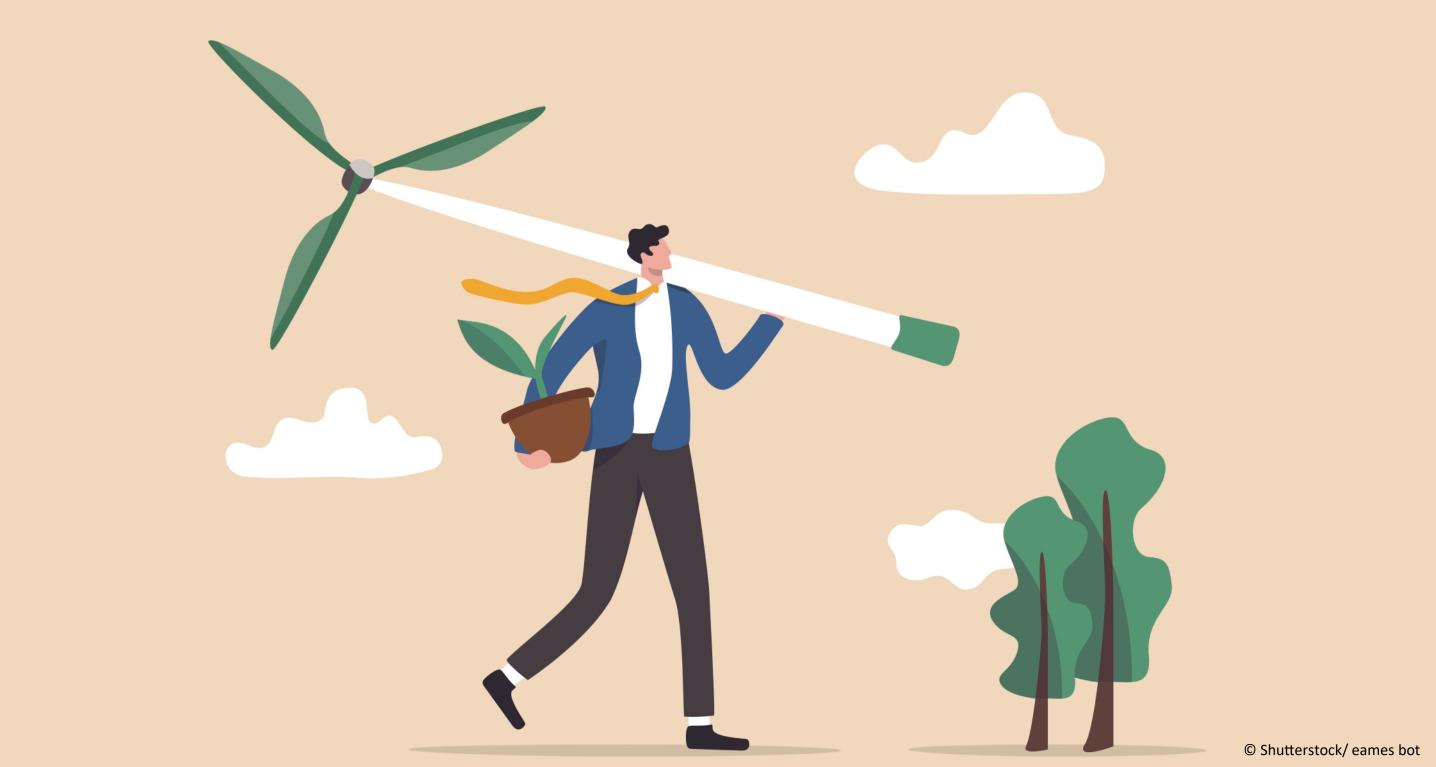
European Economic
and Social Committee
Employers' Group

Newsletter

September 2021

EU employers question the practical aspects of the 'Fit for 55' package



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A few weeks after the presentation of the legislative proposals for the "fit for 55" package – the set of measures linked to the Recovery Fund through which the European Commission proposes meeting the target of reducing CO2 emissions by 55% by 2030 – European employers, who are currently analysing the measures announced, fully support the direction taken but nevertheless wonder about many practical points.

Will the social fund of EUR 72.2 billion be enough to enable businesses and individuals to reduce their fossil fuel consumption? Will nuclear energy be recognised as an alternative? Will the Carbon Border Adjustment Mechanism protect us from unfair imports and what tool will support our exports that have become uncompetitive? What is the Commission's objective in terms of forest management when Europe is the only continent where forests are growing? How can carbon leakage resulting from the loss of production caused by the Farm to Fork Strategy be avoided? Will new plant breeding techniques be authorised?

These questions highlight the haste with which our three major co-legislators set their objectives.

With the aim of becoming the world's first climate-neutral continent, Europe wants to make a significant contribution to achieving the global climate goals. As its industry is very innovative and attracts a lot of investment, and as its technologies are economically viable, Europe is also well placed to do so, even to an extent that goes well beyond its own emission levels.

European industry is already at the forefront of investments in energy efficiency and renewable energy, in hydrogen and in CO2 capture and storage. For this reason, it is essential to avoid an ideological approach at all costs. Such an approach has already frequently been taken in a bipartisan manner with regard to climate and energy issues linked to the Green Deal, which risks irreversibly damaging entire production sectors, posing great risks to employment and society, as well as the economic recovery, which could be undermined.

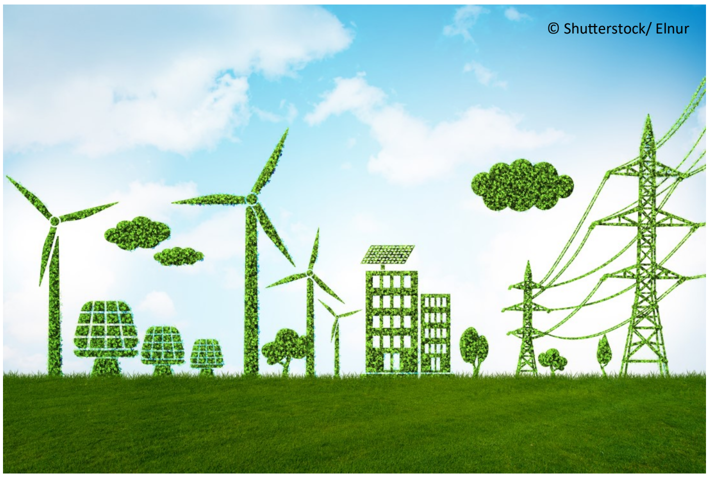
In particular, it should be noted that, according to some estimates, the 55% target could involve investments of more than EUR 3.5 trillion by 2030, while the available public resources are under EUR 1 trillion, or less than a third of the amount needed.

It is important to understand that European industry, with its technological innovation in products and production processes, is the solution and not the obstacle to achieving the decarbonisation objectives. It is therefore surprising that, in many national reform programmes linked to the recovery, limited funds are earmarked to accelerate the sustainability objectives in industrial sectors.

As such, it is vital to take action by setting out a harmonised and flexible regulatory framework to achieve a truly integrated energy market, by ensuring a level playing field vis-à-vis countries that do not share the Commission's climate goals, in particular for emission-intensive sectors, and by implementing investment and innovation policies to make European industrial ecosystems more resilient and technologically dynamic.

Entrepreneurs know that targets must always be reduced in order to achieve better results in the long term. The fact that this has not been taken into account does not inspire confidence, even though this is what matters the most. Well done is better than well said, as managers will tell you.

The legislative texts presented on 14 July will now be amended by the Council and the European Parliament, and the EESC has made them a priority, as has France, which will hold the presidency of the EU in the first half of 2022. Negotiations are not expected to be concluded before the end of 2022 at the earliest. Some texts will then have to be transposed in the Member States and industries will have little time to adapt before 2030.



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Carbon pricing will be the key factor in the transition

Frans Timmermans emphasised the rationale behind the adoption of this legislative package: "Concrete efforts must be made to combat climate change. This will be done through the carbon price and by rewarding decarbonisation."

The "fit for 55" package proposes a set of measures aimed at increasing the carbon price:

- **Extending the number of sectors subject to emission allowances** to the residential and tertiary sectors and to road and maritime transport: the Commission proposes revising **the Emissions Trading System (ETS) Directive (2003/87/EC as amended),** which currently applies to energy generation installations, to installations from the manufacturing industry and to aviation (intra-EU flights).
- The Commission also plans to **end free allowances for the aviation sector** (also approved in the Climate and Resilience Law adopted in France in July 2021).
- **Reducing carbon budgets by sector** ("right to emit"); ETS sectors will have smaller budgets.
- Introducing a **Carbon Border Adjustment Mechanism**: measures to create a **level playing field** for our industrial companies **vis-à-vis competitors from other regions of the world that are not subject to the same climate rules.**
- **Taxing energy products**: taxing energy will ensure that fossil fuels become the exception. Fuels will no longer be taxed according to their volume but according **to their energy content** in order to tax carbon emissions as accurately as possible.

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Will "fit for 55" be fit for SMEs?

SMEs, which account for 99.8% of all EU companies, will be a decisive factor in achieving the ambitious climate goals that the "Fit for 55" package sets for Europe. However, the package's requirements need to be viable for SMEs, as putting too much strain on the sector that suffered severe losses during the COVID-19 pandemic would be a severe threat to Europe's economy.

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To support SMEs in becoming climate-neutral, while keeping them competitive, the package needs to be accompanied by a framework that is tailored to SMEs. The key elements of such a framework should be, among other things, sector-specific information, easier access to different forms of financing for initial investments linked to new technologies that minimise pollution, and training for entrepreneurs and their employees to use these technologies. Furthermore, it is important to ensure consistency between the "fit for 55" package and new and existing EU legislative texts, as SMEs do not have the resources to cater for contradictory legislation.

As part of the "fit for 55" package, several regulations have been reviewed. The following three issues are of particular relevance for SMEs in the "fit for 55" package:

Review of the Energy Efficiency Directive:

As part of the "fit for 55" package, the Commission has also published a revision of the 2012 Energy Efficiency Directive. It includes an impact assessment and the results of a public consultation. The revision will affect SMEs through the following articles:

- The new 2030 reduction target is binding only at EU level. This means that Member States can still use mandatory energy efficiency schemes or alternative policy measures to make their energy savings. The flexibility given through alternative policy measures can provide ample opportunities for SMEs to participate, for example, in energy efficiency networks.
- Article 9(4) places particular emphasis on SMEs, specifying that Member States may require obligated parties to achieve energy cost reduction targets and energy savings by promoting energy-efficiency improvement measures, including financial support measures mitigating carbon price effects on SMEs and micro-SMEs.
- Article 21 explicitly mentions the creation of one-stop shops or similar mechanisms for the provision of technical, administrative and financial advice and assistance in the field of energy efficiency.
- Article 27 extends the areas in which Member States must disseminate information to SMEs in order to promote their access to the energy services market.
- The exemption of SMEs from the mandatory energy audit has been abandoned in favour of a new criterion based on average annual consumption in excess of a certain amount of TJ. The impact on SMEs of the new criterion introduced by Article 11(1) and (2) for the adoption of energy management schemes and the implementation of energy audits should therefore be monitored.

Extension of the Emissions Trading Scheme to buildings and road transport:

This extension does not benefit SMEs, which would have to oppose such a move because it introduces a complicated and bureaucratic process that will have a direct impact on all SMEs that heat their offices and homes and use company vehicles and trucks.

It is obvious that fuel suppliers (who will be in charge of monitoring and reporting on the amount of fuel they place on the market and providing allowances each year based on the carbon intensity of fuels) will shift the additional cost onto all consumers by increasing the price of heating and vehicle fuel.

In addition, the trickle-down effect of higher fuel prices for homes and vehicles will not be fully mitigated by a social climate action mechanism that represents only 25% of the new scheme's revenues.

Carbon Border Adjustment Mechanism:

Efforts to bring the proposal into line with WTO requirements by allowing the cost of other carbon pricing schemes to be deducted are to be welcomed. However, the Commission should be urged to ensure that the procedures and conditions for reporting emissions from imported products are easy and free of charge, as complex calculations would result in small importers facing higher carbon prices.

During the upcoming negotiations between the European Parliament and the Council on the "fit for 55" package, the crucial role that SMEs will play in Europe's drive towards climate neutrality needs to be clear to all parties: climate neutrality cannot work without SMEs and neither can the European economy.

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This article contains a number of comments made by Guido Lena, Director for Sustainable Development at SMEunited.

The Conference of the Future of Europe needs to hear the voice of business

Major changes in the European Union now seem inevitable. It is not possible to respond to the old and new challenges facing the EU by continuing the current model.

We must address some fundamental issues. The economy, security, climate, the rivalry between the two superpowers of China and the United States and the humanitarian situation are likely to lead to significant initiatives and changes in the near future. All these major issues require proper debate in EU countries. This is an exceptional opportunity for the first ever Conference on the Future of Europe.

The Conference is an occasion for citizens and business to have a much stronger voice and make concrete proposals for our shared future. EU institutions are committed to giving Europeans more say on what the EU does.

Something very fundamental is missing if the voice of businesses is not properly heard in these discussions. Policy-makers need information on the direction in which businesses want the EU to develop, or what they expect from the EU. Policy-makers need to pay attention to what businesses do and how their activities, problems and opportunities relate to the EU. Only in this way can decisions be taken in the EU that support businesses.

It is possible to participate in the Conference on the Future of Europe by making proposals and discussing other people's ideas and by taking part in events across Europe, also beyond the capitals. This is supported by a multilingual digital platform.

The EESC and its Employers' Group want an active dialogue with representatives of civil society and both small and large companies. We are therefore organising events right across Europe. We want to listen, discuss and advance our common goals, also as part of the Conference on the Future of Europe.

That's why we are hoping for your active engagement! The course of Europe's future is determined and set together!

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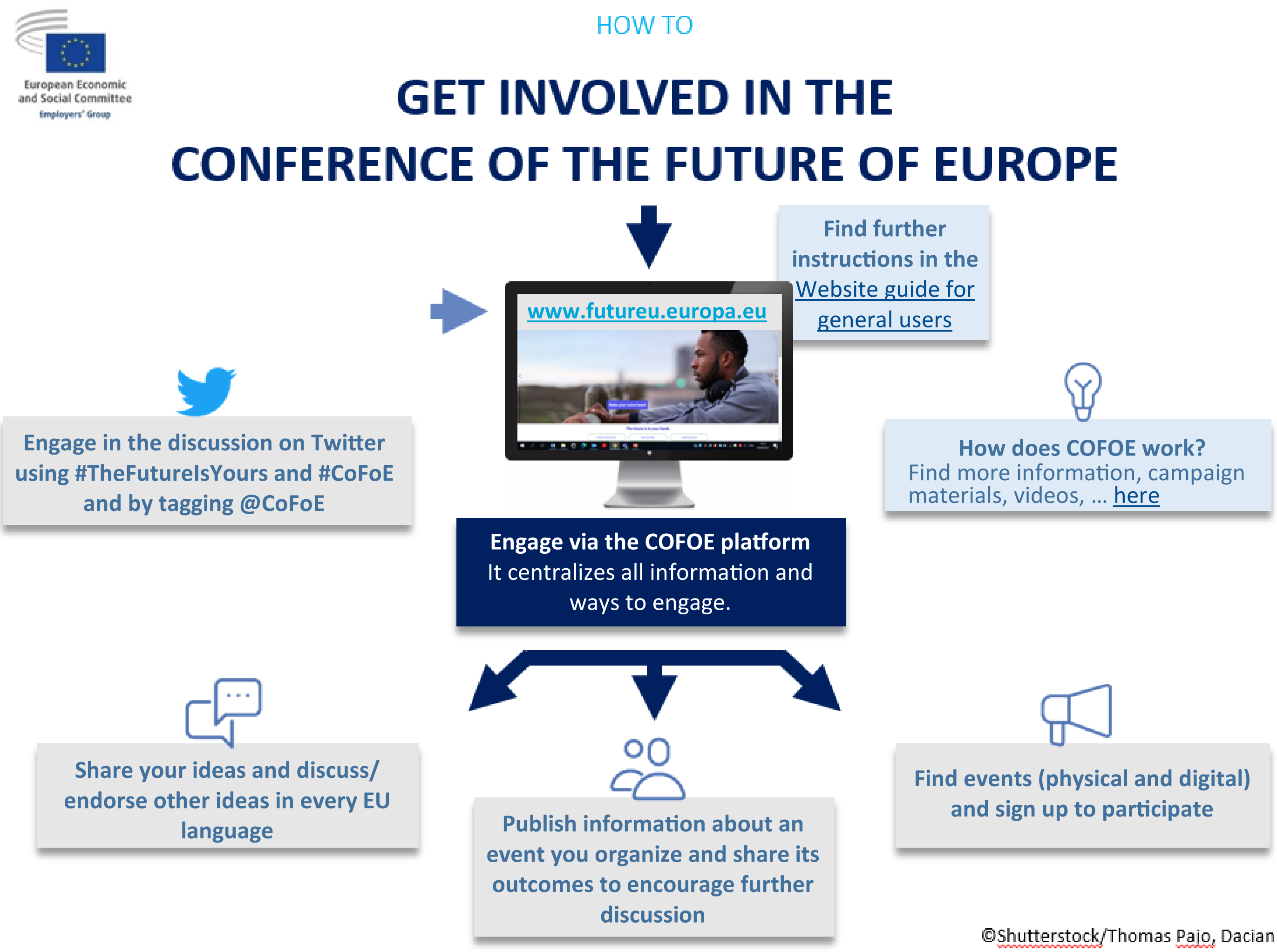

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Europe needs a Digital Rural Act

Besides the Digital Markets Act and the Digital Services Act, a Digital Rural Act (DRA) is indispensable to deliver on the promises of Europe's "Digital Decade".

The DRA is envisaged as a strategy to develop digital technologies in agriculture and rural areas and to use these technologies to improve the effectiveness of the CAP Strategic Plan. It could also help accomplish the Green Deal and Farm to Fork strategies.

The DRA aims to empower rural areas with digital skills, alongside a digital infrastructure to enable people in remote areas and with economic or social challenges to benefit from it and progressively become the change in the sustainable growth of society. For this to happen, investment in broadband infrastructure, including 'last mile' coverage, must take account of the socio-economic benefits in rural areas.

The idea behind the DRA is to map the existing landscape of policy support; identifying the opportunities and needs of rural areas to use digitalisation in order to set priorities and ensure that this digital strategy creates the conditions to genuinely benefit rural communities. Developing and promoting the uptake of digital services in rural regions must consider the rural community itself and the needs, opportunities and challenges identified in the DRA's design and this can only be achieved by looking at the specific needs of each rural area.

The Digital Rural Act is composed of three pillars/components that need to be addressed together, as they reinforce each other:

1. **Broadband infrastructure:** According to the 2017 EU Digital Economy and Society Index (DESI) report, rural areas remain insufficiently covered (8% of homes are not covered by any fixed network, and 53% are not covered by any Next Generation Access technology). This shows that connectivity does not reach the regions where it is most needed and could be most transformative: the remote regions and those with economic or social challenges. The 'last mile' of coverage is generally the most challenging and expensive one, but often affects the villages and rural towns that could benefit most from connectivity.
2. **Digital skills and literacy**: The crucial factor hindering greater digitalisation in rural areas is the digital literacy of the people living in those areas. The 2020 Digital Economy and Society Index shows slow progress in the acquisition of digital competences, as the number of EU citizens with insufficient digital skills drops by just 1%, from 43% to 42% and this figures increases significantly in rural areas. Digital skills are not achieved by simply giving access to broadband connection and digital services, because these require a level of knowledge and competence in operating digital tools and rely on having a basic knowledge of security, privacy or app usage

3. **Promoting the uptake of digital services**: In order to get the best value from investments in broadband infrastructure and in digital literacy, rural communities need not only to understand the usefulness of digital applications (as explained in point 2) but also and more importantly, to actively want to use them. In rural areas, many people may be unaware of potential applications that could dramatically improve their quality of life in areas such as active and healthy aging, e-health, distance learning, shared mobility, logistics and so on. Therefore, it is important to find ways of designing, testing and showcasing applications with and within the local community itself.

The idea of a DRA was developed by EESC Employers' Group member Luis Mira and EESC Employers' Group President Stefano Mallia during the webinar "Challenges of the Digital & new Economy" and was presented to EU Commissioner for Agriculture Janusz Wojciechowski at the Extraordinary Employers' Group meeting in July.

Commissioner Wojciechowski underlined the need for a digital strategy for rural areas by stating at the meeting that "Digitalisation in agriculture and rural areas can be regarded as instrumental, not only to strengthen the competitiveness of the sector and rural communities, but also to contribute to several sustainability-related policy objectives. This includes, of course, environmental and socio-economic sustainability," and by pointing to how digital technologies can transform agriculture by helping farmers to work more precisely, efficiently and sustainably, for example, in the use of nutrients and through tailored animal welfare measures.

Read more about the meeting via: https://europa.eu/!vvVNvG

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Creating a win-win strategy for regular migration

With the European Parliament and the Council ready to adopt the final revision of the Blue Card in September, employers call for more focus on policies linked to regular migration at a moment when the Afghanistan crisis risks fuelling more toxic debates on irregular migration and asylum policy, reminiscent of the 2015 migration crisis.

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Regular migration doesn't only provide economic opportunities for migrants and their families, but also fuels economic growth. For employers, migration is also a vehicle to improve the balancing of labour supply and demand, for sparking innovation, and for transferring and spreading skills. Finding solutions to use regular migration to everyone's benefit becomes even more pressing given the current geopolitical challenges.

In 2020, the EU counted some 23 million third-country nationals legally residing in the 27-country bloc, or 5 % of the 447 million Europeans. The vast majority arrives via regular channels. In 2019, some 2.5 million regular migrants were registered, and the yearly flow of regular migrants is rather stable in the long term. So the legal pathways for migrants and their integration should be our main concern.

With its New Pact for Migration and Asylum, the European Commission proposed last year an updated way of dealing with migration.

The EESC adopted four opinions and concluded that the holistic approach of the New Pact for Migration and Asylum is appreciated, but the proposals are focusing too much on border controls and on stopping illegal migration, giving little attention to the legal pathways. Furthermore, the feasibility of the new solidarity mechanism and its ability to decrease the burden on countries of first entry should be questioned. Another concern is linked to the feasibility of the crisis approach with the notion of 'force majeure'. In any case, the real challenge of the new Action Plan will be its implementation, which is why the EESC asks that a credible monitoring mechanism be put in place.

In the coming months, the European Commission has planned a number of actions that will have a decisive impact on regular migration and on the mobility of workers. Employers hope to see a clear shift of focus to regular migration and its benefits.

Employers call for new approach taking into consideration the following:

- **Revision of the Schengen regulation:** To restore confidence in the Schengen mechanism, all Member States need to be on the same page for the new strategy with an effective external border management and a more centralised management with improved digital tools, which have to compensate for the absence of controls at internal borders.
- **Revision of the EU Blue Card Directive:** The Blue Card will only become a success if it is made sufficiently attractive to Member States, employers and job seekers so that it can become the main system for the admission of highly skilled third country nationals into the EU, regardless of what national work permit Member States have put in place, as a counterpart of the American "green card".
- **The simplification of the procedure of the Single Permit:** The Single Permit is a combined work and residence permit. The review proposal starts from a series of procedural shortcomings such as those concerning the numerous administrative steps, the long procedure for the entry visa and the possible application of lengthy labour market tests. Other questions concern the exclusion of the self-employed, the protection against labour exploitation and the level where the distinction between of medium- and low-skilled should be set.
- **Promoting the idea of Talent Pools for third country workers:** The EU Talent Pools for third-country skilled workers could operate as an EU-wide platform for international recruitment, through which skilled third-country nationals could express their interest in migrating to the EU, and could be identified by EU migration authorities and employers based on their needs. The problem with realising this idea at the European level is that countries would be interested in attracting talents for their home market – but a common reservoir would also have to include a solidarity aspect.
- **Setting up of Talent Partnerships with third countries:** Based on the EU's need for labour and skills, talent partnerships with key third countries would support the mobility of people to the EU for study, training, and work. They could also provide partner countries with assistance for capacity building in the labour market or skills intelligence.

In the coming months, the risk of a new refugee wave will not improve the chances of a political consensus, so we need to act swiftly on all these issues finding win-win patterns for all Member States. The political and societal impacts of migratory movements can affect the stability not only of the concerned Member States but of the European Union as a whole.

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Commission Communication on Better regulation: RATHER THAN 'ONE IN, ONE OUT' APPROACH WE NEED A CASE-BY-CASE ASSESSMENT

The European Commission published its Communication "Better Regulation – Joining Forces to Make Better Laws" on 29 April 2021. It had been announced for 2020, but was postponed several times, even though President von der Leyen had made the matter a core component of her "mission letters" to other Commissioners when she took office. The delay seems to reflect a difficulty in getting the balance right, since the actual substance of the communication is also unclear in parts and falls short of the expectations of the EESC and, above all, of the economy.


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"Better regulation" is not about deregulation, but about improving the quality of laws. The intention behind stakeholder and public consultations, impact assessments and expert reviews is to make sure that legislators take sensible decisions based on sound evidence and with the involvement of all affected groups. In these times of fake news, populism on the march and manipulative messages online, rational, evidence-based policies are becoming increasingly important. However, producing better regulation cannot and should not replace political decisions; these must, of course, be left to the legitimate office-holders (i.e. the Commission, the Council and the Parliament).

In its Communication, the Commission clearly supports the continuation of the better-regulation agenda and announces some important developments. The aim is to improve the evidence base (including with the help of science) and consultation processes. In addition to outstanding issues, the EESC sees the representativeness of feedback as being particularly important here. Weighting of responses and explanation of how they are evaluated is extremely important for both the findings of the consultations and for those taking part in them.

At the heart of the Better Regulation process is the assessment of the impact of a proposed piece of legislation. The Regulatory Scrutiny Board, responsible for examining these impact assessments, has recently identified shortcomings, since the Commission's impact assessments are often carried out at speed, do not include all possible options and aim to support the outcome sought by the Commission. This is a grave criticism and one the Commission should take seriously.

In the future, the Commission intends to align its impact assessments with the 17 UN Sustainable Development Goals and the green and digital transformation. It goes without saying that economic, environmental and social sustainability must always guide sound policy and hence also be part of impact assessments.

It is entirely unclear, however, how the Commission means to implement this "mainstreaming" of the extensive UN catalogue of 17 Sustainable Development Goals (SDGs) with their 169 sub-targets without overloading or politically influencing the process.

The "one in, one out" approach announced by the Commission states that any new onerous measure should entail the rescinding of an existing burden in the same area. This sounds appealing at first glance, but has rarely delivered in practice: either "one in, one out" is implemented half-heartedly and with numerous exceptions, or it proves difficult to remove a "burden" because existing legal provisions generally serve a legitimate end and cannot be repealed without something to replace them. How the Commission intends to proceed in the future is unclear. In any event, the example given in the Communication, namely that harmonisation of 27 national rules should always be regarded as "one out", is incorrect, since it completely ignores the actual impact of an EU measure on the people concerned. What is needed instead is a case-by-case assessment in every instance.

The existing mechanisms and procedures for monitoring and evaluating EU legislation, such as the Fit for Future Platform (formerly the REFIT Platform), are to be maintained and further developed. The problem of divergent and excessive implementation at Member State level is not addressed. While Member States are, of course, perfectly entitled to use their leeway in implementation, this must be done transparently and must not undermine efforts at harmonisation.

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New coordinated plan on artificial intelligence: EUROPE'S LAST CHANCE

On 21 April, the European Commission published a new coordinated plan on artificial intelligence (AI) updating the previous plan which was adopted in 2018, together with a proposal for a legislative framework to ensure the security and ethics of AI applications. These two initiatives, which follow on from the white paper on AI published in February 2020, are inextricably linked. Excellence and trust go hand in hand as regards AI. Without trust, innovation is a non-starter. Like its predecessor, the EESC opinion, to be adopted in September, assumes that competitiveness and ethics go together.

This coordinated plan is Europe's last chance not to miss the AI train and to guarantee its sovereignty in this field. Now more than ever, the EU must act quickly and deliver on its goal of coordination and shared effort. Seamless cooperation between all stakeholders is paramount: European institutions, Member States, civil society, the social partners and businesses. Success is dependent on it.

The European Commission has earmarked a substantial budget for this objective: EUR 1 billion each year between 2021 and 2027, from the digital Europe programme and Horizon Europe. If this achieves the expected leverage, public and private investment is set to reach EUR 20 billion each year during this period, supplemented by funds from the Recovery and Resilience Facility (RRF).

This new plan is structured around four pillars, which the EESC has no hesitation in endorsing:

- creating an AI-friendly environment, based on stronger cooperation and data and computing infrastructure;
- creating an area of excellence, from fundamental research and innovation to the market;
- bolstering people's skills and trust in AI;
- developing strategic leadership in high-impact sectors (particularly agriculture, transport, health, environment and security).

This plan is part of a package: the European strategy on data (GDPR and the creation of a European data space) and cybersecurity, clearly a critical issue.

In line with the previous EESC opinion, this one points out the need for an inclusive approach to AI, geared towards promoting the wellbeing of society as a whole and meeting societal, environmental and public health challenges. Social dialogue and the social partners will play a pivotal role in the shift to AI, particularly as regards designing training programmes and fostering individual empowerment as both workers and citizens. Teaching everyone to understand and use AI is crucial.

The opinion makes two key recommendations:

- the new strategy must incorporate debate on the future of work given the rise of automation, including the way it complements human action;
- it must focus on support for businesses, particularly the smallest. Training courses tailored to micro, small and medium-sized businesses are needed, targeting both the self-employed and employees. Steps must be taken to make it easier for employees to go on training courses by offsetting the resulting financial losses, which are often an obstacle. As well as financial support, provisions for micro, small and medium-sized businesses (such as tests and experiments, digital innovation hubs and platforms on demand) should be evaluated and if need be, reinforced

The opinion on AI development in micro, small and medium-sized businesses, which I have the honour of drawing up, will I hope issue relevant and useful recommendations in this field, as underlined in the Employers' Group study on AI for the MSMEs

Lastly, while coordination is desirable and strongly encouraged, it is still down to the stakeholders to make it work. The EESC underscores the importance of being able to evaluate and measure the progress made, based on carefully selected indicators devised with all the stakeholders. Discussion with the European Commission has shown just how important it considers this issue to be.

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