

Thinking and Acting in a Disrupted Europe

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Abstract: In the murky waters of the multiple crisis that has hit the European Union, a natural question arises: Which way forward? It is time to put the European economy back on a solid basis by relying on massive investments in strategic areas. It is impossible to accurately estimate the impact on the European economy of the various restrictions imposed by the authorities in the Member States in the fight against pandemic COVID-19. In this article we analyse the European Economic Recovery Plan in parallel with the EU draft budget for the programming period 2021-2027.

Keywords: European Economic Recovery Plan; Next Generation EU; Covid-19; EU 2021-2027 draft budget

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1. Introduction

European Union has been and remains a symbol of *hope, democracy and freedom*. The new Commission, coordinated by President Ursula von der Leyen, has a decisive and active role to play in **building the future of the European Union**, as it was laid down in the “Political Guidelines for the Next European Commission 2019-2024” (p. 4) in six directions:

- 1) *A European Green Deal* – striving to be the first climate-neutral continent;
- 2) *An economy that works for people* – empowering people with a new generation of technologies;
- 3) *A Europe fit for the digital age* – working for social fairness and prosperity;
- 4) *Protecting our European way of life* – building a Union of equality in which we all have the same access to opportunities;

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5) *A stronger Europe in the world* – Europe to strive for more by strengthening our unique brand of responsible global leadership;

6) *A new push for European democracy* – nurturing, protecting and strengthening our democracy.

But this political agenda for Europe (“A Union that strives for more”) was strongly affected by the **Covid-19 pandemic**, a challenge like never before in our Union’s history, this crisis having huge externalities and spillovers across EU countries. Additionally, the European model built over 70 years is being challenged: the Single Market; the competition policy; the four freedoms.

Currently, preparations are underway for the programming period 2021-2027 in order to address these challenges, plus climate change and energy transition, digitalization, globalization and sustainability due to demographic aging.

2. EU, How are You?

EU is facing one of the most difficult period of its lifetime. Changes in climate, technology and demography that are transforming EU societies and peoples’ way of life are added to Brexit challenges and more recently, the pandemic crisis.

All of these causes feelings of unease and anxiety in many communities across Europe, “incertitude” being the key-word of nowadays.

Europe needs *socio-economic development, stability and security and a lot of diplomacy* in order to fulfil the expectations of all 27 Member States.

Ensuring a Union of *equality, tolerance and social fairness and prosperity* – the founding promise – becomes a very provocative goal in our times. But, Europe will always fight for its values and because of the links between European *people, nations and institutions*, will be able to tackle the realities of the modern global economy.

3. Covid-19 Lessons

Pandemic crisis caused by Coronavirus is unlike any other crises that Europe has faced before. It is disruptive and evolving in nature and many of its effects will continue to play out in unexpected or unanticipated ways.

The restrictions imposed authorities to contain the spread of the virus slowed economic life down – in some cases almost to a standstill. All of Europe has been

affected and the economic shutdown means jobs, incomes and healthy companies have been put at risk in ways not seen in previous crises. Supply chains and production lines have been disrupted and the trade in goods and services have been interrupted. Household spending and private investment collapsed to historic lows. Europe's economy and most of its industrial ecosystems have been operating far below their capacity.

However, these disastrous experiences with different impacts from one state to another, but with fundamental changes as a whole, can be translated into *opportunities to re-launch the European economic model* and to build a fairer and more prosperous European society, even if these transformations initially provoke worry and anxiety.

This crisis has shown to everyone the importance to maintain **cohesion** as a *fundamental principle of the European project*.

The current challenges posed by Covid-19 call for us to accelerate the reforms needed for a *greener, interconnected and digital economy* and, most importantly, for these reforms to promote **sustainable socio-economic convergence, resilience and territorial cohesion** of the Member States.

Therefore, Covid-19 lessons highlighted *alternatives, solutions and priorities* for 2021-2027 programming period.

4. Addressing Solutions: Which way forward?

In order to ensure the recovery of EU societies and economies, the European Commission has put forward its proposal for a **major recovery plan** that aims to provide a *sustainable, inclusive and fair* rebound for all Member States. Thus, through the new recovery instrument, *Next Generation EU*, embedded within a **revamped long-term EU budget**, the European Commission adjusted its Work Programme for 2020, bound for the new reality, focusing its policy direction on overcoming the crisis, jumpstarting the EU economy and putting in this way the European Union firmly on a resilient, sustainable and fair recovery path.

4.1. European Economic Recovery Plan

The EU's recovery plan sets out how to kick-start the European economy, boost the green and digital transitions, and make it fairer, more resilient and more sustainable for future generations.

Although the COVID-19 pandemic has affected the entire European Union, the economic and social impacts of the pandemic differ considerably between Member States, as does their ability to absorb the shock and respond to it. Countries and regions with economies dependent on client facing services, exports or a high number of small businesses, were affected much harder than others. Moreover, each Member State has supported its workers and companies as much as possible, but not all of them has the capacity to act in the same extent. So, in this context, the **risk** of *an imbalanced recovery* and *widening disparities* between Member State economies is very severe, with a strong negative impact on functionality of the single market.

These threats highlight the need for a **coordinated response** at European level. Further, delivering the recovery plan will require *massive public and private investment*, and only by a concentrated and targeted effort, will be possible to build a more sustainable, resilient and fairer Europe for the next generation.

The European Economic Recovery Plan is built on three pillars:

- † supporting Member States to recover, repair and emerge stronger from the crisis;
- † kick starting the economy and helping private investment to get moving again;
- † learning the lessons of the crisis and addressing Europe's strategic challenges.

There are a large set of instruments that will support the implementation of the Recovery Plan.



Figure 1. Instruments for the Recovery Plan

Source: COM (2020) 442 final, p. 4.

The Recovery and Resilience Facility of 560 billion euro will be used for investments and reforms for recovery and resilience, including in relation to the green and digital transitions, in line with the objectives identified in the European Semester. Member States will submit *National Recovery and Resilience Plans* as part of their *National Reform Programmes*, **coherent** with the long-term strategies of the Union, the Member States' national energy and climate plans, as well as with the Just Transition plans.

The **REACT-EU initiative** will provide additional 55 billion euro for cohesion policy funding between now and 2022: 5 billion euro already in 2020 by adapting the current multiannual financial framework, plus 50 billion euro from **Next Generation EU** in 2021 and 2022. The additional funding will be allocated based on the severity of the economic and social impacts of the crisis, including the level of youth unemployment and the relative prosperity of Member States.

Reinforcing rural development programmes will help to achieve the ambitious climate and environmental targets in the new biodiversity and “Farm to Fork” strategies. Moreover, the budget for the *European Agricultural Fund for Rural Development* is supposed to increase by 15 billion euro in order to support farmers and rural areas in making the structural changes necessary in line with the “European Green Deal”.

Strengthened **Just Transition Mechanism** will help Member States to accelerate the transition to a *climate-neutral, resource efficient* and *circular economy* and in doing so boost their economies. European Commission is proposing to strengthen the *Just Transition Fund* up to 40 billion euro. This funding will be used to the transformation of the European economy, by for example supporting the re-skilling of workers, helping SMEs to create new economic opportunities, and investing in the clean energy transition and in the circular economy.

Solvency Support Instrument is a temporary and targeted instrument, solely and strictly at addressing the economic impact of the Covid-19 pandemic. It will provide urgent support to European companies that would otherwise be viable to address immediate liquidity and solvency concerns. This instrument will aim for an investment level of 300 billion euro in solvency support.

Strategic Investment Facility will support projects contributing to building strong and resilient value chains across the EU and enhancing the Single Market autonomy, while maintaining its openness to competition and trade in line with its rules. It is supposed to generate investments of up to 150 billion euro to incentivise European

industrial leadership in strategic sectors and key value chains, including those crucial to the twin green and digital transitions.

The **InvestEU programme** is uniquely suited to mobilising investment and supporting EU policies during the recovery from this deep economic crisis. It will provide crucial support to companies in the recovery phase and ensure a strong focus among private investors on the EU medium- and long-term policy priorities, in particular the European Green Deal and digitalisation. InvestEU is supposed to trigger investment of over 240 billion euro.

The new health programme, **EU4Health**, will strengthen health security at the European level and will prepare the health systems of Member States for future crises. With a budget of 9.4 billion euro, EU4Health will help ensure that the Union is equipped with the critical capacities to react to future health crises rapidly and with the necessary scale. This programme is aimed to create a *comprehensive framework for EU health crisis prevention, preparedness and response*. This new health programme is complementing and reinforcing efforts at national level and regional support to healthcare systems under cohesion policy.

Reinforced **rescEU** is the European civil protection mechanism, that will ensure a more timely and effective EU response to large-scale emergencies. The financial allocation for rescEU will be increased to 3.1 billion euro, financing investments in emergency response infrastructure, transport capacity and emergency support teams.

Reinforced programmes for research, innovation and external actions includes:

↳ an upgrade for *Horizon Europe* to 94.4 billion euro, in order to increase the European support for research and innovation activities in the fields related to health and climate issues;

↳ an increase of the *Neighbourhood, Development and International Cooperation Instrument* to 86 billion euro, via a new External Action Guarantee;

↳ an additional 1 billion euro for the *European Fund for Sustainable Development* to support partners – in particular in the Western Balkans, the Neighbourhood and the rest of Africa – in their efforts to fight and recover from the impact of the Coronavirus pandemic;

↳ an increase of 5 billion euro for the *Humanitarian Aid Instrument*, reflecting growing humanitarian needs in the most vulnerable parts of the world.

Withal, the European Commission proposes **to strengthen further programmes** so they can play their full role in transforming Europe, by the following targeted adjustments:

- ↳ equipping the **Digital Europe Programme** with a total budget of 8.2 billion euro;
- ↳ an additional allocation of 1.5 billion euro for the **Connecting Europe Facility**;
- ↳ maintaining the proposed budgets for the **Single Market Programme** (3.7 billion euro) and for programmes supporting **cooperation in the fields of taxation** (239 million euro) **and customs** (843 million euro);
- ↳ an additional amount of 3.4 billion euro for **Erasmus Plus**;
- ↳ an increase of **Creative Europe** budget to a level of 1.5 billion euro;
- ↳ an additional allocation of 4 billion euro for the **Common Agricultural Policy**;
- ↳ an additional amount of 500 million euro for the **European Maritime and Fisheries Fund**;
- ↳ reinforcing the **Asylum and Migration Fund** and **Integrated Border Management Fund** to reach a level of 22 billion euro together;
- ↳ increasing the **Internal Security Fund** to 2.2 billion euro;
- ↳ strengthening the **European Defense Fund** to a level of 8 billion euro;
- ↳ increasing the **pre-accession assistance** to a total of 12.9 billion euro.

Furthermore, the European Commission proposes **to reinforce the emergency tools** (the *EU Solidarity Fund*; the *European Globalisation Adjustment Fund* and the *Solidarity and Emergency Aid Reserve*) and their flexibility by additional emergency financing up to 21 billion euro over the 2021-2027 period compared to its initial proposals of 2 May 2018.

4.2. EU Draft Budget for the Programming Period 2021-2027

In May 2018, the European Commission put forward its proposal for a long-term budget, tightly geared to the political priorities of the Union at 27 and taking into account the budgetary consequences of the withdrawal of the United Kingdom.

On May 2020, this proposal was reconsidered taking into account the new realities imposed by the Coronavirus pandemic. Thus, the financial framework for 2021-2027

proposed by the Commission in 2018, was reinforced by the *Just Transition Mechanism*. The architecture proposed, the level of support, the balance between priorities, and key features such as the target of at least 25% of spending contributing to climate action, and measures to support gender equality and non-discrimination are all necessary for a balanced recovery package.

The implementation of the **Recovery Plan for Europe** will be ensured by EU long-term budget (1100 billion euro) and Next Generation EU recovery fund (750 billion euro), as it is presented in figure 2.

Next Generation EU is a one-off emergency instrument, put in place for a temporary period and used exclusively for crisis response and recovery measures. European Union's Next Generation EU recovery fund will be channeled through the EU budget to Member States to support investment and reform priorities, and will be used to reinforce financial programmes key to recovery with an end date by 31 December 2024.

The long-term EU budget, boosted by Next Generation EU, will ensure the EU recovery.

Another novelty for the 2021 – 2027 programming period is the Commission's proposal that includes a new *Regulation on the protection of the EU budget against generalised deficiencies in the rule of law*. The proposed rules would allow the Union **to suspend, reduce or restrict access to EU funding** in a manner proportionate to the nature, gravity and scope of the rule of law deficiencies.

<i>EUR billion, 2018 prices</i>		
	MFF 2021-2027 (May 2020)	Of which under Next Generation EU
TOTAL MFF	1.850,0	750,0
1. Single Market, Innovation and Digital	210,5	69,8
Horizon Europe	94,4	13,5
InvestEU Fund, of which under the Union Recovery plan	31,6	30,3
Investing in the EU economic recovery	15,3	15,3
Strategic Investment Facility (new window)	15,0	15,0
EU Solvency Instrument under EFSI	28,0	26,0
2. Cohesion and Values	984,5	610,0
Cohesion Policy	373,2	50,0
Recovery and Resilience Facility (incl. Technical Support)	560,8	560,0
Of which LOANS	250,0	250,0
Of which GRANTS	310,0	310,0
3. Natural Resources and Environment	402,0	45,0
Common Agricultural Policy	348,3	15,0
Of which Pillar II (Rural Development)	90,0	15,0
Just Transition Fund	40,0	30,0
4. Migration and Border Management	31,1	
5. Resilience, Security and Defence	29,1	9,7
Union Civil Protection Mechanism (rescEU)	3,1	2,0
Health programme	9,4	7,7
6. Neighbourhood and the World	118,2	15,5
Neighbourhood, Development and International Cooperation	86,0	10,5
Humanitarian Aid	14,8	5,0
7. European Public Administration	74,6	

Figure 2. Multiannual Financial Framework 2021-2027 (in Commitments)

Source: COM (2020) 442 final, p. 18.

5. Final Remarks

We must rediscover our *inner unity* and *strength* in order to tackle climate, technological and demographic change which are transforming our societies and our way of life, together with the new challenges arisen by Coronavirus pandemic. Re-launching the EU economy does not mean going back to the status quo before the crisis, but bouncing forward.

The impact and recovery potential of EU economy depends on each country's demographic or economic structure and also on their ability and capacity to absorb and respond to the shock, notably with the help of State aid. But, this has a considerable negative impact on the Single Market and widens divergences and disparities between Member States. So, the recovery would likely be *incomplete*, *uneven* and *unfair*, if is left to individual countries responsibility. This is why *solidarity*, *cohesion* and *convergence* must drive Europe's recovery.

A collective and cohesive recovery will be possible by strengthen the Single Market and investing in our shared European priorities (“a European Green Deal; “an economy that works for people”; “a Europe fit for the digital age”; “protecting our European way of life”; “a stronger Europe in the world”; “a new push for European democracy”) ensuring in this way that our Union will be *climate neutral*, *digital*, *social* and a *strong global player* in the near future.

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