AK EUROPA

Position Paper
September 2023
EU General

Mid-term review of the EU Multiannual Financial Framework 2021-2027 and

Proposal for a Regulation on the Platform “Strategic Technologies for Europe” (STEP)

Executive Summary

Background

In the scope of the mid-term review of the EU Multiannual Financial Framework 2021-2027, AK sees the need for the following additions:

In the case of socially important programmes in particular, no increase in funding is foreseen, even though **many households at risk of poverty** are suffering from the multiple crises of high energy prices and high inflation. **AK therefore calls** for a **significant increase** in **funding for the European Social Fund** Plus, the Just Transition Fund and the Social Climate Fund.

AK Demands

- **AK welcomes** the proposed **STEP platform** in principle because it represents a departure from the economic philosophy pursued to date and promotes European value chains in conjunction with the goals of the Green Deal. AK also views it as positive that STEP addresses the **labour shortage and skills deficits** in these strategic sectors. AK calls for close involvement of the social partners in implementing the goals of STEP. In addition, there is a need for a clear funding catalogue that includes economic, environmental and social aspects.

- The **Common Agricultural Policy** is a major expenditure item in the Multiannual Financial Framework (MFF), but **is not mentioned** in the Communication despite the need for adjustments to its content. In AK's opinion, it is important to include genuine sustainability aspects, climate-relevant management requirements and effective distribution criteria in the first pillar and to strengthen the second pillar, especially the LEADER programme.

- AK is also in favour of making the granting of EU subsidies dependent on compliance with **labour and social standards** vis-à-vis employees.

- AK fundamentally **welcomes new sources of own resources**. However, AK rejects own resources that are supposed to reflect corporate profits on the basis of an indicator, because the funds for this continue to come from national budgets and not directly from corporate profits. Instead, AK is in favour of a separate **EU corporate tax surcharge**, which could benefit the EU budget. In principle, AK welcomes the **financial transaction tax** proposed in an European Parliament resolution of May 2023 and a d**igital services tax**. AK calls on the Council to quickly continue negotiations on the introduction of the new own resources. The Austrian federal government should take a leading role in this process and actively advocate the necessary decisions.

AK's position

An in-depth look at the position of AK

The European Union is currently grappling with a number of crises and challenges that also have a significant impact on the EU budget. An EU stimulus package, namely the NextGenerationEU programme, had already been put together during the planning of the Multiannual Financial Framework (MFF) 2021-2027 to support EU economies as they emerge from the pandemic through projects in the scope of the Green Deal. However, Russia's war of aggression on Ukraine, the energy crisis, the sharp rise in inflation and the associated increases in key interest rates also have a significant budgetary impact. That significantly increases the cost of the loans taken out to finance the NextGenerationEU programme.

In view of these challenges, the Commission is proposing several adjustments in the scope of the mid-term review of the Multiannual Financial Framework. This includes the creation of an instrument for the support and reconstruction of Ukraine amounting to 50 billion euro for the period 2024-2027, as well as a special instrument for the long-term financing of the NextGenerationEU growth package. In addition, in response to the US Anti-Inflation Act, a new platform will better link existing EU funding pools and an additional 10 billion euro will be used to promote strategic technologies. To protect external borders and implement the migration and asylum package, funding in this area is to be increased by 2 billion euro. The flexibility instrument set up for unforeseen expenditure is also to be increased by 3 billion euro because the existing funds have almost already been depleted.

Advancing a social Europe

Whilst an increase in funds is provided for in almost all the main categories of the EU budget, there are no increases in socially important programmes in particular, although low-income households are hit particularly hard by high energy prices and high inflation. This is precisely where specific measures are needed to support such households, combat energy poverty and prevent a two-tier energy society. It cannot be that only financially well-off and technically well-equipped households benefit from the energy transition and all other households have to bear the costs. Given the urgency of the problem, the Commission and the Member States should be required to develop a common approach that allows for a specific common understanding of the concept of energy poverty and the collection of statistical data, as well as to allocate appropriate resources for this purpose. According to the explanatory notes, the proposed increases are intended to help "maintain and strengthen the unique European social model". However, this objective is not reflected in the actual figures. The European Social Fund Plus, Just Transition Fund and Social Climate Fund are not to receive more funding under the mid-term review. This once again shows that the wrong priorities have been set in the EU budget. During adoption of the MFF 2021-2027 in 2020, it was already criticised that the resources of the European Social Fund Plus were de facto reduced instead of being increased.

In AK's opinion, there is an urgent need for a higher allocation of financial resources to funds with a social policy focus as part of the mid-term review. In the preparatory work for the next MFF, a stronger focus on a social Europe is essential. This must also be reflected in the allocated funds. In particular, households at risk of poverty must receive significantly higher support from EU funds given the multiple crises that they are currently facing.

Strategic Technologies for Europe Platform – STEP

The new STEP platform primarily targets investments in cutting-edge technologies (deep tech), digital technologies and environmentally-friendly technologies and biotechnologies in the European Union. It is intended to give the EU an edge over other economic regions in terms of critical and new technologies, together with the associated production.

In principle, the initiative to promote strategic technologies is to be welcomed. The EU economic policy pursued in recent decades has led to industry outsourcing its production to third countries – along with the associated technologies. This economic philosophy also means that the European Union has made itself dependent on third countries – which often have an authoritarian regime – in numerous sectors. AK therefore welcomes the departure from this approach to economic policy. In particular, AK takes positive note of the objective set out in Article 2 of the Regulation of combatting the shortage of manpower and skills in the field of these critical technologies.

In order for the decarbonisation of economic structures planned under the proposed regulation to succeed to a sufficient extent and in a timely manner, however, AK believes that an overall approach is needed that considers the economic, environmental and social effects of measures together.

In AK's view, close involvement of the social partners is necessary in implementing the goals of STEP. There is also a need for clear eligibility criteria when pursuing projects. AK wishes to emphasise that the criteria for subsidies for the transformation of production should include, in particular, social criteria (transformation plans of the companies with respect to training and qualification requirements and production methods, location guarantee and employment guarantee etc).

According to the Commission, funding for the new platform will come primarily through money from other funds such as the Cohesion Fund, InvestEU, the Recovery and Resilience Facility and the EU Defence Fund. In addition to the resources that will be reallocated from these funds, 10 billion euro will also come from an increase in the EU budget. The Commission hopes to use this money to leverage up to 160 billion euro in new investment under STEP.

Undoubtedly, the objectives pursued by the platform, as set out in Article 2, will require a large amount of funding. In AK's opinion, it would be helpful to link this issue to the rapid introduction of new own resources, which the European Commission has already proposed for 2020.

Lack of discussion on other expenditure items

The Commission also proposes, amongst other things, additional funding to support Ukraine, in the field of migration and border management and for the flexibility instrument for unforeseen expenses, such as disasters. AK recognises the need for that.

However, the proposal to introduce a new special instrument to help tackle increased financing costs for the NextGenerationEU programme is problematic. A study by the think tank Bruegel addresses the issue that failure to reach agreement on the special instrument could lead to reallocations of funds from other programmes, which are in the same expenditure heading as the item for funding NextGenerationEU. That would particularly affect the Erasmus Plus education programme and the European Social Fund Plus. AK strictly rejects such an approach and wishes to emphasise that these two funds must even be allocated more financial resources.

In general, AK believes that financing the social and environmental transformation under the Green Deal will not be possible without a massive expansion of the budgetary scope for public investment at all levels. Given that, AK renews its call for the introduction of a golden investment rule with a view to reviewing economic governance. In addition, AK argues for a new version of the Recovery and Resilience Facility with more flexible refinancing options.

The Commission communication does not mention the Common Agricultural Policy, although a large share of EU funds continues to flow into this area. AK emphasises that distribution policy adjustments are urgently needed in this field because large agricultural enterprises still receive the majority of budget funds. All reform approaches aimed at ensuring that the largest 20 percent of farms do not continue to receive 80 percent of EU funds under the first pillar have failed so far. A reform for true distributive justice is therefore urgently needed. In contrast to the second pillar, sustainability aspects unfortunately play only a subordinate role. In AK's opinion, a large part of the funds of the first pillar should be reallocated to the second pillar and LEADER should be strengthened, in order to be able to better finance social and health services and the expansion of childcare in rural regions, amongst other aims.

The enshrinement of social conditions in law should be expanded and be a prerequisite for receiving funding in the future in order to ensure that farms and all other companies only receive direct benefits if they simultaneously grant employees their minimum rights with regard to pay, working hours and health at work. AK calls for appropriate adjustments in this area.

Rapid reform of own resources needed

The revenue side of the MFF is reflected in a separate Commission Communication. It addresses those own resources that were already proposed as revenue options in December 2021, namely the Emissions Trading System, the Carbon Border Adjustment Mechanism and proportions of the residual profits of the largest multinational companies. What is new, however, is the proposal to raise own funds via a harmonised indicator based on the gross operating surpluses of companies.

According to the Commission's calculations, 30 percent of the revenues from the Emissions Trading System are to flow into the EU budget. For 2024, that would mean 7 billion euro, rising to 19 billion euro by 2028. From 2028, 75 percent of the revenue from the Carbon Border Adjustment Mechanism, i.e. 1.5 billion euro, is to flow into the EU budget. According to the Commission, the newly proposed indicator, which would indirectly tax corporate profits, could in turn generate 16 billion euro in own resources.

As noted in the September 2018 AK Position Paper on the EU Financial Framework 2021-2027, tax revenues from labour and consumption contribute disproportionately to the financing of the EU budget. New sources of own funds that reduce this imbalance are therefore to be welcomed. The model now chosen, which works on the basis of statistics or via an indicator and is supposed to depict corporate profits, will not help in eliminating the imbalance. These funds would still flow from national budgets and not come directly from taxed corporate profits. AK therefore rejects that approach and instead advocates a separate EU corporate tax surcharge that can benefit the EU budget without reducing the leeway for national taxation. The suggestion of the European Parliament in its resolution of May 2023 to introduce a financial transaction tax is to be welcomed and has been demanded by AK for years. AK is also fundamentally in favour of a digital services tax.

Like the Commission, AK calls on the Council to quickly continue negotiations on the introduction of new own resources. The Austrian federal government should take a leading role in this at the Council level and actively advocate the necessary decisions.

AK requests that the above comments be taken into consideration and will be happy to respond to any queries.

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About Us

The Austrian Federal Chamber of Labour (AK) is by law representing the interests of about 3.8 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore, the Austrian Federal Chamber of Labour is a part of the Austrian social partnership. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

The main objectives of the 1991 established AK EUROPA Office in Brussels are the representation of AK vis-à-vis the European Institutions and interest groups, the monitoring of EU policies and to transfer relevant Information from Brussels to Austria, as well as to lobby the in Austria developed expertise and positions of the Austrian Federal Chamber of Labour in Brussels