VITAL CONDITIONS TO SUPPORT BUSINESSES TOWARDS A STRONGER, FAIRER AND MORE SUSTAINABLE ECONOMY

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Public finance is a critical driver in the transition of our economies towards quality jobs, decarbonisation, circularity and delivering on widespread calls[1] for more investment, innovation and productivity. Public finance can foster green manufacturing, support innovative start-ups, and facilitate the transformation of industry and its supply chain. Investing in quality education, health and care and other public services are investments in the EU's future economic health (see Enrico Letta's report). Public support can promote green businesses, create quality jobs, and deliver sustainable infrastructure, products and services. However, without a harmonised set of minimum conditions across all Member States, companies will continue subsidy-shopping, which increases the cost of industrial policy, undermines the Single Market and increases divergence between member states. Social conditions also limit the asymmetry between socialisation of risk and privatisation of profits - which derisking tools exacerbate, with profound distributional consequences. This would also help avoid different conditions applying whether the funds are EU

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[1] Many prominent economists and organisations have called for significantly greater public investments across the EU, including Mario Draghi, Enrico Letta, the European Central Bank, Bruegel, and others.

funds or national. Crucially, such Europe-wide conditions would also increase predictability and simplification for companies.

The announcement of a forthcoming **Clean Industrial Deal and a competitiveness fund** are major opportunities to help shape economies that are greener, more inclusive and more resilient - which will also make them more competitive globally.

However, by 2027, the eurozone is projected to borrow only about half as much, in terms of percent of GDP, as other G20 nations, and less than a fifth of what China is expected to borrow. The USA is anticipated to maintain a deficit consistently above 3% of GDP from 2023 to 2027. Moreover, there are significant disparities between member states and their capacity to utilise public finance to support the transformation, notably due to agreed EU fiscal rules.

Therefore, Mario Draghi is right to call for a European approach and a significant increase in public investment. Importantly, however, to achieve more with less and minimise the potential for rent-seeking behaviour[2], public funding to private companies should include appropriate conditions. Conditions and performance goals were important elements in East Asian governments' industrial policies in the second half of the 20th century, while the USA's Inflation Reduction Act and Chips and Science Act[3] included conditions to provide a certain level of apprenticeships and sharing of excessive profits. The IRA contributed to creating an average of nearly 1 million jobs a year. China has captured significant market-share across green and digital sectors.

Public funds to support or procure goods or services from companies - whether through state aid, public procurement or other transfers and whether through national or EU funds - should be tied to clear additional tangible benefits for people, workers and the environment. Subsidies-shopping by large companies operating in several member states undermines the level-playing field, raises the cost of industrial policy for each member state and increases divergence of economic performance between member states. A number of Europe-wide minimal harmonised conditions would establish a level-playing field between member states.

Linking public support to social and environmental conditions

We are calling to streamline core social and environmental conditions across sectors and tools. The integration of environmental protection requirements and the promotion of a high level of employment, adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health in the EU policies and activities are enshrined in the EU Treaties (articles 9 and 11 TFEU). That principle should now be operationalised and applied transversally for the different legal tools (public procurement, state aid, etc.). Member states should agree on **a minimal set of pre-conditions** that should apply whether the funds come from national budgets, EU funds, tools regulated via EU laws such as public procurements, state aid, tax benefits, export credit and any other tool to de-risk private investments. This could

[2] Rent-seeking activities aim to obtain financial gains and benefits through the manipulation of the distribution of economic resources and/or government policy resulting in unproductive investments. Economists view such activities as detrimental to the economy and society. The practice results in inefficient allocation of resources.

[3] The Inflation Reduction Act will see $900 to $1,200 billion invested cumulatively by 2031. The IRA has had a real impact on the economy with a doubling of real manufacturing construction spending by mid 2023 compared to the end of 2021.

take the form of a Council Recommendation as far as national budgets are concerned, and transversal EU legislation as far as EU tools are concerned. These conditions need to **go beyond the respect of existing legislation**[4] and must also **apply to sub-contractors**. On top of full respect for existing environmental and social legislation, the following conditions should become the minimum criteria to be eligible for public support:

- Strict respect for the **do no significant harm (DNSH)** principle and implementing guidelines or criteria;
- Existence of a publicly available **transformation plan at installation-level** (as already required under the Industrial Emissions Directive), to increase energy and resources efficiency and shift processes towards phasing out fossil fuels, including through a switch to renewable energy sources as a priority;
- Compliance with **minimum social and labour standards** (as is already the case to benefit from the subsidies of the Common Agriculture Policy), in particular:
    - Companies engage in **collective bargaining** and respect collective agreements;
    - Companies support **upskilling and reskilling** of workers;
- Companies do not relocate their activities to third countries with lower standards, including for reasons of tax avoidance and evasion.
- All multinational corporations should evidence **responsible tax behaviour**[5] and should publish a full public country by country report annually, at least as comprehensive as the Global Reporting Initiative reporting template.

Depending on the type of instruments (equity, loan, grant, etc), governance structure and goal at stake, **complementary incentives** should be introduced such as giving priority access[6] and/or financial bonuses when additional criteria are being met. Below are several examples of such criteria:

- Ensuring the creation of quality permanent jobs with fair wages and working conditions;
- Prioritising local quality job creation and/or creating spillover benefits in certain areas/regions lagging behind, such as supporting local supply chains and component manufacturing;
- Provisioning of affordable quality childcare (as suggested in Mario Draghi's Competitiveness report);
- The inclusion of targets promoting reduce, reuse, repair, recycle activities and the use of secondary materials;
- Targeting support to social enterprises and other social economy actors, such as cooperatives and energy communities;
- Creating quality apprenticeships and investing in training and lifelong learning;
- Employing people facing discrimination on the labour market (e.g.long-term unemployed, persons with disabilities, ethnic or racialized communities);
- Reinvesting profits into productive activity such as R&D/innovation;
- Fair benefit-sharing with local communities, such as in renewable energy projects;

[4] Which notably includes equal pay for equal work between men and women (Directive (EU) 2023/970), respect for adequate minimum wages backed with collective bargaining (Directive 2022/2041), as well as the EU Charter of fundamental rights.

[5] For example, exclude companies headquartered or with a subsidiary in tax havens.

[6] Priority access would mean extra score in the consideration of receiving subsidies from national and EU funds or receiving public procurement contracts.

- Include minimum service requirements and/or commitments to affordability of products and services.

Finally, the EU could consider developing a **profit sharing mechanism** in case of excess profits by firms benefiting from public support - similar to the requirements included in the US Chips and Science Act. The US Chips and Science Act includes a requirement to share excess profits with the government. Moreover, when EU funds, national governments, the European Investment Bank and National Public Banks undertake equity investing, clear profit sharing agreements should be reached. While a company receives public funds**, a temporary ban or limits on dividend payments and/or share-buy backs** should be considered when certain conditions are met, which would help ensure that profits are reinvested in the company's operations, innovation, and benefit workers[7].

Measurable performance criteria for monitoring & evaluation

The Letta Report "*Much more than a market*" recognizes that "*conditionalities must be operational, measurable, verifiable, and enforce consequences in instances of non-compliance*". Monitoring for the respect of the conditions needs to be carried ex-ante and ex-post.

Ex-ante checks should be based on tools that lighten the administrative burden on contracting/awarding authorities. Shared user-friendly tools should be put in place at EU level to ensure transparency of recipients of state aid, other public subsidies or companies awarded public procurement contracts.

The transition plans under the Corporate Sustainability Due Diligence Directive and under the Corporate Sustainability Reporting Directive will provide useful information to assess whether some of the above-mentioned conditions are met. Enforceable decisions having identified the violation of a set of workers' rights will also have to be duly taken into account.

We call for effective enforcement and control mechanisms to be introduced for violations, including complaint possibilities and effective and dissuasive sanctions. Ex-post monitoring should notably include an alert mechanism with the possibility for the trade unions active in the company to raise a complaint in case the social or environmental conditionalities are not being respected. In case of public subsidies/state aid or other form of public funding support to companies, enforceable decisions having identified the violation of social, environmental or taxation laws should lead to the partial deduction or total compensation of received public funding.

Public authorities overseeing the use of public funds and the enforcement of tax, social security, environmental, and social conditionalities must be strengthened with sufficient qualified staff and resources.

[7] For example, the Temporary Crisis Framework, para 77 stipulated the condition that as long as the COVID-19 recapitalisation measures have not been fully redeemed, beneficiaries cannot make dividend payments, nor non-mandatory coupon payments, nor buy back shares, other than in relation to the State. Examples are State aid decisions for the recapitalisation of Air France, KLM and Lufthansa.

First signatories:

CEE Bankwatch Network
Climate Action Network (CAN) Europe
Counterbalance
The European Federation of Public Service Unions (EPSU)
European Trade Union Confederation (ETUC)
Finance Watch
FiscalMatters
New Economics Foundation (NEF)
Reuse and Recycling European Union Social Enterprises (RREUSE)
Social Platform
Transport & Environment