' ([6]). Work experience for school students and closer links between schools, industry, universities and research are crucial in order to create skilled, sustainable youth employment.

4.1.5. Despite the need for 'hard skills', economics cannot dictate the direction of (higher) education. In other words, initiatives such as system-level graduate tracking should ensure that higher education programmes and curricula are not based on instrumentalised educational outcomes, such as wages or graduate employment levels. Some Member States already have their own tracking system, so the potential EU-wide new system should unite them and in any case must avoid being used to justify austerity measures in humanities and social science curricula.

4.2. Supporting teachers for high-quality teaching and lifelong learning

4.2.1. In the 'digital age of education', the use of technology in education has to be beneficial for the learning process: for instance, while learning to code is not an end in itself, learners have to understand the logic of coding and acquire a skillset needed to use evolving technological means in the learning and life environments.

([5]) Improving the quality of teaching and learning in Europe's higher education institutions, Report of the High Level Group on the Modernisation of Higher Education, European Commission, June 2013.
([6]) OJ C 327, 12.11.2013, p. 58.

4.2.2. Although ICT offers opportunities in many areas, it opens the door to real dangers, such as cybercrime, hazardous and harmful content, increasing commercialisation of services, as well as enabling technological surveillance and misuse of personal data. Therefore, digital literacy needs to be strengthened, thus giving every person the right tools to integrate in the future world of work. ICT has moved to all levels of industry and services and therefore must form an integral part of lifelong learning.

4.2.3. Improvements in digital education should also help young people differentiate more clearly between information and knowledge, develop critical thinking and adequate media literacy, and be able, for instance, to recognise fake news or protect their online privacy.

4.2.4. Although the focus of the communication is on schools and higher education, cooperation and links between formal, non-formal and informal learning and validation of their outcomes have not been sufficiently addressed, as underlined in the 2012 Council conclusions ([7]) on 'Partnership and flexible pathways for lifelong skills development'. Even today, only half of EU Member States have established a comprehensive lifelong learning strategy ([8]). In this regard, technologies can also be beneficial with regard to diversifying approaches to education.

4.2.5. The Commission has been focusing for years on developing EU networks and promoting cooperation for best practice exchange and peer learning. However, it would also be interesting to measure the extent to which educators actually endorse these tools and mechanisms. It is very likely that many teachers and educators remain unaware of all the support and financial and training resources available to them at EU level. Improving capacity-building and working conditions, including salaries for teachers, should be a priority for the Member States.

4.2.6. Following the Commission's recommendations, the Member States must facilitate lifelong learning for educators and teachers, and must also enhance their mobility, for instance through Erasmus+ programmes. Specific attention must be given to improving participatory aspects of teaching as this has proven to be a very good pedagogical practice enabling learners to acquire knowledge and develop certain cross-cutting skills such as communication skills. This would constitute a remarkable shift from teacher-centred education towards learner-centred teaching, where a teacher becomes more a facilitator of learning.

4.3. Entrepreneurial learning through social projects

4.3.1. Education must enhance the key competences, skills and attitudes that are needed in order to thrive in life after completing formal education, for example team work and project management. This new set of skills would not only help to increase employability, it would also improve the ability of future adults to create their own jobs individually and collectively. Action learning and experience-based learning are alternative approaches to learning that may increase the ability to retain knowledge and are more helpful in developing practical skills as opposed to expertise in a particular subject.

4.3.2. The EESC stresses the importance of adopting a comprehensive approach to entrepreneurship, making beneficial use of the new EntreComp framework ([9]). Developing social projects inside or outside schools is an ideal opportunity to acquire these skills and the necessary mindset, and also helps build better links with other learning environments. In this regard, the support of the European Solidarity Corps initiative for young people in schools and higher education must be a key action for Member States. Furthermore, there is a growing interest in social entrepreneurship, which is one way of meeting young people's aspirations for more meaningful jobs.

([7]) Commission staff working document on Partnership and flexible pathways for lifelong learning skills development, accompanying the Communication from the Commission on Rethinking Education: Investing in skills for better socioeconomic outcomes, November 2012.

([8]) Commission staff working document, accompanying the […] Draft 2015 Joint Report of the Council and the Commission on the implementation of the Strategic Framework for European cooperation in education and training (ET 2020) — New priorities for European cooperation in education and training, August 2015.

([9]) European Entrepreneurship Competence Framework https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework.

4.3.3. Entrepreneurship is a powerful driver of economic growth and job creation. Attention should be particularly focused on the development of entrepreneurial skills. As the EESC has already pointed out, entrepreneurship education across Europe, across the curriculum and as part of life-long learning still requires real commitment on the part of decision-makers. Ambition, creativity and entrepreneurship must be appreciated in their own right and be promoted, and should not be confused with business activity or profit-making. Creativity develops through learning in formal and informal systems. Educators need to be fully involved to ensure the correct message is delivered. Teachers may be adverse to a narrow definition of entrepreneurship where this is taken to mean starting a business, but may be more receptive to a broad concept representing a key competence for life. An 'entrepreneurial staircase' to develop activities and teaching can be used to bring the entrepreneurial 'spirit' into the classroom ([10]).

4.3.4. Whether or not they go on to set up businesses or social enterprises, young people who benefit from entrepreneurial learning develop business knowledge and essential skills and attitudes, including creativity, initiative, tenacity, teamwork, understanding of risk and a sense of responsibility. This is the entrepreneurial mind-set that helps entrepreneurs transform ideas into action and also significantly increases employability. Defined entrepreneurial learning outcomes for all educators are needed in order to introduce effective entrepreneurial learning methodologies into the classroom. Member States should therefore foster entrepreneurial skills through new and creative ways of teaching and learning from primary school onwards, alongside a focus from secondary to higher education on the possibility of setting up a business as a career option. Real-world experience, through problem-based learning and enterprise links, should be embedded across all disciplines and tailored to all levels of education.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([10]) OJ C 48, 15.2.2011, p. 45.

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 1380/2013 on the Common Fisheries Policy'

(COM(2017) 0424 final — 2017/0190 (COD))

(2018/C 081/23)

Rapporteur: **Gabriel SARRÓ IPARRAGUIRRE**

Referral	Council, 14.9.2017
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Legal Basis	Article 43(2) of the Treaty on the Functioning of the European Union.
Bureau decision	19.9.2017
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	3.10.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote	179/2/2
(for/against/abstentions)	

1. **Position of the EESC**

1.1. In line with its previous opinion on the landing obligation ([1]), which called for the flexible measures needed to facilitate the gradual introduction of the landing obligation, the EESC supports the proposal to extend the powers of the European Commission to adopt discard plans by means of delegated acts for a further period of three years.

1.2. However, the concern is that the three years proposed are not enough to adopt all of the regional multiannual plans and that, by the end of 2020, we will find ourselves in a situation similar to the present one. The EESC would have liked a further extension.

2. **Comments**

2.1. The gradual introduction of the landing obligation (the first Commission delegated regulations establishing discard plans entered into force on 1 January 2015) has revealed a number of problems.

2.1.1. Without doubt the most serious has been, and this will increasingly be the case, the one caused by 'choke species', i.e. species for which operators have small quotas or none at all, but which, despite this, are also caught in nets and other types of fishing gear. The flexibility mechanisms included in the regulation are completely inadequate to deal with this situation. When the landing obligation comes fully into force in 2019, there will be many fishing vessels which, despite not having used up their quota of target species, will have to remain in port without being able to go out to fish because they have exhausted their meagre quota of accessory species.

2.1.2. Another unresolved question is the adaptation of fishing ports and their fish markets to the sale of species which are traditionally discarded and which now have to be landed. Similarly, restricting the sale of smaller fish to non-human consumption purposes causes additional problems, since many EU ports do not have the infrastructure or businesses to provide an outlet for this type of raw material.

([1]) OJ C 311, 12.9.2014, p. 68.

2.1.3. Finally, there is a growing need for on-board storage space, but it is the workload of staff, who are required to classify more species and sizes, that is increasing most, heightening both the stress and risks.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the ‘Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on European Interoperability Framework — Implementation Strategy’

(COM(2017) 134 final)

(2018/C 081/24)

Rapporteur: **Brian CURTIS**

Consultation	European Commission, 31.5.2017
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Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote	180/2/0
(for/against/abstentions)	

1. **Conclusions and recommendations**

Conclusions

1.1. The digital economy, especially its associated and supporting public service framework, is vital to the smooth and efficient functioning of civil society in the EU. The Committee welcomes the continuous progress and support provided by the European Commission in this further development of the European Interoperability Framework (EIF).

1.2. The Communication indicates further advances in the advisory and cohesive role which DG DIGIT is playing in encouraging Member States and their public administrations at all levels to seamlessly interconnect.

1.3. The Committee nevertheless notes that interoperability capacity varies considerably between and within Member States. The current consensus is that regulation or mandatory governance procedures remain off-limits but this places a greater responsibility on Member States to voluntarily engage in every possible way with the spirit and substance of the EIF and its implementing programmes. Security and privacy continue as one of the 12 principles of the EIF and the EESC notes positively that these principles are elaborated in some detail and are the subject of two clear recommendations in the Interoperability Implementation Plan. By its nature the EIF offers a broad framework within which Member States can exercise their subsidiarity rights but it is undoubtedly the case that public unease about personal data ownership, use and security is widespread and common concerns are shared across Europe. Such issues are linked to the fundamental rights enshrined in the EU Treaties.

Recommendations

1.4. The EESC would welcome the full engagement of the Member States and the European Union institutions to implement the EIF.

1.5. Although cyber security does not fall within the competences of this Communication it is clear that reassurances need to be provided in other EU legislative instruments to ensure that greater interoperability and public access does not mean greater vulnerability by penetration from the increasing threat of cyber attack.

1.6. Another shared concern is how to support those unable to engage, for various reasons, with the rapidly expanding and pervasive world of digital services. The EESC urges Member States to embrace the EIF recommendations related to user-centricity, in particular the one that calls for a multi-channel delivery, physical and digital, of digital public services.

1.7. The EESC has some concern that the action points do not define goals and appear to be a shared responsibility between Member States and the Commission. A statement of clearer responsibilities and an indication of priorities would assist the allocation of resources.

1.8. Greater clarity is needed on how the requirement for a focus on the needs of business and the citizen (user-centric services) can be implemented.

1.9. The Committee recommends that citizens and business events and related procedures, included in the Commission's adopted proposal COM(2017) 256 Annex II, are given priority when it comes to measuring EIF's implementation level.

1.10. The Committee notes that the active work of the National Interoperability Framework Observatory (NIFO) is providing a sound basis for future recommendations. This could be the basis for a possible statutory instrument in two to three years' time which could resolve outstanding issues.

2. **Introduction**

2.1. The completion of the Digital Single Market (DSM) is one of the European Commission's 10 political priorities and could contribute EUR 415 billion per year to Europe's economy, create jobs and transform public services. The need for public administrations to collaborate digitally is a vital element of the DSM. The public sector accounts for more than 25 % of total employment and represents a fifth of the EU's GDP through public procurement. The growth of student exchange, tourism, migration, cross-border business development and online shopping all reinforce the need for interoperability in many areas.

2.2. The European Interoperability Framework (EIF) was first adopted in 2010. It gave specific guidance to public administrations on how to establish interoperable public services through recommendations based on underlying interoperability principles and conceptual models.

2.3. The Interoperability Solutions for European Public Administrations (ISA) programme (2010-2015), and its successor the ISA^2 programme (2016-2020), are the main instruments through which the EIF of 2010 has been implemented.

2.4. Since 2010, European policies and initiatives impacting the public sector have either evolved, such as the revised Directive on the reuse of public sector information, the eIDAS regulation ([1]) and the eGovernment Action plan 2016-2020, or are currently under preparation, such as the Single Digital Gateway and the Free Flow of (non-personal) Data across borders.

2.5. Information technology is a fast-moving field in areas such as open data and cloud computing.

2.6. The above policy and technology related points together with the need to review the EIF's effectiveness resulted in a stakeholder consultation in 2016 which analysed needs and problems faced by stakeholders with regards to interoperability and the implementation of the EIF, identified impacts which might arise from expected revisions, and collected feedback on added value.

2.7. As a result the new framework puts more emphasis on how interoperability principles and models should apply in practice and clarifies the centrality of the EIF in linking national and domain-specific frameworks. The number of recommendations has increased from 25 to 47 in a way that the updated and newly introduced interoperability recommendations are made more specific to facilitate their implementation, with a stronger focus on openness and information management, data portability, interoperability governance, and integrated service delivery.

([1]) The Regulation (EU) No 910/2014 (OJ L 257, 28.8.2014, p. 73) on electronic identification and trust services for electronic transactions in the internal market provides a predictable regulatory environment to enable secure and seamless electronic interactions between businesses, citizens and public authorities.

3. Gist of the Commission Communication

3.1. The Communication offers a general overview, review and analysis of progress to date and priorities for the future. Annex I of the Communication sets out 22 actions across five focus areas. This is supported by Annex II which sets out the principles of the new EIF and details of the 47 recommendations. The aim is to provide seamless services and data flows for European public administrations through adherence to the generic framework of the EIF, which is based on the EIF Conceptual Model.

3.2. For people to be free to work and relocate and for businesses to enjoy the benefits of unhindered trade and capital flows across all Member States, the implementation of efficient digital public services is vital. Member States are modernising their public administrations by introducing widespread digitalisation but, to avoid the risk of creating isolated digital environments and consequently electronic barriers to the four freedoms, interoperability is essential.

3.3. The framework proposes that good interoperability requires actual and potential barriers to be addressed in legal issues, organisational aspects, data/semantic concerns and technical challenges. The implementation and review of the ISA and ISA^2 programmes have gone a long way towards identifying and dealing with these aspects but there remains much to do.

3.4. The latest data available assesses the alignment of national interoperability frameworks with the EIF at 76 % but national interoperability framework implementation in specific national projects was 56 % in 2016 ([2]), which shows that there are still difficulties with the practical implementation of the current recommendations. It is therefore clear that further specific guidance is required and this is set out in Annex II.

3.5. The 12 principles remain practically the same as in the previous EIF but reflect recent policy and technical development. Grouped into four categories they are:

Setting the context for EU actions on interoperability

1: Subsidiarity and proportionality

Core interoperability

2: Openness

3: Transparency

4: Reusability

5: Technological neutrality and data portability

Generic user needs and expectations

6: User-centricity

7: Inclusion and accessibility

8: Security and privacy

9: Multilingualism

Cooperation among public administrations

10: Administrative simplification

11: Preservation of information

12: Assessment of effectiveness and efficiency.

([2]) https://ec.europa.eu/isa2/sites/isa/files/docs/publications/report_2016_rev9_single_pages.pdf

3.6. The Communication calls upon public administrations to improve their national governance of interoperability activities, use common operational models to develop better digital public services and include the needs of citizens and businesses from other EU Member States, manage data they own in common semantic and syntactic formats to make it easier to publish it on portals, and to aggregate, share and reuse it.

3.7. The Communication presents a consolidated EIF conceptual model based on the synthesis of an interoperability model and a model on integrated public services. This is applicable to all digital public services, with special focus on governance aspects. The exegesis of both the principles and the models is illustrated with 47 specific recommendations. The accompanying Interoperability Action Plan provides further specific implementation suggestions. These add clarity to the conceptual model and also address specific operational issues that were raised in the 2016 consultation.

3.8. For example, the common problem of legacy systems designed to solve local and domain-specific issues has created fragmented ICT islands. One of the recommendation that addresses this is 'The use of open specifications, where available, to ensure technical interoperability when establishing European public services' (Recommendation 33). The Action Plan supports this by elaborating seven action areas (12-18) suggesting specific measures.

4. **General comments**

4.1. The Committee welcomes the further development of the EIF and notes that it is likely that in October 2017 under the Estonian Presidency, there will be a ministerial declaration on eGovernment committing, among other things, to EIF implementation. The EESC recognises the importance of the digital economy to civil society in the EU and through its opinions in recent years has offered constructive views on the Digital Agenda and its successor programme, the DSM ([3]).

4.2. During the last decade eGovernment Action Plans ([4]) have been effective political instruments in advancing the modernisation of public administrations across the EU. They have been supporting coordination and collaboration between Member States and the Commission and have led to joint actions on eGovernment of which the EIF is a vital part.

4.3. The Implementation Strategy for the new European Interoperability Framework reflects many of the recommendations made in previous Committee opinions and emphasises the growing need for urgent and coherent action by public administrations across the EU. Some earlier reservations from Member States about the EIF have now largely been resolved and although there is still some way to go the main difficulties in implementation revolve around resources and legacy issues rather than matters of principle.

4.4. In our previous opinion on 'Interoperability as a means for modernising the public sector' ([5]) we noted that citizens were increasingly aware of, and concerned by, public administrations' collection and usage of personal data or data collected more broadly. They are also aware that greater interoperability has implications for how data can be shared and used. This awareness is now at an even greater level and so it is encouraging to see that the issues of security and privacy have been noted and recommendations (Numbers 46-47) made to prioritise action.

4.5. In a fast-moving field such as ICT it is often the case that technical and market developments outpace policy thinking and the legal and regulatory mandate and monitoring capacity. Therefore the Committee fully concurs with the regular review and adjustment approach by the Commission represented in this proposal. In this respect NIFO provides a vital service to the involved stakeholders. Through the NIFO much practical and technical detail supplements the conceptual and legal frameworks. For example, 32 recently updated online factsheets consolidate the latest information about the national interoperability status of participating countries ([6]).

([3]) OJ C 12, 15.1.2015, p. 99; OJ C 487, 28.12.2016, p. 92; OJ C 487, 28.12.2016, p. 99; OJ C 218, 11.9.2009, p. 36.
([4]) i2010 eGovernment Action Plan 2006-2010 and eGovernment Action Plan 2011-2015.
([5]) OJ C 12, 15.1.2015, p. 99.
([6]) https://joinup.ec.europa.eu/community/nifo/og_page/nifo-factsheets

5. **Specific comments**

5.1. The EIF conceptual model for public services covers the design, planning, development, operation and maintenance of integrated public services at all governmental levels from local to EU level. The principles set out here guide decision-making on establishing interoperable European public services with practical tools in the form of a set of actionable items contained in the Interoperability Action Plan. However, the 22 action points do not define goals and appear to be a shared responsibility between Member States and the Commission. This is not a recipe for decisive action and demands greater clarity. It is also the case that some indication of priority might assist in determining how resources are used, especially as such resources are likely to be limited.

5.2. The Communication and its supporting documents emphasise the requirement for user-centric services but some greater clarity on how these could be achieved would be welcome. It is proposed that the ISA^2 programme include an action which will elaborate on this matter, i.e. through developing a framework and guidelines on how to implement user-centricity in practise.

5.3. The EIF contains a definition of the public services in its scope. These are almost any kind of cross border public services, which may result in difficulty in assessing and monitoring EIF implementation accurately by the NIFO. The Committee recommends that citizens and business events and related procedures, included in the Commission's adopted proposal COM(2017) 256 Annex II, are given priority when it comes to measuring EIF's implementation level.

5.4. The principle of subsidiarity has been applied relatively effectively in this area up to the present time. This Communication marks a further step in the encouragement of interoperability but there is still some way to go. The Committee suggests that the active work of NIFO is providing a sound basis for future recommendations and will provide the basis for a possible statutory instrument in two to three years' time which could resolve outstanding issues.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council on the interoperability of electronic road toll systems and facilitating cross-border exchange of information on the failure to pay road fees in the Union (recast)'

(COM(2017) 280 final — 2017/0128 (COD))

(2018/C 081/25)

Rapporteur: **Vitas MAČIULIS**

Consultation	European Parliament, 15.6.2017
	Council of the European Union, 20.6.2017
Legal basis	Article 91 of the TFEU
Section responsible	Section for Transport, Energy, Infrastructure and the Information Society
Adopted in section	2.10.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote	183/1/1
(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The EESC strongly supports the European Commission's proposal of 31 May 2017 on the interoperability of electronic road toll systems, which aims to improve the provisions laid down in the Directive of the European Parliament and of the Council of 29 April 2004. Practical usage of these provisions over recent years has shown that many of them fail to meet modern requirements.

1.2. Electronic road toll systems have already been introduced at national, regional or local level in 20 Member States. However, the poor interoperability of the systems at international level incurs considerable revenue losses for Member States, as well as additional costs for direct road users. The EESC encourages Member States to pursue active cross-border cooperation when developing advanced road tolling mechanisms. A lack of cooperation means that Member States have no way of identifying specific offenders if their vehicles are registered abroad.

1.3. The EESC is strongly convinced that every possible effort should be made to introduce a uniform electronic road toll system throughout the EU, based on advanced technology. The EESC is in favour of a simple, flexible and low-priced system that can quickly be extended to cover a wider range of users and road networks. Such a system would create a favourable basis for implementing the discrimination free tolling practices established by the provisions of the Eurovignette legislation.

1.4. The on-board unit (OBU), which is the key component in an electronic toll system, need not be a single physical device. It could be a number of physically or remotely linked devices, including smart phones and tablets, which together perform the functions of an OBU. The EESC recommends encouraging the development of special IT applications for these purposes, which would significantly reduce costs for road users.

1.5. Some Member States have already been using different road toll collection technologies, and it would be very expensive for them to transfer to a uniform system. The EESC therefore recommends that the European Commission look for flexible financial, technical and legal instruments to encourage Member States to seek to integrate the various existing solutions into one interoperable system. Including a list of technologies used in systems with an OBU in the annex to the directive also would facilitate a quicker response to technological development and help to achieve uniformity.

1.6. The EESC supports the European Commission's initiative to introduce a single contract with the European Electronic Toll Service Provider (EETS) for all EU users. This will help to implement more transparent and user-friendly practices.

1.7. This would allow for an easier and more effective way to retrieve unpaid road usage fees from dishonest and fraudulent road users, independently of their country of registration. The EESC recommends that the Commission consider extending the treaties governing the use of the Eucaris system (the European car and driving license information system). This system already provides infrastructure and software to countries that enables them to share their car and driving licence registration information, thereby helping to fight car theft and registration fraud.

1.8. The social aspects of the European Commission's proposal are also of crucial importance. SMEs and micro-enterprises predominate in the road haulage sector throughout the EU. Electronic tolling for private cars is a very sensitive issue. Solutions in this case should therefore be very carefully balanced.

2. **Background and overview of existing tolling schemes**

2.1. In 2012, road use charges were levied on heavy goods vehicles in 20 Member States, and on private cars in 12. The toll road network was approximately 72 000 kilometres long, 60 % of which was equipped with electronic toll collection (ETC) systems that had been introduced nationally or locally from the early 1990s onwards and to which more than 20 million road users had subscribed. Dedicated short-range communications (DSRC) systems are the most frequently adopted solution for electronic toll collection. New technologies, including satellite-based ones, have also been adopted over the last 10 years. As a result, a number of different and, in most cases, non-interoperable technologies coexist within the European Union.

2.2. Directive 2004/52/EC was adopted to rectify this fragmentation of the market by creating a European Electronic Toll Service (EETS). Under the said directive, the EETS should have been available to heavy goods vehicles from October 2012 at the latest and should have been offered for all other types of vehicles by October 2014.

2.3. To ensure that the various toll systems are technologically compatible and thus can be linked up to this single toll service, the directive specified three technologies that may be used to collect tolls by electronic means: microwave DSRC, satellite (GNSS) and mobile communications (GSM).

2.4. At present, the provisions of Directive 2004/52/EC have not yet been fully implemented in the European tolling market. Tolling schemes still are not homogenous — each Member State and toll charger has its own legislative context, objectives for establishing a scheme, local context and traffic conditions.

2.5. The EESC has underlined the importance of common standards and cross-border interoperability as a way of ensuring efficient cross-border transport and the development of effective EETS in the recommendations that it has put forward in numerous previous opinions ([1]).

2.6. The main charging schemes in the EU are:

2.6.1. Distance-based charging schemes: the charge is calculated on the basis of the distance travelled by the vehicle and then adjusted by other parameters characterising the vehicle (total weight, number of axles, emission class, etc.). This is the most common type of scheme in the EU and uses various technical means to charge a vehicle proportionally, based on its actual usage of the road infrastructure.

2.6.2. Time-based or vignette-based charging schemes: the charge is calculated on the basis of a given period of time, and is again adjusted according to the same vehicle characteristics as referred to above. Such schemes involve purchasing a vignette authorising the use of a certain road network for a specific amount of time (one day, one month or a full year). The fee to be paid is independent of the actual use of the road infrastructure.

([1]) OJ C 32, 5.2.2004, p. 36.
OJ C 277, 17.11.2009, p. 85.
OJ C 291, 4.9.2015, p. 14.
OJ C 173, 31.5.2017, p. 55.
OJ C 288, 31.8.2017, p. 85.

2.6.3. Access-based charging schemes: the charge is principally applied to urban areas and specific infrastructure, where the user is charged a toll for driving in the relevant zone. Such schemes make it possible to reduce traffic and pollution in particularly sensitive parts of the city or other heavily built-up urban areas.

2.7. There are two main technologies used in the EU for electronic toll transactions in 'distance-based' schemes: Global Navigation Satellite System (GNSS) positioning and dedicated short-range communications (DSRC), which is 5,8 GHz microwave technology and has been adopted by the European Committee for Standardisation (CEN):

2.7.1. GNSS technology uses the vehicle's position data received from a network of satellites and measures the distance covered on the road in order to determine the charge. The on-board unit (OBU) identifies its location and collects and processes the necessary information without the aid of roadside units. It is the most convenient system, but also the most expensive.

2.7.2. Dedicated short-range communications (DSRC) technology is based on bidirectional radio communication between fixed roadside equipment (RSE) and a mobile device (OBU) installed in a vehicle. By means of such communication, road users (and their vehicles) are identified by the roadside infrastructure in order to trigger the payment.

2.8. Automatic number plate recognition (ANPR) system is used in access-based charging schemes. This technology uses video cameras to read vehicles' registration plates. It does not require OBUs and involves less costly roadside equipment.

2.9. An overview of the various tolling systems in use in different EU countries is presented in the tables below:

2.9.1. Distance-based tolling systems for heavy-duty vehicles:

Tolling Schemes	**Technology used**	**Country**
Free-flow	GNSS with ANPR and/or DSRC	Hungary, Slovakia, Belgium
Free-flow	GNSS with infrared and/or DSRC	Germany
Free-flow	DSRC	Austria, Czech Republic, Poland, Portugal, UK (Dartford Crossing)
Free-flow	ANPR	UK (Dartford Crossing)
Free-flow	ANPR and DSRC OBU	Portugal (A22, …, A25)
Network with toll plazas	DSRC	Croatia, France, Greece, Ireland, Italy, Poland, Portugal, Spain, UK

2.9.2. Distance-based tolling systems for light vehicles:

Tolling Schemes	**Technology used**	**Country**
Free-flow	DSCR/ANPR	Portugal

Tolling Schemes	Technology used	Country
Individual sections with toll plazas	DSCR/ANPR	Austria (A9, A10 Tauern, A11 Karawanken, A13, Brenner and S16 Arlberg)
Network with toll plazas	DSCR	Croatia, Denmark, France, Greece, Ireland, Italy, Poland, Portugal, Spain

2.9.3. Time-based tolling systems for heavy-duty vehicles:

Tolling Schemes	Technology used	Country
Vignette	e-Eurovignette	Denmark, Luxembourg, Netherlands, Sweden
Vignette	Electronic vignette	UK, Latvia
Vignette	Sticker	Bulgaria, Lithuania, Romania

2.9.4. Time-based tolling systems for light vehicles:

Tolling Schemes	Technology used	Country
Vignette	Sticker	Austria, Bulgaria, Czech Republic, Hungary (e-vignette), Romania (paper vignette), Slovenia, Slovakia
Toll with physical barrier, or free-flow	DSRC, ANPR — differs by scheme	UK

2.9.5. Access-based tolling systems for all vehicles [2]:

Tolling Schemes	Technology used	Country
Access charge (cordon charge)	ANPR	Sweden (Stockholm)
Access charge (vignette)	ANPR	UK (London Congestion Charge), Milan (Area C charge)

3. **Description of the main problems**

3.1. In its communication of August 2012 on the implementation of the European Electronic Toll Service (COM(2012) 474 final), the European Commission clearly stated that ‘failure to implement EETS and to do it in the foreseen timescale is not due to technical reasons’, but rather that implementation was ‘hampered by a lack of cooperation between the different stakeholders groups’ and the limited efforts of the Member States. In its report of April 2013 on a strategy for an electronic toll service and a vignette system on light private vehicles in Europe (A7-0142/2013), the European Parliament took the same position and ‘agreed with the Commission that the technology for interoperable systems already exists’.

[2] Study on ‘State of the art of electronic tolling’ MOVE/D3/2014-259.

3.2. The majority of tolling systems require road users to install OBUs in their vehicles. While a few offer cross-border interoperability, most do not. This results in costs and burdens for road users, who must equip their vehicles with multiple OBUs to be able to drive unhindered in different countries. The costs are estimated at EUR 334 million a year currently and are expected to fall to just below EUR 300 million a year by 2025.

3.3. Some cross-border interoperability has been achieved, but in Croatia, the Czech Republic, Germany, Greece, Hungary, Ireland, Italy, Poland, Slovakia, Slovenia and the United Kingdom it is still the case that only national OBUs can be used to pay tolls. One of the aims of EETS legislation was to enable OBUs to be integrated with other devices inside vehicles, especially digital tachographs. Integration with tachographs has not proved promising.

3.4. The lack of cross-border interoperability also means costs for authorities, which must procure and service redundant OBUs that work nationally but cannot be used abroad. In just one national system where vehicles' positions are established using satellite positioning, the one-off cost of procuring OBUs amounts to EUR 120 million and servicing costs to EUR 14,5 million per year ([3]).

3.5. There is still no full-scale EETS, and very little progress has been made towards interoperability. Providers face considerable barriers to entry, such as discriminatory treatment by authorities, long and changing acceptance procedures, and technical specificities in local systems that do not comply with established standards. Only a few limited agreements involving more than one EU country have been signed. The main reasons are:

3.5.1. The existing tolling system operator has a privileged position on some national markets. This results in obstacles to the implementation of harmonised and discrimination-free tolling practices in the EU.

3.5.2. EETS legislation imposes hurdles: in particular, there is a requirement that EETS providers must be able to offer EU-wide services within 24 months;

3.5.3. National tolling schemes apply the three technologies allowed under EETS legislation in significantly different ways, which makes it difficult and costly to achieve cross-border interoperability.

3.6. EETS legislation lacks effective provisions on enforcing tolls on vehicles registered in another EU country. In some locations, international traffic represents a significant share of the total revenue from the tolling system, so limiting toll evasion by foreign users is a significant challenge. A Member State that detects a tolling offence by means of automatic enforcement devices cannot identify the offender on the basis of the licence plate number when the vehicle is registered abroad. There is no legal basis at EU level for the exchange of vehicle registration data between Member States for the purpose of toll enforcement. The resulting revenue leakage for national, regional and local tolling schemes amounts to some EUR 300 million a year ([4]).

3.7. There is a great need to promote the exchange of information on toll evasion at EU level and to give greater powers to the various tolling authorities to identify violators and launch enforcement procedures. In terms of enforcement, the Member States have a responsibility to demonstrate that road users are being treated equally and also to guarantee that the penalties are duly applied.

3.8. The mandatory requirement for all EETS providers to cover all vehicle types and every toll domain in Europe is considered to be excessive. It would be more efficient if EETS providers were free to respond to their clients' requirements, instead of having to impose a full but costly service on them.

([3]) Proposal for a Directive of the European Parliament and of the Council on the interoperability of electronic road toll systems and facilitating cross-border exchange of information on the failure to pay road fees in the Union (recast) COM(2017) 280 final.

([4]) Proposal for a Directive of the European Parliament and of the Council on the interoperability of electronic road toll systems and facilitating cross-border exchange of information on the failure to pay road fees in the Union (recast) COM(2017) 280 final.

3.9. The changes to the Interoperability Directive and the EETS Decision proposed by the Commission will bring savings to road users amounting to EUR 370 million (net present value — NPV, 2016-2025). Most of these savings will benefit the trucking industry, which is predominantly composed of SMEs. Managers of road networks will benefit from savings from not procuring redundant OBUs (EUR 48 million NPV) and additional toll revenues resulting from better rules on cross-border enforcement (EUR 150 million per year). EETS providers will experience a reduction in regulatory burden linked to entering national markets (EUR 10 million NPV, for an expected group of 12 EETS providers). Furthermore, they will see their market expand with additional revenues of EUR 700 million per year ([5]).

4. **Key elements of the Commission's proposal on a recast of Directive 2004/52/EC**

4.1. Appropriate cross-border enforcement would be implemented as follows:

4.1.1. A simple automatic mechanism for the exchange of information between Member States must be introduced. New mechanisms and legal agreements will be implemented to deal with the problem of cross-border enforcement of toll evasions. This information would allow Member States to follow up on cases of failure to pay tolls by non-resident drivers.

4.1.2. The system would include all types of vehicles and all types of electronic toll systems, including video-tolling.

4.2. The main proposals in terms of the technologies used and treatment of light vehicles are as follows:

4.2.1. The list of technologies has been moved to the Annex to the Directive. This will make it possible to respond to technological progress more quickly and effectively;

4.2.2. This list of technologies would remain unchanged and could only be amended in the future after thorough testing, standardisation work, etc.;

4.2.3. The Commission proposes separating EETS for heavy-duty vehicles (HDV) and light vehicles (LV) is proposed, such that one can be provided independently of the other;

4.2.4. There will be an exemption allowing EETS providers for LVs to provide customers with DSRC OBUs.

4.3. The definitions of EETS will be unified, and certain clarifications are proposed:

4.3.1. It is clarified that EETS must be provided by EETS providers, not by the toll chargers. EETS providers will be guaranteed equal market access on a par with national tolling service providers. This will increase customer choice of tolling service providers. Member States will not have an obligation to ensure the deployment of EETS by a certain time;

4.3.2. On-board units (OBU) need not be a single physical device, and may comprise several gadgets linked physically or remotely, including equipment already installed in the motor vehicle such as navigation systems, that provide all OBU functions. The same OBU should be applicable to all road toll systems, and portable devices such as smart phones may be used along with fixed OBUs.

5. **Possible obstacles for the implementation of the Commission proposal**

5.1. Achieving cross-border interoperability could require considerable administrative efforts and entail significant costs because of legal, technical and operational differences in individual national tolling schemes, due to the use of different technologies.

5.2. The Commission should consider the possibility of creating a financing mechanism to overcome these difficulties. Allocation of necessary funds would encourage Member States to render their national systems interoperable at the EU level.

5.3. It is important for it to be possible for EETS services to be developed in parallel with national ones, but it is possible that EETS providers would face some form of discriminatory treatment from local authorities in the Member States.

([5]) Commission staff working document: Executive summary of the Impact Assessment (SWD(2017) 191 final).

5.4. The social aspects of this proposal are also of crucial importance. SMEs and micro-enterprises predominate in the road haulage sector throughout the EU and the impact on them is expected to be positive. Extending the application such that a greater proportion of the road network is subject to electronic tolling for private cars might not be well received by the general public, and solutions in this case should therefore be very carefully balanced.

5.5. Costs could be reduced for users by stepping up research and development of technical and IT solutions in electronic toll systems. Fostering innovation in this area is a key point on which the European Commission should focus.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council amending Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures'

(COM(2017) 275 final — 2017/0114 (COD))

and on the 'Proposal for a Council Directive amending Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures, as regards certain provisions on vehicle taxation'

(COM(2017) 276 final — 2017/0115 (CNS))

(2018/C 081/26)

Rapporteur: **Alberto MAZZOLA**

Consultation	European Council, 12.6.2017 and 23.6.2017
	European Parliament, 15.6.2017
Legal basis	Articles 91 and 113 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	2.10.2017
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Outcome of vote	121/2/6
(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The EESC considers that the introduction by the EU of a fair, transparent, non-discriminatory and non-bureaucratic system of road pricing that is proportionate to road use and the external costs generated by lorries, buses and cars, without fragmenting pricing systems and while complying with the 'user pays' and 'polluter pays' principles, would have a positive impact by combating the deterioration of road infrastructure, congestion and pollution. In accordance with the conditions listed below, this system could be gradually applied to HDVs and LDVs on the trans-European transport network (TEN-T), beginning with priority sections.

1.2. The EESC emphasises the importance of updating the common legal framework to ensure uniform scope for all road users, especially regarding the EU-level pricing system in connection with the use of road infrastructure of EU importance — based on distance travelled — such as the TEN-T roads, motorways and national roads carrying significant international traffic.

1.3. The transport sector plays a vital role in the EU's mobility and socioeconomic development, and the EESC argues that in order to meet the challenges of growth and sustainability we must optimise the transport infrastructure network. Investing in infrastructure is crucial to growth and employment, since a 1 % increase in spending on infrastructure raises the level of output by 0,4 % in the same year and by 1,5 % four years later ([1]).

1.4. The EESC is concerned that 'while transport infrastructure needs are estimated at about EUR 130 billion per year at the European level, the average investment levels in the EU are well below EUR 100 billion since the beginning of the crisis' ([2]). Spending on road infrastructure maintenance has fallen, in spite of the new EU framework for the development of

([1]) IMF, World Economic Outlook, 10.2014.
([2]) ITF, *ITF Transport Outlook 2015*, OECD Publishing, Paris, 2015.

the trans-European Transport Network introduced at the end of 2013 [3] and measures supported by the EU structural funds [4]. The Multiannual Financial Framework 2021-2027 is unlikely to increase the resources needed.

1.5. In the EESC's view, it is crucial that revenues from the use of road infrastructure be allocated as follows: those relating to the use of infrastructure should go to cover the costs of building, developing, operating and maintaining road infrastructure, while those connected with external costs should be earmarked for measures to mitigate the negative effects of road transport and to improve performance through alternative infrastructure, innovative traffic management systems, automatic driving, electrification — quick recharging points, particularly — and alternative energy systems.

1.6. In the EESC's view, the additional revenues thus obtained — which, under the option chosen by the EC, could amount to EUR 10 billion per year [5], EUR 20 billion if made compulsory for all HDVs, and even more if extended to include LDVs — could significantly boost the completion and functioning of the trans-European transport network, including its technological aspects. However, the public contribution to infrastructure financing is still pivotal and essential.

1.7. The EESC sees the revision of the Eurovignette legislation as an opportunity to set common, harmonised standards and to monitor and step up the proper application of this legislation, creating a dedicated EU register and collecting relevant information from the Member States.

1.8. The EESC considers it essential that the internal transport market be free of discriminatory practices and urges the EC to take action to rapidly ensure full compliance with the EU legislative framework. In particular, the charges applied and discounts for regular and/or national users must not discriminate against occasional and/or non-national users.

1.9. Another major concern for the EESC focuses on the effects of climate change and levels of environmental protection and all aspects regarding health and social well-being in relation to the rational use of transport. As it has previously pointed out 'with regard to transport, the objective of reducing greenhouse (GHG) emissions by 60 % compared with 1990 levels is still very ambitious and requires major efforts' [6].

1.10. The EESC reiterates that the user pays and polluter pays principles should be applied flexibly in the context of peripheral regions and remote rural, mountain and island areas, in order to avoid effects that are inversely proportional to the costs and in order to ensure that it continues to be useful as a way of influencing choices regarding the organisation of transport operations, while at the same time abolishing any unfair competition between different modes of transport (TEN/582 The impact of the conclusions of COP 21 on EU transport policy).

1.11. The EESC also considers it vital to review the effects of the Directive after two years of entering into force, in particular the effects in terms of benefits coming from new investments, as well as costs for freight with a view to avoid deteriorating the global competitiveness of European industries.

1.12. The EESC considers that special attention must be given to the acceptability of measures to users, consumers and the general public in terms of the transparency and clarity of the new charging framework, ensuring — in part by means of multilingual road signs — that users have an immediate and clear appreciation of the purpose of the amounts collected and their fair distribution and allocation, as well as of the absence of excessive or dual charges, including using two summary indicators of road quality, congestion levels and emissions savings per km of infrastructure.

(3) Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No 661/2010/EU (OJ L 348, 20.12.2013, p. 1).
(4) In the course of 2014-15 the total investment by the EU institutions from their financial sources (i.e. TEN-T/CEF, ERDF/CF and EIB loans) in TEN-T core and comprehensive network infrastructure amounted to EUR 30,67 billion in all 28 Member States.
(5) Impact assessment for the Eurovignette Directive.
(6) OJ C 303, 19.8.2016, p. 10.

1.13. The EESC is convinced that allocating revenues derived from the application of the new legislation, as indicated above, could generate additional employment for more than half a million workers.

1.14. In the EESC's view, the Commission should monitor and reinforce tools for the correct and uniform application of the new legislation, including regular, scientifically-based checks on the levels of external costs and an effective match between the pricing systems adopted and real vehicle emissions, which do not currently benefit the best-performing vehicles. It should also address a detailed annual progress report on the application of the revised directive to the EP and to the Council, as well as to the CoR and the EESC.

2. **Introduction**

2.1. Transport is a crucial pillar of the European single area, making freedom of movement for people, workers, goods and services across the Union a reality. The efficiency and quality of transport networks have a direct impact on sustainable development, the quality of life and employment, and European competitiveness.

2.2. The EU's road transport economy provides 5 million direct jobs and generates almost 2 % of EU GDP, with 344 000 road passenger transport and 560 000 road freight enterprises ([7]), making a major contribution to growth and employment in the EU, and consequently requiring Proactive policies.

2.3. Transport is the main cause of air pollution, presently accounting for a quarter of Europe's greenhouse gas emissions. Roughly a quarter of road transport emissions are due to lorries and buses, a share which is set to increase by some 10 % between 2010 and 2030 (*EU Reference Scenario 2016: Energy, transport and GHG emissions — Trends to 2050*). As a first step, the EC has concentrated on two proposals: one on the certification of carbon dioxide emissions and fuel consumption of these vehicles and another on the monitoring and reporting of such certified data.

2.4. The strategy adopted, which the EESC discussed in an earlier document ([8]), includes a roadmap towards low-emissions mobility to drive this transition, not least g in the light of the targets laid down in the Paris climate-change agreement.

2.5. The strategy pursues three objectives: to ensure a more effective transport system, to promote alternative, low-carbon energies in the transport sector, and to promote low/zero emission vehicles.

2.6. Its principal scope is road transport, which is responsible for more than 70 % of overall transport greenhouse gas emissions and a large share of air pollution, but the other transport sectors must also contribute.

2.7. In order to bring about more energy cost- and emissions-efficient transport, the right price signals must be sent and account taken of externalities: in this respect, the EC plans to introduce road tolls based on actual kilometres travelled in order better to reflect the 'polluter pays' and 'user pays' principles.

2.8. Four problems are tackled by applying these principles more broadly: the solution is to be found in 'fair and efficient road pricing'.

— road transport is responsible for 17 % of the EU's CO_2 emissions and usage of low and zero emissions vehicles is insufficient to meet the 2030 climate and energy goals;

([7]) EU Transport in figures, European Commission, 2016, based on Eurostat data.
([8]) OJ C 383, 17.11.2015, p. 84.

— the quality of EU roads is deteriorating because of falling infrastructure investment and delays in maintenance, with no account taken of the long-term economic impact;

— some Member States have introduced temporary pricing (vignettes) that discriminates against occasional non-national operators;

— the pollution and congestion generated by road vehicles entail significant costs for society.

2.9. The **economic impact** analyses reveal important differences in increased costs for transport users, the authorities and operators, balanced against increased revenues and reductions in congestion costs and other externalities, while identifying potentially negative impacts in terms of distribution and impact on SMEs as a result of increased costs ([9]).

2.10. The digital technologies have the capacity to increase the safety, efficiency and inclusivity of transport, by allowing for fluid, door-to-door mobility, integrated logistics and added-value services, with the spread of smart transport systems in all transport modes as an integral part of the development of the multimodal trans-European transport network.

2.11. The steps taken at European level concerning low-emissions transport cannot but have a major **impact on regions** crossed by transport infrastructure, with direct consequences in terms of energy, spatial, environmental and transport planning, and with significant effects on the economy and employment.

2.12. With regard to the **acceptability of such measures to users, consumers** and the general public, more needs to be done in terms of transparency and clarity in order to create a low and zero-emissions vehicle market. Consumer information should be improved by vehicle labelling and support should be provided with regard to public procurement. At the same time, action must be taken in terms of the transparency of the new charging framework, ensuring that users have an immediate and clear appreciation of the purpose of the amounts collected and their fair distribution, and of the absence of excessive or dual charges.

3. Gist of the **EC** proposals

3.1. In the EC's proposals, pricing applies to road infrastructure, is commensurate with the distance travelled — excluding any kind of flat-rate pricing as currently practised in some EU countries — and covers all types of vehicles: not only heavy goods vehicles but also coaches, buses, vans and cars. Consequently, it concerns both freight and passenger transport and proposes modulating charges in line with the potential for pollution and wear of the infrastructure. More specifically, the legislative amendments concern:

— provisions on tolls and user charges, applying to all vehicles and not only those weighing more than 3,5 tonnes: updating of the provisions of the directive and extension of its scope to all heavy duty vehicles (HDV) from 1.1.2020, and to light vehicles with the removal of exemptions, maximum values of external cost charging and simplification of requirements for such charging.

— phasing out of time-based charges for HDVs by 31.12.2023 and for light vehicles by 31.12.2027, introduction of a new distance-based charging system with a method for calculating and assessing the costs underpinning pricing;

— modulation of infrastructure charges based on CO_2 emissions for HDVs and the gradual removal of the current charge modulations according to Euro emission classes from 1.1.2022;

([9]) *Support Study for the Impact Assessment Accompanying the Revision of the Eurovignette Directive (1999/62/EC)*, Study contract No. MOVE/A3/119-2013 — 05.2017.

— additional measures for light vehicles addressing interurban congestion as well as pollutant and CO_2 emissions from all vehicles;

— mandatory external cost charging, at least on part of the network, for HDVs from 1.1.2021.

3.2. In keeping with the 'polluter pays' and 'user pays' principles, the extension of the scope of Directive 1999/62/EC should help to reduce distortions of competition caused by the current exemption of buses and coaches from paying for infrastructure use.

3.3. A further proposal contains amendments for the gradual reduction of the minimum levels of heavy goods vehicle taxes to zero, in five steps over five consecutive years, each accounting for 20 % of the current minima.

4. **General comments**

4.1. The EESC considers that the introduction by the EU of a fair, transparent, non-discriminatory and non-bureaucratic system of road pricing that is proportionate to road use and the scientifically measurable external costs generated by lorries, buses and cars, without fragmenting pricing systems but with ceilings for external costs and complying with the 'user pays' and 'polluter pays' principles would have a positive impact by combating the deterioration of road infrastructure, congestion and pollution.

4.2. The EESC emphasises the importance of reassessing, amending and strengthening the uniform application of EU rules in order to create a common legal framework ensuring a level playing field for all road transport sector users. The choice of a directive as the instrument leaves considerable margin for divergent implementing methods, and the EESC thinks that the possibility must be considered that, following a three-yearly compliance check, the use of more binding legislative instruments may be needed to ensure uniform application.

4.3. The EESC strongly urges that the common charging framework be clear, transparent, simple, verifiable and explained in easily understood terms making clear how revenue is to be used, both on electronic or paper receipts and on motorway signboards, with a view to greater social acceptability of the contribution made by each user to the common good.

4.4. Further harmonisation of rules and the introduction of an EU-wide common legal framework for a road pricing system in connection with the use of road infrastructure of EU importance, such as the TEN-T roads, motorways and national roads carrying significant international traffic, are essential for achieving a genuine single EU road transport market free of discrimination and distortions of competition.

4.5. Charging systems have different effects on core and peripheral regions: core regions with high transit volumes suffer a greater negative impact than peripheral regions, while the latter receive much less environmental impact-related fiscal compensation and infrastructure funding than the core regions. The EESC considers that the structural and environmental funds and the EIB should intervene to ensure balanced development.

4.6. The lack of harmonisation of payment systems, whether by vignettes or tolls, is also related to varying collection technologies with different and often non-interoperable models for road charging systems, generating further administrative burdens and additional costs for transport and logistics companies, given the growing demand for innovative road transport with the development of new, smart infrastructure, including automatic driving and the introduction of new fuels, and the proper maintenance of existing networks capable of bearing flows.

4.7. The EESC is convinced that proper investment in existing and future infrastructure is needed to achieve better functional interoperability, in part through the use of satellite technology, of national transport networks. Access to them across the single market should be facilitated by fostering enhanced application of intelligent logistics ([10]) and ICT solutions to improve road safety and boost overall system efficiency through wider use of intelligent transport systems, and to ensure more efficient, better connected, modern and sustainable road transport networks throughout Europe. The aim should be for only on-board units that are interoperable at EU level to be installed on vehicles from 2019 (see the strategy for the digitalisation of transport).

4.8. The EESC considers that given the lack of investment in transport infrastructure and the inadequate levels of infrastructure maintenance, it is crucial to apply the 'polluter pays' and 'user pays' principles to fund road infrastructure, provided that:

— revenue resulting from infrastructure use charging is channelled to the same road infrastructure, while

— revenue from external cost charging must be directed to mitigating the negative effects of road transport, including the construction of alternative infrastructure, the introduction of alternative fuels, alternative driving systems, alternative modes of transport and energy supply, and support for trans-European transport networks

— Article 9 of the directive is amended accordingly.

4.9. The EESC attaches similar importance to investment in order to reduce road transport CO_2 emission levels (see point 2.12), which have a serious effect on environmental quality and external costs representing 1,8-2,4 % of GDP. It calls for an integrated approach to reducing CO_2 emissions: imposing emission limits on new HDVs on the EU vehicle market is a more effective instrument for reducing emissions than charging, but meeting the objectives set is not enough.

4.10. In the light of the continuing traffic congestion problem, both within and beyond urban areas, EU financial support should be forthcoming for advanced traffic management systems and efficient satellite logistics processes in order to eliminate the additional costs currently borne by users. In any case, the revenue generated by the voluntary adoption of such measures should be channelled directly to funding alternative, impact-neutral solutions.

4.11. Public transport shall be promoted and road charges shall be defined to respect and fulfil this objective, both for user and polluter pays principles.

5. **Specific comments**

5.1. The EESC supports the European Electronic Tolling Service's (EETS) objective of 'one on-board unit, one contract and one invoice' throughout the EU, which would create a single market and ensure that commercial road transport operators had only one provider, one contract and one invoice.

5.2. The Brenner experiment of applying increased tolls, in keeping with the principles and ceilings indicated by the directive, with a view to creating alternative infrastructure, is proving its worth and is accepted by the local population. The EESC would consequently welcome extending this option to other sensitive areas.

5.3. In the EESC's view, the discount arrangements under Article 7 laid down for HDVs following lengthy discussions and analysis are fair and non-discriminatory and could be similarly extended to LDVs, reducing the current disparities between occasional/non-national and regular/national users that occur in some countries. Article 7 should therefore be amended accordingly.

5.4. A comparison of external cost charges for some categories of vehicle, for example between Euro V and Euro VI lorries, reveals significant penalisation over time of less-polluting vehicles which the EESC considers unjustified. The EESC calls for the external cost charges defined in the Annexes to the directive to be revised to the benefit of lower-emission vehicles. For zero-emission vehicles, the EESC supports the option of temporarily reducing toll charges for infrastructure use.

([10]) COM(2016) 766 final.

5.5. The EESC calls on the EC to regularly update the **scientific** evaluation of tools, including local conditions, taking account of specific local factors while avoiding discrimination lacking valid scientific grounds.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Europe on the move: An agenda for a socially fair transition towards clean, competitive and connected mobility for all'

(COM(2017) 283 final)

(2018/C 081/27)

Rapporteur: **Ulrich SAMM**

Co-rapporteur: **Brian CURTIS**

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Outcome of vote (for/against/abstentions)	111/0/0

1. **Conclusions and recommendations**

1.1. The mobility agenda set out in the Commission communication 'Europe on the move' (COM (2017) 283 final) (the communication) reflects Europe's ambition of making rapid progress towards putting in place, by 2025, a clean, competitive and connected mobility system integrating all means of transport and spanning the entire Union. Road transport in Europe, the focus of this communication, relies on an industry that is a world leader in manufacturing and service provision. The production part of this sector employs 11 % of all workers in manufacturing across the EU and generates 7 % of EU GDP.

1.2. The communication highlights the link to the overarching priorities of the Energy Union, the Digital Single Market and the Investment Plan for Europe. In particular, it seeks to resolve some outstanding single market transport issues while maintaining a balanced perspective on human and labour rights and environmental aspects.

1.3. A well-functioning **Single European Transport Area** depends on an adequate regulatory framework. The EESC is of the opinion that the proposed changes in legislation regarding access to the profession, market access — including cabotage — and working conditions, such as driving and rest time and specific rules on the posting of workers in road transport mostly fail to effectively resolve the problems they address. The specific proposals on these issues are covered in more detail in separate Committee opinions. The EESC underscores the urgency of finding adequate and smoothly working solutions, considering the vital importance of a fit for purpose regulatory framework to ensure a well-functioning internal market. The EESC in this context underlines that it expects that the upcoming proposal regarding combined transport will address also market access issues.

1.4. Land transport technology will most likely be revolutionised by **digitalisation** and automation. These technologies offer a wealth of new features for consumers and businesses who want better quality, convenience, flexibility, affordability and safety in the services they use and in equipment of all kinds. The EESC notes that this new technology has the capacity to both improve transport market efficiencies but also to provide analytical data to assist in the control and enforcement of existing legislation and the protection of human and social rights.

1.5. Automatic driving now has the potential to be a game-changer that, as well as providing new services and business opportunities, could markedly improve the active safety of vehicles and significantly reduce fatalities. The EESC encourages the Commission to pursue the **Vision Zero by 2050** project further, since its goals are of the utmost importance for our society and all citizens.

1.6. The EESC strongly supports the Commission's proposal to overcome the poor interoperability between the various existing electronic **road toll** systems in the Member States and implement a common interoperability framework. The EESC also considers that a flexible, fair and transparent, non-discriminatory road pricing system which complies with the 'user pays' and 'polluter pays' principles would have a positive effect provided the revenues are earmarked. Full earmarking of revenues could bring to Europe more than 500 000 additional employment opportunities.

1.7. The EESC notes the discrepancy between anticipated **emission reduction** (13 %) in road transport under this package and the necessary 18-19 % that the transport sector would need to contribute towards achieving the 2030 climate and energy targets. This gap can only be bridged if Member States make substantial efforts to stimulate the introduction of 'clean' road transport initiatives.

1.8. The EESC would like to emphasise that the production of clean electricity is an indispensable condition for a successful introduction of **electric vehicles** (EV) into the mass market. Irrespective of the particular source of electricity, however, EVs can help to reduce air pollution locally, while the global objectives of the EU with respect to GHG emission can only be achieved by a clean electricity generation policy.

1.9. Consumer confidence in the automotive industry and the regulatory system has recently been severely compromised. Rebuilding trust by means of realistic **emission standards** and adequate test procedures is vital and the Committee regrets that the independent EU-wide vehicle emissions testing oversight authority proposed by the Commission was dropped earlier in 2017 after opposition from some Member States.

1.10. Clear and challenging targets need to be set in Europe for clean energy-powered vehicles in order to stimulate the manufacturing sector in the areas of **research**, market introduction and production. The technical limitations which are still hindering a faster introduction of alternative traction systems can only be overcome by a robust research programme (in the next framework programme) spanning the full range between fundamental research, innovation and market introduction.

1.11. The Committee would like greater recognition of the importance of supporting modal shift with more incentives to encourage public transport and moving freight from road to rail. The overall strategy may help to decarbonise road transport but will not necessarily deal with congestion and pollution, particularly as demand for road transport is expected to continue to grow.

2. **Introduction**

2.1. The communication is the first substantial phase of the Mobility Package, with further proposals to follow later in the year. It places the specific proposals, which are covered in separate Committee opinions, in a political context, sets out supporting measures — such as road charging (including the required infrastructure), alternative fuels and connectivity, better information for consumers, a stronger internal market and improved working conditions in the road haulage sector — and proposes steps to 'lay the ground' for cooperative, connected and automated mobility. In practice, the Commission's proposal primarily involves the road transport sector.

2.2. The communication also highlights the link to the overarching priorities of the Energy Union (energy efficiency and decarbonisation of the transport sector, including deployment of low-carbon fuels and promotion of electromobility), the Digital Single Market, the jobs, growth and investment agenda and the Investment Plan for Europe to support its implementation, and the aims of improving fairness and strengthening the social dimension set out in the European Pillar of Social Rights. It seeks to resolve some outstanding single market transport issues while maintaining a balanced view of human and labour rights and environmental aspects — though some tensions remain.

2.3. The mobility agenda reflects Europe's ambition of making rapid progress towards putting in place, by 2025, a clean, competitive and connected mobility system integrating all means of transport, spanning the entire Union and connecting it to its neighbours and to the world. Achieving this highly ambitious objective relies both on an industry that is a world leader in manufacturing and service provision and on strong and effective political will on the part of the Member States.

2.4. It must be borne in mind that EU countries get over EUR 500 billion in tax revenues from the vehicle transport sector. The production part of this sector employs 11 % of all workers in manufacturing across the EU and generates 7 % of EU GDP and EUR 90 billion in trade surpluses. It is such a powerful and important sector, in fact, that progress in many areas of EU-wide regulation and improvement has been slow precisely because several Member States regard the sector as being of national strategic importance. Changes that are seen to affect national systems and priorities, such as market opening and road charging, often take a long time to be adopted and implemented.

2.5. The EU is not starting from zero. Implementation of the internal market and sustainability objectives have yielded significant results. The EESC has already expressed its views in a number of opinions, such as those addressing the single European transport area ([1]) as a backbone of the free internal market, multimodal travel ([2]) and the internal market of international road freight ([3]). The sustainable development of the EU transport policy ([4]) plays a big role, in particular the decarbonisation of transport ([5]) and the impact of the COP21 conclusions on European transport policy ([6]). The implications of the digitalisation and robotisation of transport for EU policy-making ([7]), as well as the prospects for Cooperative Intelligent Transport Systems ([8]), will be increasingly important elements in EU transport policy, also addressed by the EESC.

2.6. Nevertheless, much remains to be done. The mobility agenda needs to pave the way for a European transport system that can cope with the main challenges driven by digitalisation and the environmental impact.

3. **Digitalisation**

3.1. Digitalisation and automation based on a fast and reliable internet offer a wealth of new features for consumers and businesses who want better quality, convenience, flexibility, affordability and safety in the services they use and in equipment of all kinds. They also offer effective new techniques for analysis, control and enforcement of existing legislation and the protection of human and social rights. Ground transport technology, in particular, will most likely be revolutionised by digitalisation. One general aim must be to harmonise systems or find technical solutions to enable them to operate across borders, as this is vital to the smooth functioning of the internal market. An example of this is the imminent introduction of smart tachographs However, there is a 15-year schedule for the proposed retrofit of existing vehicles. This timeline should be substantially reduced.

3.2. The EU's strategy for **cooperative, connected and automated mobility** (C-ITS) and its implementation describes the first steps towards automated driving (see also TEN/621). The **connectivity** among vehicles and between vehicles and fixed infrastructure is a key feature that will be necessary to make full use of digital technology. The EESC therefore welcomes the strategic objectives for 2025 presented in a recent communication on the 'European Gigabit Society' ([9]). This set a timetable for developing the European high-capacity broadband infrastructure that would provide uninterrupted 5G coverage with very high-capacity internet connectivity along all major terrestrial transport paths.

3.3. Digitalisation will also be key for the development of new market models, including various types of platforms and **sharing economy** concepts that have the potential to improve resource efficiency but also raise a number of legal, social and consumer-related issues, such as the role and status of internet platforms and changes on the labour market.

3.4. The potential for **automatic driving**, including with driverless cars, is mainly seen as an opportunity for new business models. However, questions of responsibility are also important and need to be made clear in the EU in a harmonised way. Another consequence of automatic or semi-automatic driving is that it could significantly improve the active safety of ground vehicles. Road fatalities have fallen by a factor of four since the 1970s, primarily thanks to the

(1) OJ C 291, 4.9.2015, p. 14.
(2) OJ C 12, 15.1.2015, p. 81.
(3) OJ C 13, 15.1.2016, p. 176.
(4) OJ C 248, 25.8.2011, p. 31.
(5) OJ C 173, 31.5.2017, p. 55.
(6) OJ C 303, 19.8.2016, p. 10.
(7) OJ C 345, 13.10.2017, p. 52.
(8) OJ C 288, 31.8.2017, p. 85.
(9) OJ C 125, 21.4.2017, p. 51.

introduction of passive safety features in cars. Nevertheless, 25 500 people still unfortunately lost their lives on EU roads in 2016. Now, by developing and introducing advanced active safety features (semi-automatic driving, connected cars), it should be possible to reduce fatalities significantly, or even eliminate them entirely, as set out in the Vision Zero safety project. This project, which started in Sweden back in 1997, was later taken up by the EU but never achieved the anticipated results. Automatic driving now has the potential to be a game-changer. The EESC encourages the Commission to pursue the **Vision Zero by 2050** project further, since this goal is of the utmost importance for our society and all citizens.

4. **The Single European Transport Area**

4.1. The EESC welcomes the fact that the Commission has taken the initiative of clarifying the regulatory framework on the road transport market and ensuring better enforcement, while improving working conditions and combating social dumping in order to ensure a well-functioning internal market in the sector. The proposed changes address access to the profession, market access — including cabotage — and working conditions, such as driving and rest time and specific rules on the posting of workers in road transport.

However, the EESC thinks that the proposed changes in legislation, despite showing an ambition to make regulations easily enforceable and guarantee fair competition, mostly fail to effectively resolve the problems they address, including those that have emerged when implementing the current framework. The EESC notes that the initiative has generated diverging points of view among Member States, social partners and operators. It maintains that the only sustainable way forward is through clear and easily enforceable legislation that delivers legal security regarding market access and adequate protection of social rights. The EESC also stresses the need to use modern IT (tachographs etc.) and efficient infrastructure (secure parking spaces) to help implementation and enforcement. A surprising feature of the communication is that combined transport is addressed not as a market access issue, but only as a matter of optimising sustainability. (For details of the EESC positions on these proposals, see the separate opinions adopted.)

4.2. The EESC welcomes the intention of amending the directive on the use of **vehicles hired without drivers** for the carriage of goods by road but wishes to express some reservations concerning possible consequences. These fall into two categories: the first concerns the possible growth of letterbox companies (LBCs), while the second relates to the possibility of an operator undertaking illegal cabotage without being detected.

4.3. The EESC considers that the implementation of a flexible, fair, transparent, non-discriminatory and non-bureaucratic **road pricing** system, which complies with the 'user pays' and 'polluter pays' principles, would have a positive effect if the revenues for the use of road infrastructure were earmarked and the transport internal market was kept free from discriminatory practices. Full earmarking of revenues could bring to Europe more than 500 000 additional employment opportunities. The EESC strongly supports the Commission's proposal to overcome the poor interoperability between the various existing electronic road toll systems in the Member States and to introduce a uniform electronic road toll system throughout the EU based on advanced technology. (For more details of these positions see the EESC opinions adopted on these specific issues.)

5. **Towards a sustainable transport system**

5.1. Transport contributes about 20 % of Europe's **greenhouse gas emissions**. While transport activity is growing, greenhouse gas emissions need to fall to meet the EU's energy and climate objectives for 2030. Consequently, the 'Clean Energy for all Europeans' package of November 2016 included action to accelerate the deployment of low-carbon transport fuels and to support electro-mobility, which has been welcomed by the EESC ([10]).

5.2. Overall, the declining trend in total transport emissions is expected to continue under current trends and adopted policies, leading to 13 % lower emissions by 2030 compared with 2005 (and 15 % by 2050). This, however, is not in line with the cost-effective emissions reduction of 18-19 % that the transport sector would need to contribute towards achieving the 2030 climate and energy targets. The EESC agrees that setting limits for emissions of new vehicles is an effective tool to

([10]) OJ C 246, 28.7.2017, p. 64.

reduce emissions but not enough to achieve the fixed targets. They should therefore be complemented by measures to further improve energy efficiency and promote alternative fuels and propulsion systems, including LNG and electricity through on-board systems or electrified roads, as well as **road charging**.

5.3. Expectations for **electric vehicles** (EV) are high, as exemplified by announcements from Member States that they will be following the lead of Norway (2025), France and the UK (2040) in banning all new internal combustion engine (petrol and diesel) cars. EVs are showing rapid market growth worldwide. The number of electric cars on the road globally hit two million in 2016, but they still make up only 0,2 % of all passenger cars (IEA 2017). The strongest absolute growth is happening in China and is mainly driven by air pollution problems and reduction targets. In Europe, clear and challenging targets need to be set for clean energy powered vehicles in order to stimulate the manufacturing sector in the areas of research and production.

5.4. Faster introduction of EVs has been hindered by **technical limitations** related to the performance of the batteries. While the cost of batteries is falling faster than expected, there are still some problems with (in some cases conflicting) parameters which limit the performance of EVs: the weight, the charging capacity (range limit), the charging speed and lifetime/deterioration issues. Nevertheless, electric vehicles are coming to be recognised as the major future growth area in cars and light commercial vehicles.

5.5. The technical limitations can only be overcome by a robust **research** programme spanning the full range between fundamental research and innovation. Europe's research programmes, notably Horizon 2020, are well focused and research is active in various alternative fields, such as new types of batteries or fuel cells and hydrogen. The goals are promising but a large proportion of this research is still at an early stage. Nevertheless, we already have some initial results, as demonstrated by the Fuel Cells and Hydrogen Joint Undertaking (www.fch.europa.eu).

5.6. In order to overcome uncertainties about the future of traction systems for vehicles, the European Union needs to continue with a dedicated transport-related **research priority** in the next Framework Programme, for which European Transport Research and Innovation Strategies as outlined by the European Commission and European Technology Platforms such as Advisory Council for Aviation Research and Innovation in Europe are forming a sound basis. Furthermore, collaboration covering the entire Technology Readiness Levels chain from basic research up to application is the most effective way towards market introduction.

5.7. The EESC would like to reiterate ([11]) the fact that there is a lack of **harmonisation** between national and EU research funding. For example, the Power-to-X concept — that is, the electrochemical conversion of steam and carbon dioxide with the use of renewably generated electricity for the production of synfuels — is strongly supported by a German funding programme ([12]), with no complementary approach on the EU side.

5.8. Based on existing technology, Europe currently has a strongly growing demand for batteries. The large majority of global cell production capacity remains in Asia and the US. The EESC shares the Commission's concerns that the automotive industry will be dependent to a large extent on imports of battery cells, exposing their sourcing to various risks. A local **European battery industry** capable of serving demand is in the interest of European car manufacturers.

5.9. Support for electromobility is not limited to the development of batteries. For heavy goods vehicles, in particular, alternative solutions include the option for **electrified roads** with electric propulsion through overhead wires or rails in the road surface (e-Highway etc.). A common issue for alternative propulsion systems is the importance of developing common standards in order to enable cross-border traffic and to create at least an EU-wide — and preferably a worldwide — market. The TEN-T network, especially the Core Network Corridors, might be a tool for this.

([11]) OJ C 34, 2.2.2017, p. 66.
([12]) https://www.kopernikus-projekte.de/projekte/power-to-x

5.10. The **internal combustion engine**, which represents the backbone of our mobility on roads, is increasingly facing opposition. There has been a serious loss of trust in companies and the regulatory system related to vehicle emissions, in particular now that the existence of illegal defeat devices has been unveiled. These interfere with or disable emissions controls under real-world driving conditions. Even without illegal tricks, however, it is well known that vehicles that pass formal emissions testing normally produce much higher levels of pollution in real-world driving conditions. The fact that this discrepancy has become larger over recent decades is the main reason for today's problems. There is an urgent need to restore consumer confidence in the automotive industry and rebuild trust in the regulatory system, by means of realistic emissions standards and adequate test procedures. The Committee regrets that the independent EU-wide vehicle emissions testing oversight authority proposed by the Commission was dropped earlier in 2017, after opposition from some Member States.

5.11. Nonetheless, the debate about combustion engines versus electric traction has to go beyond emissions standards. We need, in particular, to distinguish between the effects on **global** warming and those on **local** air pollution. To minimise local air pollution, the first choice are EVs with zero local emissions. However, EVs are normally not free of emissions when considered globally. The level of emissions depends on the method of electricity generation for charging batteries and the manufacturing processes for the batteries. Since the share of carbon-free electricity generation shows large disparities in the Member States, it is evident that the success of EVs in helping to meet the EU's climate objectives depends on the country in which the EV is operating. The EU's support for **electromobility** has to take into account the fact that this issue is intimately connected to the field of electricity generation as discussed in the context of the **European Energy Union**.

5.12. Combustion engines on the road are currently superior for long-distance driving and heavy-duty work. With respect to how fast electric traction can catch up, we should be prepared for a **long transition time** with the coexistence of both traction systems. Hybrid cars, for example, which can switch between combustion for long-distance driving and electric traction within the city, may provide a solution for which the European car industry is well prepared. For some uses (such as long-distance cargo), battery electric vehicles are not suitable. There is a broad range of alternative technologies that can be used, such as hydrogen fuel cells and electrified highways. Europe needs to invest in their development to build industrial leadership in green transport.

5.13. The EESC supports the development of professional training on logistics across all Member States to provide the new skills in support of the initiatives in this package.

5.14. It is worth noting that major cities throughout the EU have independently established a wide range of initiatives to deal with congestion and pollution. The EESC encourages the Commission to expand its existing work with municipal authorities on best practice and dissemination of information.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

Opinion of the European Economic and Social Committee on the 'EU-Korea Free Trade Agreement — Trade and Sustainable Development Chapter'

(2018/C 081/28)

Rapporteur: **Dumitru FORNEA**

Consultation	European Commission, 22.6.2016
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1. **Conclusions and recommendations**

1.1. The EESC supports international efforts to maintain peace, including by promoting initiatives aimed at demilitarization and on denuclearization of the Korean Peninsula. In the current context, the Committee wishes first of all to express its fully and unconditioned solidarity to the Republic of Korea with regards to the threats coming from North Korea.

1.2. The European Economic and Social Committee (EESC) recognises that, overall, the Free Trade Agreement (FTA) between the European Union (EU) and the Republic of Korea ([1]) has produced encouraging economic and social results.

1.3. However, the implementation of the sustainable development aspects of the FTA, particularly labour issues, remains unsatisfactory. The Committee reiterates the positions taken by the EU Domestic Advisory Group (DAG) ([2]), notably that the European Commission should open consultations with the Korean government about the implementation of its commitments on freedom of association and collective bargaining.

1.4. The civil society mechanisms in the Trade and Sustainable Development (TSD) chapter of the EU-Korea FTA have been strengthened continuously over the last five years; representativeness and balanced representation of stakeholders has improved significantly, DAGs both in the EU and in Korea have met regularly, and the annual EU-Korea Civil Society Forum (CSF), bringing together the EU DAG and the Korea DAG, was held for the fifth time in February 2017.

1.5. So far, four major themes have dominated the DAGs' discussions and activities: fundamental labour rights, corporate social responsibility (CSR), the green economy and trade in the context of sustainable development, and climate change policy, including the emissions trading schemes in the EU and Korea. To further strengthen the role of these consultative mechanisms and to respond to a wider range of concerns of various civil society organisations, the EESC recommends that the DAGs should be able to discuss matters relevant to the civil society or sustainable development and express themselves on any issue covered by the FTA as a whole.

([1]) Free trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part, OJ L 127, 14.5.2011 — http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2011:127:FULL&from=EN

([2]) The Domestic Advisory Group(s) on sustainable development (environment and labour) are established under Article 13.12 with the task of advising on the implementation of the Trade and Sustainable Development chapter.

1.6. The Committee would urge that, given the increasing number of EU trade agreements entering into force and the consequent increase in the number of civil society monitoring mechanisms in place, the Commission must now urgently ensure that the necessary funds are made available so to enable those mechanisms to operate effectively. Specifically for the EU-Korea FTA, this should include funds for justified activities, including analytical work or workshops accompanying joint annual meetings with the Korea DAG.

1.7. Past experience has shown that, in the context of the EU-Korea FTA, the consistency and quality of the dialogue between the EU and Korea have been significantly improved thanks to better coordination of the activities of the EU DAG and the EU institutions, as well as coordination between them and other international organisations such as the ILO and the OECD. The EESC recommends that the working methods developed through this inter-institutional cooperation be used in the next period, including by developing new partnerships for relevant activities and projects.

1.8. In order to ensure the effective implementation of the TSD chapter, the EESC considers it paramount that the Parties take into consideration and follow-up the civil society recommendations provided by the DAGs and the CSF. The Committee on Trade and Sustainable Development (CTSD) should respond to the TSD issues and recommendations raised by the DAGs, within a reasonable timeframe.

1.9. The EESC calls on the European Commission and the European Parliament to promote in the bilateral discussions with the Korean partners initiatives and political measures to enforce the protection of intellectual property rights (IP) and the fight against counterfeiting, and also by capitalising on cultural diversity by encouraging a balanced trade with products and services from cultural and creative industries from the EU and Korea.

1.10. The EESC underlines the importance of continuing to raise awareness among European businesses, particularly SMEs, regarding the opportunities offered by this FTA. The rate of EU utilisation of tariff preferences (71 % in 2016, up from 68 % in 2015) can be improved by trade facilitation measures and reduced tariff and non-tariff barriers, but also by creating more opportunities for communication and cooperation among the relevant European and Korean partners.

1.11. The EU-Korea FTA has been very important for the agri-food sector. The agro-food trade between EU and Korea has increased rapidly in recent years. Due to the problems raised for the EU agricultural sector following the Russian ban and the restrictions imposed by China on Korean exports, both the EU and Korea need access to new markets. The European Commission should do more for a simplified access of the European agricultural and food products on the Korean market.

1.12. The Committee underlines the importance of the consultative mechanisms established by the EU-Korea FTA (DAG and CSF), as effective and representative tools that can support the European institutions in their actions related to the implementation of the sustainable development goals and the Paris Agreement, and to strengthen the international cooperation on sustainable development, environmental protection and climate change.

2. **Background**

2.1. The EU-Korea FTA entered into force on 1 July 2011. This was the first EU bilateral 'new generation' FTA to be implemented. The evaluation of it is thus an opportunity for reviewing progress not only for this FTA, but also for other subsequent agreements. However, since the mandate for negotiation of the FTA predated the Lisbon Treaty, it could not cover investment.

2.2. Generally, the FTA has generated positive trade outcomes for the EU, as reported by the European Commission. Commission data show that in statistical terms, five years after the implementation of the FTA, EU exports of goods to Korea increased by 59 %, from EUR 28 billion in 2010 (last year before provisional application) to EUR 44,5 billion in 2016. Therefore, the EU's trade deficit with Korea of EUR 11,6 billion in 2010 has turned into an EU trade surplus of EUR 3,1 billion in 2016. EU exports of services to Korea increased by 49 % compared to 32 % for EU imports from Korea from 2010 to 2015. The EU had a EUR 4,8 billion trade surplus in services in 2015. Over the same period, EU inward Foreign Direct Investment (FDI) stocks increased by 59 % and EU outward FDI stocks (EU investments in Korea) increased by 33 % ([3]).

2.3. The European Commission is carrying out an evaluation of this FTA ([4]). It asked the EESC to contribute with its own assessment of the implementation of the FTA and in particular of its TSD chapter. The conclusions of this opinion have been formulated taking into account, among others, documents and positions of the EU DAG and relevant workshops held in Seoul and Brussels ([5]).

3. **General comments**

3.1. The economic and social development of Korea over the last fifty years is considered to be a success story. The country's GDP grew from USD 2,36 billion in 1961 to a peak of USD 1 411,3 billion in 2014 ([6]). During this period, Korea succeeded in building a formidable technological and industrial base that can compete with any other industrial powers in the world.

3.2. However, despite this progress, over the last five years, a wave of social demands from citizens and organised civil society for a more equitable distribution of economic benefits among all social classes has been spreading in Korean society. In addition to workers' rights, concern has been expressed by EU and Korean stakeholders about the lack of real civic and social dialogue in the country. Mass protests in Seoul, in late 2016 and early 2017, confirmed this state of affairs.

3.3. The election of President Moon Jae-in ([7]) is seen as the start of a new era for Korean workers, farmers, consumers and employers and many civil society organisations have welcomed the commitments from the newly-elected president on consolidating social justice, specifically regarding workers' rights, decent wages and job security, as well as his intention to look into the case of imprisoned trade union leaders ([8]).

4. **The civil society monitoring mechanism under the TSD chapter of the EU-Korea FTA**

4.1. The provisions of the new generation of free trade agreements provide for a civil society advisory mechanism. For the EU-Korea FTA, it consists of two Domestic Advisory Groups, one on the EU side and one on the Korean side, overseeing the implementation of the agreement and providing recommendations to the Parties ([9]).

4.2. In addition to the DAG set up by each Party, the EU-Korea FTA also provides for the holding of a civil society forum ([10]) once a year, where the two DAGs meet to work together during a joint meeting and have the option of preparing opinions and recommendations.

4.3. The Committee strongly welcomes the fact that this creates added value in comparison to the other free trade agreements. These joint meetings are specifically written into the Agreement, which we regret has not yet become standard practice.

([3]) Source: European Commission.
([4]) Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea Interim Technical Report — http://trade.ec.europa.eu/doclib/docs/2017/june/tradoc_155673.pdf
([5]) Stakeholder Workshops in Seoul (30 November 2016) and in Brussels (23 March 2017) within the framework of the Korea EU ILO 111 Project, and the ILO seminar in Brussels (6 December 2016) on the 'Assessment of Labour Provisions in Trade Agreements: design, implementation and stakeholder involvement'.
([6]) http://www.tradingeconomics.com/south-korea/gdp
([7]) The new President of the Republic of Korea was elected in May 2017 to replace President Park-Geun-hye, who was impeached in December 2016 on charges of bribery and abuse of power.
([8]) https://www.ituc-csi.org/korea-president-moon-and-a-new-era?lang=en
([9]) EU-Korea Free Trade Agreement, Article 13.12.
([10]) Idem, Article 13.13.

4.4. The EU-Korea FTA, agreed in 2010, was the first such EU FTA that included a specific Trade and Sustainable Development Chapter, and one that also included a civil society monitoring mechanism. This was a direct consequence of the Commission Communication 'Global Europe' ([11]), published in October 2006. This stated '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' ([12]).

4.5. In its opinion on that communication, the EESC specifically called for the inclusion of a TSD chapter in each subsequent FTA, together with an active monitoring role for civil society ([13]).

4.6. Starting with the EU-Korea Agreement, there have been seven EU trade agreements with a prominent TSD chapter, with many more in the pipeline awaiting ratification, including those with Canada, Vietnam, Singapore and Japan. The Committee has since called for TSD chapters to be included as well in stand-alone Investment Agreements ([14]). The Committee believes that the establishment of these mechanisms is a good example of EU values being put into practice, although the time is now ripe for an overall review ([15]) based on experience so far.

4.7. Often, these monitoring mechanisms have offered the first direct contact for local civil society with the EU, thereby often empowering them to an extent previously unimagined. Nevertheless in most cases, including for Korea, there are major social and cultural differences, which need time and effort to adapt and come together, and for mutual trust and confidence to be established and developed. Therefore these mechanisms may take considerable time before becoming fully established and effective, and in several cases will need specific capacity building measures.

4.8. The Committee welcomes the fact that it itself has had a major role to play and been deeply involved in the establishment of these mechanisms, both at Member level and through its secretariat. It has a core role to play in this aspect of EU international relations.

4.9. Discussions in the EU DAG at the end of its first term in 2015 concluded that the mechanism provided an additional channel for dialogue and cooperation with civil society partners on matters linked to trade relations and sustainable development. It also provided input to dialogue by the European Commission and the government representatives of the partner country, while not excluding or limiting exchanges through other existing channels. Nonetheless, the mechanism's capacity to achieve tangible results on the ground has yet to be verified.

4.10. The EESC would again stress that the mechanism required time and effort to become fully operational. The initial work focused on setting up the DAG and the CSF and involved institutional set up and capacity building. Only then could the DAG members from both sides move towards a shared understanding of the mechanism's mandate, the representativeness of the civil society organisations, the membership of the DAGs, the relations with the inter-governmental body (i.e. participation by DAG chairs in the meeting of the Committee on Trade and Sustainable Development) and issues to be discussed, etc.

4.11. Dialogue developed gradually to cover a range of issues and new aspects were included, such as the participation of an ILO representative in discussions on labour standards. Joint projects on matters of common interest were introduced (such as the EC-led project on climate change and the emissions trading scheme with Korea and another project on ILO Convention No 111) and side events, such as workshops, were organised to exchange information and shared practices with the possibility of including representatives of other relevant organisations and institutions going beyond the DAGs and civil society. At the Korean side's request, a workshop was organised in February 2017 which covered National Action Plans on CSR, Business and Human Rights, and National Contact Points established under the OECD Guidelines for Multinational Enterprises.

([11]) COM(2006) 567 final.
([12]) Ibid point 3.1 iii.
([13]) OJ C 211, 19.8.2008 p. 82.
([14]) OJ C 268, 14.8.2015 p. 19.
([15]) OJ C 264, 20.7.2016, p. 123.

4.12. The EU DAG's Cooperation and dialogue take place with the European Parliament, as well as with other EU institutions, notably the Commission and the EEAS, which regularly update the EU DAG on the implementation of the TSD chapter of the EU-Korea FTA.

4.13. Relations with the EU Delegation in Seoul were maintained and it was important that the Delegation should have the capacity and expertise to follow matters related to trade and sustainable development. The EESC therefore strongly recommends the establishment of a specific post in the Delegation to deal with trade and sustainable development issues.

4.14. In terms of delivery, the EESC believes that there is still a need to ensure that recommendations provided by the civil society mechanism are taken seriously and followed up by each Party. Similarly, there is an urgent need to discuss and reach a joint understanding on the circumstances which could trigger the use of the government consultation procedure envisaged in Article 13.14(1) of the EU-Korea FTA ([16]).

4.15. According to the terms of the FTA, the DAGs should comprise independent representative organisations in a balanced membership by the stakeholders representing all three dimensions of sustainable development.

4.16. Such membership on the EU side should include EU umbrella organisations, as well as organisations with a particular interest or experience in trade, investment or cooperation between the EU and the specific third party, or which have partner organisations, branches or local offices in that partner country. Better use should also be made of expertise and information available through participating EU organisations or their member organisations.

4.17. The Committee strongly recommends that each DAG should be able to discuss matters relevant to the civil society or sustainable development (i.e. economic development, social development or environmental protection, or sanitary and phytosanitary requirements, or SME issues), including major impacts arising out of implementation measures.

4.18. The Committee would urge that, given the increasing number of EU trade agreements entering into force and the consequent increase in the number of civil society monitoring mechanisms in place, the Commission must now urgently ensure that the necessary funds are made available for to enable those mechanisms to operate effectively. Specifically for the EU-Korea FTA, this should include funds for justified activities, including analytical work or workshops accompanying joint annual meetings with the Korean DAG.

4.19. The Committee likewise urges that the established practice of holding the CSF back-to-back with the CTSD annual meeting must become a permanent feature accepted by all parties. This should include the participation of both DAG chairs in the EU-Korea Trade and Sustainable Development Committee meetings.

4.20. The Committee welcomes the strong support given by DG TRADE for the insistence by the EU DAG for a balanced membership of the Korea DAG, reflecting the provisions of the agreement. As a result, the Korea DAG changed its membership in 2014, reflecting a better balance from the three sub-groups, although difficulties persist regarding insufficient business expertise and representation in the Korean DAG.

4.21. The Committee also believes that greater thought needs to be given to effective communication of DAG activities, not only with other civil society organisations, but also with other EU institutions (notably the European Parliament), not least to encourage greater interest in the EU DAG's work and wider involvement in future of other organisations.

([16]) 'A Party may request consultations with the other Party regarding any matter of mutual interest arising under this Chapter, including communications of the Domestic Advisory Group(s) referred to in Article 13.12, by delivering a written request to the contact point of the other Party'.

5. **Opportunities and challenges for business under the EU-Korea FTA**

5.1. A Business Confidence Survey conducted in 2016 by the European Chamber of Commerce in Korea shows that for European businesses, Korea is and will continue to be an important market. Industry expects that the reviews of rules and regulations will lead to more operational freedom as well as less complexity when doing business in Korea. Discretionary enforcement of regulations and the unpredictable legislative environment are considered to be among the main issues that obstruct the proper conduct of business in Korea ([17]).

5.2. European business organisations ([18]) consider that the rate of use of tariff preferences can be improved by raising awareness among companies (particularly SMEs) regarding the opportunities offered by this FTA, and by

— reduced tariff and non-tariff-barriers for EU agri-food exports;

— trade facilitation including customs clearance, competition and public procurement;

— full coverage, full reciprocity and effective market access for industrial goods;

— creating more opportunities for communication and cooperation among relevant European and Korean partners.

5.3. EU SMEs (particularly those not included in the global value chains) are calling for a rethink of trade statistics because the existing datasets do not provide a clear picture of indirect exports and are not able to help with identifying new business opportunities and with assessing the trade developments in various sectors. Their proposal is to move from gross trade statistics to trade in value added.

5.4. The protection of intellectual property rights (IP) and the fight against counterfeiting is also a key issue for the EU and Korea, mainly in the field of creative and cultural industries: cinema, fashion, video games, smart textiles, music, etc. Therefore, it is important to pay closer attention to the FTA enforcement on issues related to this area. Some European and global organisations have reported difficulties in Korea regarding the effective protection and exploitation of intellectual property rights. Specifically, there have been reports on failures to ensure IP rights for fashion and luxury companies, or the full public performance rights of music producers, performers and authors ([19]).

5.5. The Unesco protocol of 2005 is incorporated into this FTA and should provide sufficient guarantees for capitalising on cultural diversity by effectively protecting copyright and encouraging balanced trade with products and services from cultural and creative industries from the EU and Korea. Some European companies find it necessary to improve cooperation and dialogue in this area to avoid any protectionist measures imposed unilaterally, in the context of increasingly powerful global competition for the promotion of own content (especially in media and cinema).

5.6. European agricultural and processed food products have a good reputation with Korean consumers and therefore the EU has substantial agricultural and food exports to the Korean market. The European Commission has made some efforts to promote EU products in Korea but much more could be done to maximise the potential of this privileged trade relationship.

([17]) European Business in Korea: Business Confidence Survey 2016, European Chamber; https://ecck.eu/wp-content/uploads/2017/01/Business-Confidence-Survey-2016.pdf

([18]) Business Europe position on the EU-Korea FTA: https://www.businesseurope.eu/sites/buseur/files/media/imported/2007-01113-EN.pdf

([19]) IFPI Comments on Partial Amendment of Copyright act in South Korea: https://opennet.or.kr/wp-content/uploads/2013/04/IFPI-Comments-on-Partial-Amendment-of-Copyright-Act-in-South-Korea-March-20131.pdf

5.7. EU agri-food exports to Korea have increased very rapidly in recent years and reached EUR 2,6 billion in 2016. Korea ranks 13th among the most important agri-food trading partners for the EU ([20]). The EU-Korea FTA eliminated duties on nearly all EU agricultural products. For certain products, tariff-trade quotas were introduced. The mutual recognition of certain geographical indications (GI) is also important for boosting agri-food exports between the EU and Korea.

5.8. Due to the problems that have arisen for the EU agricultural sector following the Russian ban and to the restrictions imposed by China on Korean exports as sanctions against the deployment of the THAAD defence systems, both the EU and Korea need access to new markets and in this context, the EU-Korea FTA has already proved to be mutually beneficial.

6. The impact of the EU-Korea FTA on labour standards, industrial relations and generally on the quality of social and civil dialogue

6.1. The TSD chapter reiterates the Parties' commitments in relation to the ILO Conventions and establishes a civil society monitoring and advisory mechanism to oversee the implementation of the FTA and provide recommendations. The EU Member States have ratified all of the ILO's eight core conventions and the Republic of Korea has ratified four. Globally, the countries that have not ratified these ILO Conventions are in a minority ([21]).

6.2. There are various Free Economic Zones (FEZs) ([22]) and Free Trade Zones (FTZs) ([23]) in Korea. Among other incentives, the zones offer some exemptions from national labour and environment laws. For example, companies employing more than 300 employees are exempted from the obligation to hire persons with disabilities that would account for at least 2 % of their workforce or to provide for paid leave, usually referred to as 'weekly rest'.

6.3. EESC considers that these exemptions, in their nature and their intent, are in breach of the EU-Korea FTA's Article 13.7 that states '[a] Party shall not weaken or reduce the environmental or labour protections afforded in its laws to encourage trade or investment, by waiving or otherwise derogating from, or offering to waive or otherwise derogate from, its laws, regulations or standards, in a manner affecting trade or investment between the Parties'.

6.4. The EU DAG and the CSF have many times raised these questions in the period 2012-2017 and have repeatedly called for the acceleration of the ratification of the core ILO conventions. After the initiative of the EU DAG, the EU-Korea CSF sought to monitor the implementation of Article 13.4.3's provision that 'Parties will make continued and sustained efforts' towards ratifying fundamental and up-to-date ILO Conventions. The European Commission raised this issue with the government of Korea.

6.5. In June 2015, the Korean government responded that 'For the unratified fundamental conventions, some of their provisions do not conform to the current domestic laws and situation, making it difficult to create conditions for ratification in Korea'. The government's response continues: 'As a country's laws and systems, particularly labour laws, should reflect its socially and economically unique characteristics and be based on tripartite agreements, it is not easy to improve domestic laws and systems within a short period of time.' This is not in line with the stipulations of Article 13.4.3 and the TSD chapter in general.

6.6. On 15 September 2015, the CSF issued a statement expressing 'its disappointment with the lack of progress and concrete steps in particular regarding ratification and effective implementation of the ILO fundamental conventions and urge[d] the Parties to renew their efforts in that direction'.

([20]) https://ec.europa.eu/agriculture/sites/agriculture/files/trade-analysis/statistics/outside-eu/countries/agrifood-south-korea_en.pdf

([21]) Fundamental ILO Conventions not ratified by the Republic of Korea: the 1930 Convention No 29 on Forced Labour; the 1948 Convention No 87 on Freedom of Association and Protection of the Right to Organise; the 1949 Convention No 98 on the Right to Organise and Collective Bargaining; the 1957 Convention No 105 on Abolition of Forced Labour.

([22]) http://www.fez.go.kr/global/en/index.do

([23]) http://english.motie.go.kr/en/tp/alltopiccs/bbs/bbsView.do?bbs_cd_n=3&bbs_seq_n=12

6.7. The Committee urges the European Commission to take up formal consultations with the Korean government as requested by the EU DAG in its letters to the Commissioner for Trade (De Gucht in January 2014 and Malmström in December 2016) and by the European Parliament in its resolution of 18 May 2017 ([24]). The consultations would start with a focus on Korea's failure to ratify the ILO Conventions and on issues relating to Korea's breach of the labour provisions as prescribed by the FTA's TSD chapter.

6.8. In the future, it is important to strengthen the cooperation between the Government of the Republic of Korea and the social partners, for instance via more thematic projects jointly financed and implemented by the European Commission, the EESC and the ILO. Representatives of the social partners and other civil society organisations in Korea and the EU, who participate in both DAGs, must be involved directly in the implementation of these projects.

7. **Environmental protection and the promotion of sustainable development**

7.1. This FTA reaffirms the EU Member States' commitments to the multilateral environmental agreements to which they are party, such as the UN Framework Convention on Climate Change and the Paris Agreement, the Convention on Biological Diversity (CBD) and CITES on international trade in endangered species of wild flora and fauna.

7.2. Since 2015, Korea has had its own national emissions trading scheme (KETS), the first programme of this type in operation in East Asia. The KETS covers approximately 525 of the country's largest emitters, which account for around 68 % of national GHG emissions. The KETS covers direct emissions of six Kyoto gases as well as indirect emissions from electricity consumption. The Republic of Korea intends to reduce its GHG emission — 37 % below the business-as-usual scenario by 2030 (INDC submission to the UNFCCC). This equals a 22 % reduction compared to 2012 emissions levels ([25]). On 8 July 2016, the EU launched a EUR 3,5 million cooperation project with the Republic of Korea to support the implementation of KETS. The project will run until January 2019 and is funded under the EU's Foreign Partnership Instrument with an in-kind contribution from the Korean government and will be steered jointly by the EU and the Korean Ministry of Strategy and Finance ([26]).

7.3. A former president, Lee Myung Baek initiated a government initiative called 'Green Growth'. On 27-28 October 2015, the 19th Forum on Eco-innovation took place in Seoul as part of EU-Korea cooperation on environmental issues. Since 2006, the European fora on eco-innovation have been bringing together specialists from the science and engineering, policy, finance, NGO, academic and business communities. The forum explored new business opportunities in eco-innovation and learned about the latest trends in the circular economy, with a special focus on innovative materials and products ([27]).

7.4. Under the consultative mechanisms established by the EU-Korea FTA, civil society representatives from the EU and Korea have expressed their interest in focusing attention on issues related to the implementation of the SDG's and the Paris Agreement. The Committee is convinced that both the DAG's and the CSF are effective and representative tools that can assist European institutions in their actions to strengthen the international cooperation on sustainable development, environmental protection and climate change.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([24]) European Parliament resolution of 18 May 2017 on the implementation of the Free Trade Agreement between the European Union and the Republic of Korea (2015/2059(INI)) (http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2017-0225+0+DOC+XML+V0//EN&language=EN)

([25]) International Carbon Action Partnership, 9 January 2017, Korea Emissions Trading Scheme.

([26]) http://ec.europa.eu/clima/news/articles/news_2016070801_en

([27]) http://ec.europa.eu/environment/archives/ecoinnovation2015/2nd_forum/index_en.html

Opinion of the European Economic and Social Committee on 'Exchanging and Protecting Personal Data in a Globalised World'

[COM(2017) 7 final]

(2018/C 081/29)

Rapporteur: **Christian PÎRVULESCU**

Consultation	European Commission, 31.5.2017
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Plenary Assembly decision	8.5.2017
Section responsible	External Relations
Adopted in section	28.9.2017
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	175/1/3

1. **Conclusions and recommendations**

1.1. On the basis of its core values and constituent documents, the EU has a responsibility to become a global actor in promoting respect for fundamental rights and adequate protection of private life and personal data. In this respect, the EESC encourages the European Commission to be Proactive at bilateral and multilateral level in promoting the highest standard of personal data protection.

1.2. The EESC finds the four key criteria to be taken into account by the Commission when assessing the countries with which a dialogue on adequacy should be pursued to be well-balanced and reasonable. It is important, however, to interpret these criteria in the light of a real commitment on the part of the governments, parliaments and courts in these countries to reach an equivalent and functional level of personal data protection.

1.3. The EESC calls for more transparency and participation in the process of granting adequacy decisions. Representatives from the business sector, especially SMEs, together with consumer protection groups, civic groups and other civil society organisations, have to be involved and consulted. The EESC is open to facilitating the process of consultation.

1.4. The EESC welcomes the dialogue started by the Commission with key trading partners in eastern and south-eastern Asia, including Japan and Korea, and possibly India, together with countries in Latin America and countries covered by the European neighbourhood policy which have expressed an interest in obtaining an 'adequacy finding'.

1.5. The EESC hopes that the Commission, the Council, the national governments and parliaments of the Member States and the US Government and Congress will welcome the proposals put forward in the European Parliament Resolution of 6 April 2017 on the adequacy of the protection afforded by the EU-US Privacy Shield. The European Parliament raises serious concerns in its Resolution, many of them indicating that the agreement and the current US legislative framework do not in practice protect the rights of EU citizens.

1.6. Given the rapid technological advances and continuous expansion of ITC infrastructure, there is a need for close governmental oversight and monitoring. Even though adequacy decisions are evaluated every four years (see Article 45(3) of the General Data Protection Regulation (GDPR)), the EESC recommends a permanent contact between the Commission, data protection authorities (DPAs)and third country governmental authorities in order to identify new challenges in what is a very dynamic technological and economic environment.

1.7. The EESC considers that promoting data protection standards through multilateral instruments should be a priority for the European Commission and that this commitment should be backed by resources, so that a real protection of human rights can be achieved *a priori* and, a posteriori, an effective legal remedy for prejudices.

1.8. The Committee underlines that the Commission does not differentiate in the Communication various types and uses of the personal data, with the exception of criminal matters.

1.9. Council of Europe Convention No 108 of 1981, with its additional Protocol of 1999, is the only binding multilateral instrument in the area of data protection. The instrument should be further developed and more third countries should be encouraged to join.

1.10. Multilateral efforts within the OECD (Organisation for Economic Cooperation and development), the G20 and APEC (Asia-Pacific Economic Cooperation) should be further developed with a view to building a truly global multilateral system of data protection. Cooperation with the UN Special Rapporteur on the right to privacy should be solid and functional.

1.11. With regard to personal data exchanges as part of the prevention, investigation and prosecution of criminal offences, the EESC is a strong supporter of creating robust data protection safeguards, but is also open to the introduction of adequacy findings in the criminal law enforcement sector. Data protection and the prevention, investigation and prosecution of criminal offences, including cybercrime and terrorism, must go hand in hand.

1.12. The EESC recalls the importance of the protection of the personal, health and rehabilitation data of people with disabilities, as established in the article 22 of the UN Convention on the Rights of Persons with Disabilities.

2. **Background/Introduction**

2.1. The protection of personal data is part of Europe's common constitutional fabric and is enshrined in Article 8 of the EU Charter of Fundamental Rights. It has been central to EU law for more than 20 years, from the Data Protection Directive of 1995 ('the 1995 Directive') to the adoption of the General Data Protection Regulation (GDPR) and the Police Directive in 2016.

2.2. The reform of EU data protection legislation, adopted in April 2016, puts in place a system that ensures a strong level of protection both inside the EU and for the international exchange of personal data for commercial and law enforcement purposes. The new rules will come into force in May 2018.

2.3. Having completed the EU's data protection rules, the Commission is now setting out a strategy for promoting international data protection standards. The Communication presents the different tools to exchange personal data internationally, based on the reformed data protection rules, as well as its strategy for engaging with selected third countries in the future to reach adequacy decisions and promoting data protection standards through multilateral instruments.

2.4. The 2016 General Data Protection Regulation offers a 'toolkit' of mechanisms to transfer personal data from the EU to third countries: adequacy decisions, standard contractual clauses, binding corporate rules, certification mechanisms and codes of conduct. The primary purpose of these mechanisms is to ensure that when the personal data of Europeans is transferred abroad, the protection travels with the data. While the architecture of international personal data transfers is similar to that under the 1995 Data Protection Directive, the reform simplifies and expands their use and introduces new tools for international transfers (e.g. codes of conduct and certification mechanisms).

3. **General comments**

3.1. The EESC praises the efforts of the EU to protect the personal data of its citizens while remaining open and integrated in an increasingly interconnected world.

3.2. On the basis of its core values and constituent documents, the EU has a responsibility to become a global actor in promoting respect for fundamental rights and a high level of protection of private life and personal data. In this respect, the EESC encourages the European Commission to be Proactive at bilateral and multilateral level in promoting the highest standard of personal data protection for its own citizens and for third country citizens.

3.3. The EU should support the Global Personal Data Protection agenda and its core tenets: data protection is a fundamental right, and its protection is organised through adopting overarching legislation in this field, introducing enforceable individual privacy rights and setting up independent supervisory authorities.

3.4. The highest possible protection of personal data is not only a legal responsibility but also a great opportunity. The digital economy, international flows of goods and services and e-government all benefit from the trust citizens have in the institutional and regulatory protections in place. Data protection and a fair international trade are both essential for the citizens and should not be considered as conflicting values.

3.5. The EESC continues to support the general direction of EU data protection policy, as it has done it in its previous opinions, while nevertheless insisting on the need for higher levels of protection. In its SOC/455 Opinion on the General Data Protection Regulation, it gave some detailed examples in relation to a number of articles, helping to provide a better definition of rights, of stronger protection for the public in general and of workers in particular, of the nature of consent, of the lawfulness of processing and, in particular, of the duties of data protection officers and of data processing in the context of employment ([1]).

3.6. Moreover, the EESC highlighted the right of persons, natural or legal, to express their consent with regard to their data. In its TEN/631 Protection of Personal Data Opinion, the EESC view is that 'users must be informed, trained and remain cautious, because once their consent has been given, providers will be able to process content and metadata further in order to obtain as much effect and profit as possible (…) Priorities linked to this regulation [Regulation concerning the respect for private life and the protection of personal data in electronic communications] should include the education of users, teaching them to make use of their rights, as well as anonymisation and encryption' ([2]).

3.7. The EESC supports the creation, as of May 2018, of a single pan-European set of rules as opposed to the 28 national laws in force today. The newly created one-stop shop mechanism will ensure that a single data protection authority (the 'DPA') will be responsible for the supervision of cross-border data processing operations carried out by a company in the EU. Consistency of interpretation of the new rules will be guaranteed. In particular, in cross-border cases where several national DPAs are involved, a single decision will be adopted to ensure that common problems receive common solutions. The EESC hopes that the new procedures not only ensure consistency of interpretation but also the highest possible level of data protection.

3.8. The EESC takes note that the Communication and its key proposals are welcomed by Digital Europe, the organisation which represents the digital technology industry in Europe ([3]).

([1]) EESC opinion on the General Data Protection Regulation, 23 May 2012 (OJ C 229, 31.7.2012, p. 90).
([2]) EESC Opinion on the Protection of personal data, 5 July 2017 (OJ C 345, 13.10.2017, p. 138).
([3]) Letter to the European Commission regarding its recent International Data Transfers Communication, DIGITALEUROPE, 12 May 2017, accessed 1 August: http://www.digitaleurope.org/Press-Room/Latest-News/News-Story/newsID/623

The growing penetration of cloud computing poses new and complex challenges, which are meant to evolve due to the rapid pace of technological change. Legislation has to be adaptable so it can be brought in line with technological and market developments.

4. **Specific comments**

4.1. Adequacy decisions taken by the Commission are currently the proper instrument to ensure data protection for EU citizens in relation to other countries and entities, both governmental and private. They are also a useful instrument for encouraging non-EU countries to aspire to a similar level of protection for their own citizens, and should be the preferred tool to protect the exchange of personal data.

4.2. The EESC finds the four key criteria ([4]) to be taken into account by the Commission when assessing the countries with which a dialogue on adequacy should be pursued to be well-balanced and reasonable. It is important, however, to interpret these criteria in the light of the real commitment on the part of the governments, parliaments and courts in these countries, to reach an equivalent and function level of personal data protection.

4.3. The EESC calls for more transparency and participation in the process of granting adequacy decisions. Representatives from the business sector, especially SMEs, together with consumer protection groups and civil society organizations have to be involved and consulted. The EESC is open to facilitating the process of consultation.

4.4. The EESC welcomes the dialogue started by the Commission with key trading partners in eastern and south-eastern Asia, including Japan and Korea, and possibly India, together with countries in Latin America and countries covered by the European neighbourhood policy which have expressed an interest in obtaining an ‘adequacy finding’.

4.5. The EESC considers that partial adequacy status for certain countries, which would have some sectors and territories included, is problematic because it does not ensure sufficient and consistent constitutional, procedural and institutional guarantees that personal data is protected. Partial adequacy could be a useful intermediary stage in which the EU and the respective countries find common ground and coordinate efforts. The aim in the long term is to reach a more solid and comprehensive agreement on the basis of existing frameworks in all the countries concerned ([5]).

4.6. The EESC welcomes efforts to create a sound and functional bilateral framework with the United States of America. The recently adopted decision on the EU-US Privacy Shield, replacing the EU-US Safe Harbor framework, is a step forward. It is limited in scope, however, as it is based on voluntary sign-up, leaving out a large number of US organisations.

4.7. The EESC hopes that the Commission, the Council, the national governments and parliaments of the Member States and the US Government and Congress will welcome the proposals put forward in the European Parliament Resolution of 6 April 2017 on the adequacy of the protection afforded by the EU-US Privacy Shield. The European Parliament raises serious concerns in the Resolution, many of them indicating that the agreement and the current US legislative framework do not in practice protect the rights of EU citizens ([6]).

([4]) The key criteria are: 1. The extent of the EU’s (actual or potential) commercial relations with a given third country, including the existence of a free trade agreement or ongoing negotiations; 2. The extent of personal data flows from the EU, reflecting geographical and/or cultural ties; 3. The pioneering role the third country plays in the field of privacy and data protection that could serve as a model for other countries in its region; 4. The overall political relationship with the third country in question, in particular with respect to the promotion of common values and shared objectives at international level.

([5]) The Commission encouraged the US to pursue efforts towards a comprehensive system of privacy and data protection, allowing for convergence between the two systems in the longer term. See Communication from the Commission to the European Parliament and the Council, Transatlantic Data Flows: Restoring Trust through Strong Safeguards, COM(2016) 117 final, 29.2.2016.

([6]) European Parliament Resolution of 6 April 2017 on the adequacy of the protection afforded by the EU-US Privacy Shield: The EP ‘[d] eplores the fact that neither the Privacy Shield Principles nor the letters of the US administration providing clarifications and assurances demonstrate the existence of effective judicial redress rights for individuals in the EU whose personal data are transferred to a US organisation under the Privacy Shield Principles and further accessed and processed by US public authorities for law enforcement and public interest purposes, which were emphasised by the CJEU in its judgment of 6 October 2015 as the essence of the fundamental right in Article 47 of the EU Charter’, paragraph 26.

4.8. Similar concerns were raised by several civil society groups from the European Union and the United States ([7]). The EESC encourages all the EU institutions to take note of these concerns.

4.9. The Committee, while recognizing the Commission's desire to create a new dynamic, notes that its proposals maintain legal uncertainties for persons whose rights have been violated. There are several aspects which contribute to this end:

— The nature of the data involved is unspecified: e.g. personal data, metadata, intellectual property.

— The types of uses. What kind of personal data processing is allowed for commercial and law enforcement purposes?

— The nature of the actors involved. What role for private companies, state authorities and courts?

— The legal status and liability of companies working with the personal data is unclear. Penalties and reparations for damages suffered. What role for the national courts of the Member States in the EU, or other courts, including those in the third countries?

4.10. Monitoring following the adoption of an adequacy decision is essential to ensure that the agreements work in practice. Given the rapid technological advances and continuous expansion of ITC infrastructure, there is a need for close governmental oversight and monitoring. Even though adequacy decision are evaluated every four years (see Article 45(3) GDPR), the EESC recommends a permanent contact between the Commission, DPAs and third country governmental authorities in order to identify new challenges in what is a very dynamic technological and economic environment.

4.11. The EESC encourages the Commission to work with stakeholders to develop alternative personal data transfer mechanisms adapted to the particular needs or conditions of specific industries, business models and/or operators.

4.12. The EESC considers that promoting data protection standards through multilateral instruments should be a priority for the Commission and that this commitment should be backed by resources.

4.13. Council of Europe Convention No 108, with its additional Protocol, is the only binding multilateral instrument in the area of data protection. The instrument should be further developed and more third countries should be encouraged to join.

4.14. The multilateral efforts within the OECD, the G20 and APEC should be further developed with a view to building a truly global multilateral system of data protection. Cooperation with the UN Special Rapporteur on the right to privacy should be solid and functional.

4.15. Enhancing cooperation with relevant national privacy enforcement and supervisory authorities in third countries should be a priority. Even though it does not create legally binding obligations, the OECDs Global Privacy Enforcement Network (GPEN) can promote law enforcement cooperation by sharing best practices in addressing cross-border challenges and supporting joint enforcement initiatives and awareness raising campaigns ([8]).

4.16. With regard to personal data exchanges as part of the prevention, investigation and prosecution of criminal offences, the EESC is a strong supporter of creating robust data protection safeguards, but is also open to the introduction of adequacy findings in the criminal law enforcement sector. Data protection and the prevention, investigation and prosecution of criminal offences, including cybercrime and terrorism, must go hand in hand.

([7]) Coalition of Civil Liberties Organisations call for EU Lawmakers to Push for US Surveillance Reform to Ensure a Right-respecting Framework for Non-US persons, 28 February 2017, accessed 1 August: https://www.accessnow.org/cms/assets/uploads/2017/02/Section702CoalitionLetter1.pdf

([8]) See also the OECD Primacy Framework, OECD, 2013.

4.17. The EU-US Data Protection Umbrella Agreement concluded in December 2016 is a good example of how data protection rights and obligations in line with the EU *acquis* can be built into bilateral agreements. The same procedures can also work in different policy areas, such as competition policy or consumer protection. The EESC encourages the Commission to explore the possibility of concluding similar framework agreements with its important law enforcement partners.

4.18. The Committee is looking forward to the results of the first annual review of the EU-US Privacy Shield this year and hopes that it will a be thorough and participatory exercise. The EESC hopes that both EU and US will remain committed to work together towards a higher level of protection of personal data.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

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 1295/2013 establishing the Creative Europe programme (2014 to 2020)'

(COM(2017) 385 final — 2017/0163 (COD))

(2018/C 081/30)

Consultation	European Parliament, 11.9.2017
	Council, 22.9.2017
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Consultative Commission on Industrial Change (CCMI)
Adopted at plenary	18.10.2017
Plenary session No	529
Outcome of vote	196/0/3
(for/against/abstentions)	

The Committee adopted its previous opinion on the Creative Europe programme 2014-2020 (Regulation (EU) No 1295/2013) — CCMI/098 — CES828-2012_AC — on 28 March 2012 [1].

The previous opinion fully endorsed both the content of the Commission proposal establishing the Creative Europe programme (2014-2020) and the budget increase to fund it. However, while the Committee highlighted the importance of the economic dimension of the Creative Europe programme, it also noted that the programme was overly concerned with the general objective of competitiveness, while the goal of promoting European cultural and linguistic diversity and values is less visible. In addition it also considered the budget amount as insufficient to cover its targets in relation to the total EU budget or the funds allocated by some Member States to support cultural activities.

In its new proposal, the Commission proposes to create a legally sound and transparent solution to ensure sustainable support for the European Union Youth Orchestra (EUYO), taking into account its specific features, by recognising it as a 'body identified by a basic act' within the meaning of Article 190(1)(d) of Commission Delegated Regulation (EU) No 1268/2012.

This initiative is totally in accordance with the Committee's view in its previous opinion. This funding for the EUYO will not require additional resources from the EU budget.

The new proposal adds only one point to Article 13(1) of Regulation (EU) No 1295/2013 establishing the Creative Europe programme (2014-2020): '(f) the European Union Youth Orchestra'.

Since the Committee endorses the contents of the proposal and has already set out its views on the subject in its earlier opinion [2], CCMI/098 — CES828-2012_AC adopted on 28 March 2012, it decided, at its 529th plenary session of 18 and 19 October 2017 (meeting of 18), by 196 votes in favour, no vote against and 3 abstentions, to issue an opinion endorsing the proposed text and to refer to the position it had taken in the abovementioned document.

Brussels, 18 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

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(1) EESC opinion on the Proposal for a Regulation of the European Parliament and of the Council on establishing the Creative Europe Programme (2014-2018) (OJ C 181, 21.6.2012, p. 35).

(2) See footnote 1.

Opinion of the European Economic and Social Committee on the 'Euro area economic policy 2017'

(additional opinion)

(2018/C 081/31)

Rapporteur: **Petr ZAHRADNÍK**

Co-rapporteur: **Javier DOZ ORRIT**

Plenary Assembly Decision:	27.4.2017
Legal basis	Rule 29(A) of the Implementing Provisions of the Rules of Procedure
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	5.10.2017
Adopted at plenary	19.10.2017
Plenary session No	529
Outcome of vote (for/against/abstentions)	158/4/6

Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and euro area economic policy, Capital Markets Union and The future of EU finances) ([1])*. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe* ([2]) *and previous opinions on completing EMU* ([3])*, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.*

1. **Conclusions and recommendations**

1.1. These conclusions and recommendations are drafted to complement opinion ECO/423, which this opinion fully agrees with and builds on. They are also consistent with the three other opinions on the subject of the economic future of Europe referred to in the preamble.

1.2. The EESC welcomes the progress made in the development of euro area economic policy and is closely monitoring the circumstances shaping this development. However, it regards as particularly important the circumstances linking the euro area environment with fiscal aspects and the strengthening of its institutional framework.

1.3. The EESC considers it essential to have a balanced mix of euro area economic policies, with their monetary, fiscal and structural components properly interlinked. Given the foreseen regrouping of these policies in line with economic development, this is becoming an increasingly important factor.

1.4. The EESC disagrees with the European Council's rejection of a positive fiscal stance and calls on it to reconsider this conclusion. In particular, the anticipated move away from the European Central Bank's quantitative easing policy strengthens the arguments in favour of adopting a positive fiscal stance. At the same time, the EESC recognises that the scope of a positive fiscal stance must be properly directed so as not to increase the still high level of public debt and targeted at areas generating a clear long-term benefit.

([1]) The package includes EESC opinions Euro area economic policy 2017 (additional opinion), *Capital Markets Union: Mid-term Review* (see page 117 of the current Official Journal), *Deepening EMU by 2025* (see page 124 of the current Official Journal) and *EU finances by 2025* (see page 131 of the current Official Journal).

([2]) EESC Resolution on OJ C 345, 13.10.2017, p. 11.

([3]) OJ C 451, 16.12.2014, p. 10 and OJ C 332, 8.10.2015, p. 8.

1.5. The EESC notes the improving economic situation in the euro area and recommends that, in order to maintain and bolster this, crucial steps be taken to stimulate investment and carry out structural reforms that promote both higher productivity and quality jobs. Structural reforms should be implemented more strongly in line with the processes of the European Semester. Moreover, the EESC recommends that the need for structural reform be seen at the euro area or EU level as a whole, not just in terms of isolated structural measures in the various Member States.

1.6. The EESC strongly backs enhanced cohesion in the euro area in the form of both enhanced coordination of economic and fiscal policy and improving financial intermediation by completing financial union and ensuring the euro area's greater influence in the global economy. To meet these challenges, the EESC recommends a corresponding strengthening of its institutional framework.

1.7. The EESC takes the view that the euro is the currency of the whole of the EU; the EESC is in favour of the improving economic situation in the EU leading again to the possibility of enlarging the euro area, with an anticipated positive impact on both the euro area and its new members.

1.8. The EESC notes that, because of Brexit and the poor predictability of the current US administration, due attention also needs to be given to political and economic developments worldwide.

1.9. The EESC is aware that there are limits to improving how the euro area operates within the current set of rules (above all, measures of a structural character); for some of the more fundamental aspects (involving, for example, improving its institutional framework or deploying new fiscal instruments), new rules have to be adopted.

1.10. In the context of the upcoming 2018 economic and policy recommendations, the EESC emphasises the need to launch a debate on:

— creating a fiscal union,

— strengthening Member States' responsibility for and ownership of obligations vis-à-vis the euro area,

— the need for structural reforms within the European Semester platform,

— further strengthening of economic coordination and governance,

— improving the system of financial intermediation, leading to the reinforcement of real long-term investment, in line with the United Nations Sustainable Development Goals (SDGs), by using the role of the EIB, EIF and EFSI 2.0,

— the euro area exerting a greater influence in the world.

1.11. The EESC is aware of the strong need for increased investment activity to be reflected in wage trends and falling unemployment. It should also be geared to addressing the imbalances described in the opinion, which could be a fundamental obstacle to long-term growth if they persist and are not tackled.

1.12. In order to secure the vital support of citizens for the reconstruction of the euro area and the achievement of structural reforms in this regard, the social dimension of these reforms needs to be strengthened, and democratic, transparent forms of euro area governance, aimed at ensuring economic prosperity and a high standard of living, must be employed.

2. **Background**

2.1. As part of the regularly recurring European Semester process, the European Commission published documents in November 2016 for the Council Recommendation on the economic policy of the euro area, as well as a Communication ('Towards a positive fiscal stance for the euro area'). The EESC drew up opinion ECO/423 on these documents, which was adopted at its February 2017 plenary session. Since then, the development of EU economic policy as well as activities by some Member States have meant that the issue has evolved considerably. This additional opinion focuses on reflecting the most important of these developments:

— Council Recommendation on the economic policy of the euro area (March 2017),

— Spring economic forecast (May 2017),

— Communication on country-specific recommendations 2017 (May 2017).

In parallel, a White Paper on the Future of Europe and a Reflection Paper on the Deepening of the Economic and Monetary Union and on the future of EU funding were published during the period in question, which were further developed by the president of the European Commission, Jean-Claude Juncker, in his speech on the State of the Union in September 2017. Moreover, a visible development in terms of how the euro area functioned with regard to its fiscal aspect could be observed. The present opinion thus takes account of economic development in 2018 and reflects the EESC's proposals for the Recommendations on the economic policy of the euro area for 2018.

2.2. The current economic recovery is marginally faster than expected; however, the euro area still needs stronger investment, which could also be assisted by a measured fiscal stimulus that avoids worsening the level of public debt in the long term. The effects of the crisis and the policies deployed continue to impact on unemployment, poverty and inequality and are also a cause of economic and social disparities between Member States. It is therefore essential to boost growth prospects with greater support for investment in the euro area, accompanied by a social policy that curbs poverty and inequality. According to the European Commission's spring economic forecast, investments accompanied by corresponding wage developments and a continuing decline in unemployment rates, which in this way contribute to the strengthening of domestic demand, are a key factor in sustaining the economic recovery.

2.3. Moreover, the euro area needs to become more cohesive. This could be helped by completing the financial union, with its expected beneficial effect on investment, which could be done under the current rules; additional strengthening of economic and fiscal policy coordination oriented towards a fiscal capacity of the euro area and the creation of an autonomous euro area budget; and a stronger institutional architecture for the euro area that allows better internal and external representation as well as strengthened responsibility of its individual members now requires new rules to be introduced.

2.4. One of the scenarios in the White Paper on the Future of Europe considers the possibility of a multi-speed Europe, with the euro area as a possible important dividing line. However, in this case the EESC is of the view that the euro is the currency of the EU as a whole. Creating incentives for non-euro-area states to consider joining the euro as one of the priorities of their internal policies would therefore be desirable.

2.5. The European Commission's winter and spring forecasts focus on a situation of 'high uncertainty' regarding both internal and external risks to growth arising from commercial, financial and geopolitical factors. In its spring forecast, it expressed concerns at developments in the US and UK (Brexit) possibly adversely affecting the (modest) recovery in Europe. The Trump administration is even less predictable than it initially appeared and the persistently high current account surplus of Germany and the euro area is an issue for it. This could prompt the US to take unfavourable trade policy measures, with damaging effects for the EU and the euro area. Brexit is also difficult to read: the long prelude to negotiations gives no confidence as to the ultimate result, while the June election suggests that there will be complications and delays in the progress of negotiations.

2.6. The latest spring economic forecast by the European Commission suggests that its recommendation and the EESC's opinion (ECO/423) that supported a positive fiscal stance in the euro area as a whole for 2017 — now rejected by the Council's recommendation of 10 March 2017 — was on the right lines. The EESC disagrees with the European Council's decision and believes that the risks that have arisen since then, and the Commission's spring forecast, confirm the appropriateness of maintaining a positive fiscal stance on budgetary policy.

3. **General comments**

3.1. The importance of the EMU as a key European integration priority was underlined in connection with the commemoration of the 60th anniversary of the signature of the Rome Treaties and the subsequent debates on the EU's future. It was also declared that, despite the remaining and as yet unresolved problems, it would be wrong to adopt an overly defensive tone where the euro area was concerned. Instead, it would be better to take a more ambitious view of its future and work for specific measures to better harness its potential. The EESC endorses this view.

3.2. With regard to the prosperity of the EU economy and the fair redistribution of income and wealth that it creates, opinion ECO/423 underlines that it is important for a balanced economic policy mix to contain monetary, fiscal and structural instruments, and measures focused on enhancing financial market functionality and efficiency, including adequate regulation to prevent irresponsibly risky behaviour by some financial institutions. The EESC is convinced that developments over the last few months have in many ways made this more important.

3.3. The EESC fully supports the completion and deepening of EMU by 2025. In this sense, this opinion is consistent with the package of other EESC opinions on the economic future of Europe referred to in the preamble. The EESC believes that particular attention should be given to the following areas:

3.3.1. strengthening and further coordinating fiscal, economic and structural policies with the aim of creating an effective mix of these policies, with a view also to implementing the euro area's strong (dedicated) budget line within the framework of the EU budget. For the first time at such a high political level, the Reflection Paper on the Deepening of the Economic and Monetary Union uses the term 'fiscal union'. A 'fiscal union' in a homogeneous monetary and economic environment and within a functioning internal market would also include a common or closely coordinated fiscal policy (both in terms of tax and expenditure) that supported fair taxation and a systematic and effective stance on tax evasion and fraud;

3.3.2. a crucial prerequisite for improving the euro area environment is — within a comprehensive understanding of EU economic governance, particularly the European semester process — the responsibility of individual actors: the individual responsibility and obligations of the Member States should be maintained or even enhanced in all existing economic governance mechanisms, including objective monitoring, application of all preventive and corrective measures, and finally sanctions, if necessary;

3.3.3. Productivity Boards are recommended as an appropriate tool, based on the active participation of all relevant social partners, which can facilitate the implementation of structural reforms that, in addition to improving the economic capacity of individual Member States, substantially contribute to increasing the functionality and homogeneity of the single market as a whole by removing certain regulatory obstacles and barriers, without prejudice to established social and labour rights;

3.3.4. substantial improvement in the efficiency of financial intermediation by using the whole spectrum of financial market participants in line with the idea of the Banking Union and the Capital Markets Union; the priority focus in making financial intermediation more effective should be on real investment and not increasing the volume of the virtual financial sector;

3.3.5. for a strong and respected EMU — within the context of the changes taking place in the global economy — its external representation is also very important; it is vital to have not only an agreed-upon accord of individual Member States vis-à-vis their global partners where the EU is acting with one voice, but also to take steps towards an appropriate institutional structure that corresponds to this common interest in the global context ([4]);

3.3.6. additionally, the possibility of enlarging the current euro area should have been taken into account in reasonable cases; some countries — especially those in Central and Eastern Europe — show very positive economic performance indicators and are very positively evaluated within the European Semester; it seems that they could support the euro area's functioning and could increase the weight of the euro area within the EU;

3.3.7. finally, citizen support for the new EMU project requires instruments to be created so as to ensure that economic governance decisions are democratic and that the single market is complemented by a strong social pillar.

3.4. The EESC considers the promotion of higher investment and the realisation and implementation of structural reforms that could have been promoted even more within the European Semester process, especially having taken the single market framework into account, to be quite central to the euro area's functioning. Investments financed by the EIB, the EIF or EFSI show positive results, including needed regional projects. However, their volume is still not enough to bridge the investment shortfalls that occur especially in times of crisis. These instruments should help to create a sufficiently robust system that enables a sharing of public and private sources of finance. The managed flexibility in the Stability and Growth

([4]) For more details, see e.g. OJ C 177, 18.5.2016, p. 16.

Pact should be harnessed for this to allow use of the golden rule according to which investments and associated current spending should be implemented in such a way as to achieve future benefits and effects. The focus of structural reforms should be clearly moved from the level of individual Member States to the overall functioning of the single market.

3.4.1. The aim of structural reforms should first and foremost be to eradicate existing imbalances and to create favourable conditions for long-term development, in line with the UN sustainable development goals (SDGs). Among these imbalances are the growing differences within the EU and within Member States. Structural reforms should lead to the adoption of measures that take on board the pan-EU context and not just the partial needs of individual Member States.

3.4.2. In the EU context, the reforms should be geared not only to domestic political priorities, but also viewed from the EU perspective as a whole: from the perspective of strategic projects that are able to create robust EU added value.

3.4.3. Structural reforms should also be accompanied by the promotion of quality jobs with an emphasis on appropriate wage levels and full respect for social justice.

3.4.4. Many reforms are still needed to improve regulations that are able to support business development and ensure adequate protection for citizens. Examples of areas for carrying out structural reforms include: rules relating to starting a business, construction permits, obtaining credit, paying taxes, trading across borders, registering property and harmonisation of tax policy, which will assist the sound functioning of the internal market and at the same time limit the occurrence of harmful competition in it. The public/political climate (i.e. efficiency and integrity of the public sector, certainty and stability over the lifetime of the project) also plays an important role. Not least in terms of public acceptance of these reforms, it should be noted how complicated the process behind implementing these reforms is and that their macroeconomic outcome depends on the functioning of many intricate processes at a microlevel. Explaining these ramifications is an important prerequisite for getting public support for these reforms. This support requires that the instruments created to help the euro area operate in future are decided on in a legitimate, democratic way that strikes the right balance between the economic and social pillars.

3.4.5. There is space for a reinforced relationship between the need for structural reforms, the European Semester, the multiannual implementation framework of the ESI Funds (or the EU budget more generally) and a more developed and effective euro area. The strengthening of the relationship between structural reforms and the EU budget, which aims to promote convergence in the medium to long term, is closely linked to the anticipated restriction of the ECB's quantitative easing policy, when a tightened monetary policy will create more room for the use of fiscal flows.

3.5. At the same time, we need renewed efforts for upward convergence in living and social standards and wages within and between Member States as a minimum condition for increasing trust in the EU and securing the future of Europe. The European Pillar of Social Rights should support convergence.

3.5.1. This context suggests that we need policies that will strengthen domestic demand in the EU and the euro area in general, and in countries with high current account/trade surpluses in particular, so as to rebalance within the euro area and with the rest of the world.

3.5.2. EU Member States should not base their competitiveness strategies on the assumption that wage levels will remain low. An effective mix of economic policies should lead to a revival of investment activity in infrastructure, and increased spending on education, research, training and skills should be reflected in productivity growth and stronger wage and income growth, reflecting at the same time the course of the life cycle, career development and changing living costs. However, the EESC respects the different situations of individual Member States and their primary responsibility for tackling this through modern collective bargaining methods.

3.5.3. The labour market situation in a number of euro area countries indicates that the pending structural reforms in this area should focus on reducing high levels of temporary, involuntary part-time work, and low wages, and on promoting good quality jobs with a workforce that has higher levels of training and skills. The soundness of social dialogue and collective bargaining based on the autonomy of the social partners should be the basis for a new type of labour reform. Doing so, not only improves social justice but also fosters the productivity of the economy.

3.6. Particularly measures to do with carrying out structural reforms and tightening coordination of economic and fiscal policy can be executed under the present system of rules; they can be further strengthened by the next multiannual financial framework after 2020. On the other hand, further consolidating the euro area with a common budget policy or stronger presence of the euro area on the world stage require creating completely new rules.

4. **Specific comments**

4.1. For the reasons mentioned in this opinion, the EESC calls on the European Commission and the Council to incorporate an appropriate positive fiscal stance in the Recommendations on the economic policy of the euro area for 2018. This proposal is particularly crucial in terms of the need for adequate and sustainable economic growth and ensuring a functioning mix of economic and monetary policy whose expansionary character cannot be prolonged indefinitely.

4.2. We think that in implementing the Investment Plan for Europe, which we endorse, the priority should be projects that respect the sustainable development goals and take into account social and environmental responsibility.

4.3. The EESC is convinced that the latest developments of the EU economic policy paradigm in the last several months make it quite clear that political support for the approach that leads to a fiscal union based on the euro area platform is increasing; in this connection, the EESC recommends monitoring it very carefully and is fully prepared to join the process of strengthening the fiscal emphasis as a precondition for a more homogeneous euro area environment; it is also crucial to observe how this development is reflected in possible changes in institutional structures and regimes.

4.4. The EESC continues to believe that at a time when deepening the EMU is once again a top priority, it is very important not to underestimate the processes connected to a more effective and better functioning single market. An effective and functional single market is a basic requirement before we can even think about a deepened EMU. The EMU can only fulfil the expectations regarding its benefits if the future opening and liberalisation of the single market is to continue, its homogeneity is strengthened, and visible and hidden national protective barriers are eliminated.

4.5. The EESC supports the opinion that the environment of a deepened EMU must also chime with the process of financial intermediation. The salient points of the financial union are represented by the Banking Union and the Capital Markets Union. The Banking Union primarily concerns stable and predictable behaviour of the banking sector. It must also be backed up by adequate financial resources to cope with possible banking failures. The Capital Markets Union, meanwhile, is understood as broadening the possibilities for allocating financial sources and is still in an early period of its development. Improved functioning of financial intermediation, for its part, should be more evident in the sphere of real investment activity.

4.6. The future of the EU also depends on strengthening its integration and consolidating its role in the global context. This is one of the few key priorities, particularly at present, and is a matter of common interest for all EU Member States. In order to achieve this goal, it may be beneficial to strengthen the EU's joint representation on the international stage and, at that level, to promote and respect common values, principles and policies, such as political and economic freedom and equality and social justice, the value of free business in trade and investments, the creation of conditions for a fair and open competitive environment, and elimination of illegal and criminal practices in business such as by abusing tax systems or public procurement procedures; additionally, respect for social and civil rights and elementary requirements for environmental standards are absolutely essential.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

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