FONDATION ROBERT SCHUMAN

The European Commission's Recovery Plan
Key points for a full picture

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A massive three-directional plan – To revive the European economy and tackle the consequences of the Covid-19 pandemic, the Commission is proposing a €750 billion plan, integrated into the Multiannual Financial Framework (MFF) divided into three pillars: support for recovery in the Member States; support for businesses, particularly strategic sectors; and strengthening the EU's health and crisis management capacities.

The first pillar will focus on a €560 billion 'Recovery and Resilience Facility', complemented by a €55 billion transitional assistance programme for the most affected regions, to be called **React-EU**. Existing rural development and just transition programmes (social support to the Green Deal) will be strengthened.

The second pillar will include a corporate solvency support instrument guaranteed by the European budget to provide capital in all sectors of the economy, and a €15 billion "Strategic Investment Facility" to safeguard Europe's infrastructure, critical technologies and health systems. The Commission hopes to generate €700 billion in investment and financial support for businesses.

The third pillar, presented by the Commission as "lessons learned from the crisis", provides for the strengthening of the **rescEU** emergency mechanism, external aid, additional support for health research and innovation, and a new health programme at European level.

An innovative mechanism – The €750 billion of the plan will be borrowed on the financial markets by the Commission and then redistributed to the Member States in the form of grants of up to €500 billion and loans of up to €250 billion. Repayment will take place between 2027 and 2058, depending on the Member States' share of the Union's gross national income (GNI).

The recovery fund constitutes a double advance by being the first European debt mutualisation on this scale and through the massive use of financial transfers to the Member States.

In order to raise the Community loan, the Union must also raise the own resources ceiling from 1.2% to 2% of European GNI.

To ensure that the burden of repayment is as light as possible on the Member States, the Commission proposes to create new own resources, i.e. to allocate directly to the European budget, and not to national budgets, all or part of the following new taxes: the extension of the ETS mechanism (CO2 emissions market) to the maritime and aviation sectors; the carbon border adjustment mechanism; the tax on the activities of digital platforms, a European corporate tax.

The Commission believes that these new resources would be sufficient to repay the loan and its interest. In this case, the shift towards debt pooling would go hand in hand with a move towards a European tax system which would enable the replenishment of the Union budget by reducing dependence on the Member States.

In a traditional framework - The recovery plan is part of the MFF, coming on top of the 2021-2027 budget on which the European Council could not agree last February**.**

The Commission is taking up the draft MFF as it was left by the Heads of State and Government, adjusting it marginally to take account of the crisis and its interlinking with the Recovery Fund. The amount proposed is €1 100 billion for the next seven years.

Integrating the recovery plan into the MFF allows for rapid action, avoiding lengthy discussions regarding new instruments and the time needed to put them in place. It is a guarantee for countries reluctant to innovate legally under the pressure of events. The MFF allows the Commission to remain in control of how the funds are used.

A plan serving the Commission's priorities - As a result, the funds raised by the Commission will be redistributed to the Member States according to a structured plan. The Member States will have to submit investment and reform plans, which will be evaluated by the Commission and the other Member States via comitology.

These plans will have to be geared to the Commission's priorities: the Green Deal, the digital transition, the European Semester. From this point of view, the recovery instrument is built on the logic of the economic convergence programmes already provided for in the MFF and the draft budget for the euro zone.

Funds spread throughout the Union – The preparation of the recovery plan has often been presented as a debate between the North and the South of the Union. But while the Covid-19 pandemic has mainly affected the countries of the South, its economic consequences are being felt throughout the Union, in a differentiated manner depending on the region. The criteria for allocating recovery funds reflect this reality.

While the "Recovery and Resilience Facility", mainly comprising grants, will target Member States' long-term plans, the React-EU programme will focus on local needs, mainly in the form of loans, to provide short-term support to the sectors most affected by the crisis, such as tourism, culture, health and the fabric of small and medium-sized enterprises.

The criteria for the allocation of the additional funds for the regions would be based on indicators such as the level of unemployment or the deterioration of public finances in the long term.

Ambition and Balance – The Commission's plan takes up the Franco-German proposal for a €500 billion fund distributed in the form of grants, and goes further by adding €250 billion in available loans. It should therefore satisfy the Member States, who were calling for an effort commensurate with the crisis.

The States most reluctant to "give" money to the countries most in difficulty will be satisfied that the funds will be disbursed according to a precise framework, based on plans that are subject to criteria and evaluation.

The countries of central and eastern Europe, which may have feared a reorientation of the European budget towards southern Europe to their detriment, remain eligible for existing reinforced programmes, as well as new ones.

The European Parliament, which called for an effort of €2,000 billion, should also be satisfied with the Commission's proposal if it is not overly amended by the Member States.

The €750 billion recovery plan comes on top of a proposed MFF of €1,100 billion, the €100 billion SURE mechanism for short-time working, the €240 billion credit line from the European Stability Mechanism (ESM) to tackle the health crisis, the €200 billion in credit available through the European Investment Bank (EIB), and the €1,000 billion that the European Central Bank (ECB) plans to spend by the end of the year to support the economy. Taking into account the economic support measures decided by the Member States, now in excess of €3,000 billion, the Union will have decided to deploy almost €6,400 billion to address the crisis.

A plan operational in 2021 – Despite the urgency of the situation, the recovery fund will not be operational until 1 January 2021. The increased own resources ceiling, a sine qua non for the Commission to start borrowing, must be approved unanimously by the Council and then ratified by the Member States in accordance with their national procedures, mostly through parliamentary channels. The implementation of the plan is therefore not immune to national political uncertainties.

To remedy this, the Commission proposes a one-off increase in the current MFF, starting on 1 September and running until 31 December 2020, the end of the 2014-2020 MFF. This decision requires unanimity in the Council and the consent of the European Parliament.

A tight schedule – The European Council will discuss the Commission's proposal on 19 June, at a meeting which it is not certain can be held in Brussels because of the health measures still in place. A physical meeting between Heads of State and Government to conclude the negotiations would nevertheless seem essential.

It will be up to the President of the European Council, Charles Michel, to decide on the timetable with a view to reaching an agreement in time to implement the increase in the current MFF on 1 September and to launch the procedure for increasing the own resources ceiling.

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Publishing Director: Pascale JOANNIN

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