

#BSP_Paper April 2020

Priorities for the European Recovery Action Plan

Business & Science Poland represents interests of key industrial actors of Poland's economy. The following comments concern the unprecedented challenge imposed by the COVID-19 pandemic. Below we draw some early reflections and propose some specific actions required of the EU in order to lift the European economy from this emergency and the severe threat of the crisis.

The Single Market throughout its history endured many turbulences and economic cycles. However, never before have economic operators been impacted all at once, disregarding the geographies, wealth, currencies or sectors. The full scale of the damage might still not be fully evident and the impact might not be spread equally. However, it is already apparent that the extraordinary measures undertaken in order to save lives require equally unparalleled actions directed at saving the European economy.

The unprecedented scale of the challenge does not allow for 'business as usual' approach. We propose an orderly response based on three principles.

Firstly, the Recovery Action Plan must **unconditionally prioritise the economic recovery**.

Secondly, **it must establish the level-playing field framework which leaves no one behind**.

Thirdly, it should provide for a **far-sighted transformative but stable and realistic vision along with proper instruments to achieve it, including financial ones**.

The EU should focus on providing the tools for immediate recovery aimed at the protection of jobs, facilitation of investment and the return to stable activity. We note that **these actions are essential to European SMEs**. They are the foundation of the Single Market. They form the fundamental part of the supply and value chains and are the source of income for millions of Europeans.

In parallel, we call on the EU **not to overlook the condition of bigger European companies**. This is particularly true of the largest local employers in villages and small towns across the European Union, providing livelihood for multiple families and often entire regions. Any further deterioration of their financial outlooks endangers those communities and risks chain reactions for the entire supply chain, including the SMEs. Massive layoffs and big shocks for local employment markets and disruptions or shortages of supply chains are very real scenarios. The fact that the crisis hits multiple sectors across the entire European Union requires an immediate action.

The scale of available funding for the recovery will be crucial. The possibility of financing investments by industry has been drastically limited and for long it will remain a key detriment to building trust in the economy and the commercial stability. Therefore, we welcome the early announcements that there is no limit to financial support. We hope to see this confirmed in the re-prioritisation and adoption of the next Multiannual Financial Framework.

We appreciate the European Commission's easing of state aid rules and other temporary measures. We propose below some other areas of such actions. We note, however, that the role of the European Commission is to ensure that these measures are not exploited beyond the recovery needs and the different capacity of individual member states' budget resources does not lead to distortions. **The Single Market cannot function without a level playing field.**

Lastly, **determining the future of EU's ambitions related to carbon neutrality** is among **the most pertinent tasks of today**. The recovery plan must consider the fact that the increased European climate ambitions and accompanying financial tools are still under discussion and the full impact assessments have not been completed. Some of the questions, for example those regarding the protection from carbon leakage, distribution of efforts within and among ETS and non-ETS sectors, resilience and

acceptance of the consumers to bear transition costs have to be addressed before the risks behind them materialise.

The pandemic does not annul the global climate challenges. It adds, however, an additional angle to the assessment how to measure the ambitions against the new COVID-governed reality. It seriously weakens the ability of companies to finance necessary investment into R&D and new technologies that would enable the industry to reach the objectives of the Green Deal and carbon-neutrality. These raise serious questions about the ability of the EU industry to meet pre-crisis objectives. We also note that the epidemic has diverted companies' attention and financing from climate and environmental research projects to securing liquidity and financing of everyday operations. This situation requires an adaptation of the timeline of the Green Deal projects.

Business & Science Poland and its members remain committed to the effective and responsible green transformation. Yet, **the European Recovery Plan must not bring new commitments for businesses and citizens.** In fact, in times of rescue operations the opposite should be true. It must start with taking many burdens off the business' shoulders. Among them, an adaptation of the pace of work of all EU institutions will be the easiest to implement. The Green Deal is extremely ambitious even for times of prosperity. In times of crisis, a smart adaptation of plans is inevitable.

Specific policy proposals to be considered in the European Recovery Plan

The global context and the level playing field

- Investment in **creation of new markets** for sustainable products and services requires a forward-looking approach and **shielding from a market penetration by foreign competitors enjoying unfair advantages**, e.g. stemming from embedded state-capitalism and subsidisation (lessons should be learned from the solar panels case), dual-pricing of natural resources, such as gas, or from a different pace of the post-pandemic recovery
- **Reshoring**: the crisis has shown that **key assets are needed in the EU** - not only to save lives (e.g. copper, silver or special engineering plastics for medical equipment (such as ventilators), for the pharmaceutical industry or the critical infrastructure, but also to ensure an untroubled industrial supply chain (e.g. fuels and chemical products), including for green and digital transformation; reshoring will reinforce the European SMEs – it will further integrate them into the EU value chains
- **Food and water security**: the epidemic has also shown the crucial importance of securing food and agricultural production, including the entire agricultural supply chain (such as fertilizers and animal feed), as well as water (e.g. water treatment solutions and relevant inputs)
- We need **to protect the essential European assets** – we support a vigorous implementation of the investment screening mechanism by all Member States
- Equally, **we must ensure a level playing field within the EU** - temporary measures enabling increased and currently justified state intervention must be phased out in order to avoid long-lasting distortions of competition among the European companies; in particular, we must ensure that any public financing for technologies, research and implementation of the Green Deal does not lead to market distortions and preferential treatment for individual firms
- The promotion of the **pro-climate solutions implemented in the EU** should be **part of the EU trade policy**

- The European climate **regulatory burdens should be accompanied by a carefully designed and phased-in carbon adjustment mechanism** – even more importantly in circumstances of increased fragility of the EU industry. Otherwise, more carbon-intensive imports will push out the EU producers who bear the costs of green transformation.
- We must **enhance the European global competitiveness** by simplifying procedures, eliminating unnecessary tax burdens, red tape and by introducing smart regulations and solutions which will respect the European cultural and economic diversity while preserving solidarity in approach to global challenges.

The European Green Deal and energy transformation

- In the context of financing the European Green Deal more than ever we need to consider **various starting points** of different Member States in the climate and digital transformation, such as differences in available infrastructure or availability of conditions for renewable energy, augmented by the **additional obstacles resulting from the epidemic** and the **differences in consumers' purchasing power** as they are at the end of the value chain and will also have to carry a financial burden of implementing the new policies and technologies
- We must develop **mechanisms that will create demand for low-carbon products**. Without this, spending any amount of money on investment in transformation will not bring the expected results
- Further, we need to ensure that **distribution of efforts within specific sectors should be truly cost-effective and merit-based**. The ETS sectors are crucial to the functioning of the modern economies but must bear significantly higher costs of low-emission future than non-ETS sectors.

We see the most potential in the following initiatives enabling a sustainable recovery:

- **Supporting investments and public funding for renewable energy sources**, including for the direct industrial use
- Ensuring a **timely and efficient functioning of Innovation and Modernisation Funds**: the availability of sufficient financial resources as well as simplicity and transparency of procedures
- **Securing investments also for transition technologies** until break-through technologies are fully operational and can be scaled for usage
- **Development of sustainable fuels and energy** - in order to successfully achieve the goal of decarbonisation, EU funding should be provided for investments in installations supporting the production of, and access to, sustainable fuels and green energy, as well as access to sustainable feedstocks for sectors with significant emission-reduction potential (e.g. transportation, including aviation, ammonia and other chemicals); **no technology should be excluded a priori**
- Reform of the Single European Sky - critical situation of the European aviation is a good opportunity to rethink the concept of the air traffic management and to **remove the burdens and borders on the European sky** as they have been removed on the ground
- **Removal of free ETS allowances for the aviation sector** - this will ensure a fair share of the aviation industry in financing the innovative solutions reducing emissions. This is justified by a lack of risk of a carbon leakage in the aviation sector. In such a case there is no need to introduce an extra burden in form of an additional fuel taxation
- Investment in biogas as a fully sustainable and renewable source of energy

- Financial support for electrification of transportation hubs (e.g. harbours and airports) and industrial installations (e.g. ammonia plants)

Specific recommendations aimed at the immediate relief

- Ensuring that the **current decrease of production** and subsequent reductions in CO2 emissions connected to the COVID-19 outbreak **do not reduce the amount of free ETS allowances after 2020**; similarly, **ensuring a modification of 2020 as a baseline for a global carbon reduction system for international aviation (CORSA)** - otherwise the baseline would be abnormally low due to a plummet of emissions resulting from the COVID-19 pandemic.
- Ensuring the **flexibility of key regulatory deadlines related to climate policy**:
 - Best Available Technology (BAT) implementation – extension of deadlines is necessary due to uncertain status of ongoing investments in the low-emission energy sources to comply with the latest BAT conclusions
 - extension of the deadline for surrendering ETS allowances (expiring on 30 April)
- Restoring the **smooth functioning of the EU Single Market**, including the free cross-border movement of people and goods taking into account the coordinated approach to the risk assessment as described in the Exit Strategy
- Ensuring **financial liquidity** and operability of SME, especially those from the **transport sector** which is vital for maintaining the continuity of supplying the economy.

About BSP

Business and Science Poland (BSP) connects the experience of leading Polish enterprises with the EU agenda. We represent the knowledge and interests of successful entities which employ over 100 000 workers in Poland, the EU and globally. We are committed to advancing the values of the EU Common Market while acknowledging the need to transform it responsibly and effectively.