THEGREENS/EFA
in the European Parliament

A Green/EFA contribution to a future EU Recovery Fund

On the 23 April, EU Leaders tasked the Commission to work on a proposal to set up a Recovery Fund targeted towards the sectors and geographical parts of Europe most affected by the pandemic crisis.

In light of some announcements made ahead of the summit, the Commission has hinted that it will propose setting a Recovery Instrument within the MFF that would allow the EU to borrow a significant amount of money from the markets by using the EU budget as a guarantee. This extra money in combination with an increase of the EU budget itself would then be used to give support to Member States – through a combination of grants and loans – by extending existing EU programmes and creating new ones. The integration of the new Recovery Fund within the MFF would however require raising the ceiling of the EU's own resources in order to increase the amount that can be borrowed without jeopardising the credibility of the EU in financial markets.

The Commission indicated that it aims at presenting its proposal by the 13 May, clarifying how it intends to integrate a temporary and targeted Recovery Fund in the MFF. In this perspective, the Greens/EFA Group in the European Parliament aims to contribute to this key debate, by proposing to integrate a democratically controlled grant-based recovery fund in the MFF, which would issue common bonds to fund the economic recovery post COVID-19. A recovery fund based on grants would be a solidary answer to the current crisis and prevent the euro zone from breaking apart due to highly unequal national responses to the downturn. So far the EU Commission has approved Corona related state aid of 1.900 Billion Euros of which 52% by Germany. This is roughly the double of its share in the EU's GDP and corresponds to the financial capacity of the largest Member State. It is to be feared that the capacity of Member States to support its businesses will not mainly correspond to needs, but rather to financial firepower. In order to avoid disintegration in the common market it is therefore needed to support the financial capacity of weaker Member States in the crucial recovery phase.

A grant-based Recovery Instrument based on article 122.1 in combination with Article 175.3 or 121.6 TFEU

A new EU Recovery Facility and Fund would be established on the basis of Article 122.1 in combination with 121.6 or 175.3. Under such facility, the Commission would be empowered to raise up to 1.5 trillion EUR with preferably perpetual bonds or as a second best long-term bonds eligible for ECB purchases and transfer such amount to a segregated new recovery fund. Such fund would then finance a new EU programme within the MFF whereby expenditure would be allocated on the basis of specific indicators (such as gender-desegregated unemployment rates and GDP reductions reflecting the impact of the crisis on Member States). A share of the resources could also be allocated to already existing future oriented programmes.

The fund would be subject to a EU level gender equal expenditure eligibility framework with monitoring procedures codified in the same EU Recovery Facility and Fund Regulation proposal, including a climate proofing process. The instrument would therefore allow a democratic control of the funds and proper parliamentary scrutiny

By analogy with the targets set by the European Investment Bank and the provisions laid down in the sustainable infrastructure section of the InvestEU Regulation, the expenditure framework shall ensure that at least 50% of the recovery packages should fund projects to tackle climate change and support the transition to a green economy in compliance with the EU taxonomy. All of the funding should be aligned with the principles and goals of the Paris agreement and ensure that no significant harm is done to environmental or social objectives. Moreover, a particular attention should be paid to investment in sectors that provide employment to most affected age and gender categories, as well as regions where unemployment is higher than average.

The funding would be reimbursed over a long period through new own resources (including proceeds from a tax on non-recycled plastics, a carbon tax, a kerosene tax, a digital tax, a tax on financial transactions, or a share of corporation tax following agreement on CCCTB and minimum corporate taxation). If, for instance, one trillion euros were raised on the market via a 40-year bond issuance, the annual debt service costs (i.e. in the range of 20 to 32 billion euros, see the table below) could be covered by the proceeds from a EU-wide FTT in addition to a Digital tax under the modalities proposed by the Commission (new own resources option) or paid by the Member States, with Germany and Italy paying respectively 4 to 6.4 and 2 to 3.2 billion (national contributions option) that would correspond to an average of 0,14% to 0,23% of Member States' GDP.

New own resources (or as a second best, externally assigned 'other resources') would therefore need to be provided within an updated Own Resources Decision pursuant to Article 311 TFEU. Such legal basis provides indeed space for delivering a qualified, temporary and clearly delimited derogation to the balanced EU Budget principle of Article 310 as the first sentence of Article 311 foresees that 'the Union shall provide itself with the means necessary to attain its objectives and carry through its policies.'

Structure	Legal base	Impact on (OR/MFF) ceilings	Maturity schedule
1-1.5 trillion Only grants	Revenue: a revised Own Resources Decision pursuant to Article 311. Expenditure: A new Regulation based on 121.6 or 175.3 providing for an allocation and monitoring methodology	Own resource headroom of at least 4% of EU GNI (5% if 1.5tr) during 3 years and then above 1.5% *NB* Greens advocate for raising the OR ceiling to 2% on a permanent basis, after the 3 year period*. MFF ceilings to be increased accordingly in order to finance the new programme	<u>Option A</u> A perpetual bond The EU budget would allocate permanently 20bn EUR for 1 trillion EUR of issuance or 30bn EUR for 1.5 trillion EUR corresponding to the amount of the new own resource (or national contribution) on the assumption that a perpetual bond would be placed in the markets with a coupon of 2%[1] <u>Option B</u> A 100 year bond assuming a coupon of 1.5%[2] would require to the EU budget to provision 25bn EUR during one century for 1 trillion EUR or 38bn for 1.5 trillion EUR. <u>Option C</u> A 40 year bond assuming a coupon of 0.7%[3] would require the EU budget to provision 32bn EUR for 1 trillion EUR of issuance and 48bn EUR for 1.5 trillion EUR

[1] Such conservative assumption is consistent with the upper range estimations of EU perpetual yields referred to in recent different articles on the subject matter by Giavazzi, Soros and Langfield.
[2] Austria issued a 100-year bond that currently yields 1%. A coupon of 1.5% would therefore provide a conservative assumption.
[3] The ESM yield for a 40-year bond is currently around 0.7%