

## ETUC Proposal for a SURE 2.0

ETUC Resolution adopted at the Executive Committee Meeting of 27-28 October 2022

### **IN A NUTSHELL**

*The ETUC proposes to refinance and scale up the current SURE instrument in the following manner:*

- *Its scope widened to include just transition measures and anti-poverty measures, and to address the economic and social consequences of the war in Ukraine;*
- *Its financial capacity capped at a total of 300 billion euro;*
- *Its functioning would ensure progress under the ESPR and the Porto Headline Targets, while supporting the implementation of the SDGs of the UN2030 Agenda; and*

*It would empower the social partners, due to a mandatory, and result-oriented, consultation phase prior to requesting loans to the European Commission.*

### **A WIDELY AGREED SCENARIO**

**We are experiencing a new economic crisis that is threatening the unity of the EU socio-economic fabric.** The conflict in Ukraine is exacerbating difficulties caused by external factors beyond the control of the EU or its member states. The disruption of supply chains and higher inflation, already visible in the steep increase in energy and food prices, leads the ETUC to expect that the economic and social impact of the conflict could be deeper than expected. In particular, loss in purchasing power and energy poverty are becoming a significant social emergency (especially in low-income households) that needs to be urgently addressed.

**The war is fragmenting the economic system of the EU;** the summer economic forecast of the European Commission gives evidence of very low economic growth, high risks of stagflation, loss of worked hours. Participation of vulnerable groups in the labour market has decreased and material deprivation in households has increased, especially in those households that are exposed to wide fluctuations of energy prices.

**A substantial fall in confidence in the future of businesses and households anticipates a worsening of the economic outlook.** The EU risks an economic recession unless: investments continue to be financed; job creation is enhanced; and purchasing power of households protected. While a reinforced RRF will continue to finance investments for the green and digital transitions, the SURE instrument has already committed all its available resources to jobs and income protection, resulting in some new submissions of Member States not being fulfilled.

Yet, the risk is that scarcity of commodities, high energy prices, and tighter credit standards erode margins for new private investments, let alone measures accompanying labour transitions. Without measures for a just transition, there is a risk of a paradoxical situation where labour market tightening coincides with raising and persistent unemployment of vulnerable groups.

**High social risks are already putting an exceptional strain on national budgets, destabilising the Euro area and the overall EU economy.** The ETUC observatory confirms a spike in governments' expenditure for measures aimed at mitigating the

impact of soaring energy and food prices. However, large disparities exist among the spending capacities of member states and the effective design of such measures.

**In order to mitigate social risks, the implementation of the RRF, as updated by the RePowerEU, needs to be coupled with tangible and tailored measures for just transition.** While employment risks are not new, areas of risk are now identified in housing costs, transport costs, especially connecting urban and rural areas, and costs related to access to health care and social protection. We have reason to believe that there will be an increased divide across society and regions of the EU, and these will relate to employment, just transition and energy poverty together.

### **POLICY TOOLS**

The EU and its member states are facing severe difficulties that reduce the potential to achieve the social objectives. They have already converged on the necessity to promptly mitigate the adverse consequences of the war, recognising the grave economic and social situation. For this reason, the ETUC demands urgent measures, including the **refinancing and upscaling of the SURE instrument**, to reinforce the EU's overall economic and social resilience.

The **European Pillar of Social Rights** should shape the policy response to the challenges identified above. It is worth mentioning that principle 20 includes energy among the essential services that everyone is entitled to access. Progress toward the **Headline targets adopted in Porto** (about employment, education and training, and fight against poverty) will be used to measure the impact of the policy response put in place. The **UN 2030 Agenda** works as a compass for policy makers, especially when adopting a SDG8-centred approach.

The **RePowerEU programme** states that during the transition, the fast decoupling from Russian energy imports can lead to higher and more volatile energy prices. RePowerEU also affirms that the existing EU legal framework already allows Member States to request solidarity measures from their neighbouring countries, in the event of an extreme crisis. Solidarity measures are meant to be a last resort, in the event of an extreme gas shortage, to ensure supply to households, district heating systems and basic social facilities in the affected countries. It appears therefore justified that additional resources could be allocated to **EU instruments to finance just transition measures that support employment and fight against poverty.**

The Spring package of the **European Semester 2022**, including implementation of the **RRF**, raises concerns about the economic cycle and affirms that fiscal policy is needed to mitigate the impact of rising energy prices, particularly for vulnerable households, being mindful of the measures' potential impact on inflation. Moreover, the **Employment guidelines** call for support of the restructuring processes, on top of preserving employment, which is the logic of a just transition.

National plans, such as the **National Recovery and Resilience Plans** and **National Energy and Climate Plans**, identify just transition measures and answers to labour market disruptions measures to protect households against energy poverty.

It is time to demonstrate that the EU's response is able to counteract the economic and social consequences of the war and contrast all external factors that are threatening the economic stability of the EU. **The above-mentioned measures address many of the existing and future issues, however, they cannot guarantee a sufficient and homogeneous response to the social emergencies**, which are expected to exacerbate further towards the end of this year. In order to implement a sound policy response to these challenges, and to provide support to the Member States mostly in need, **an upscaling of the current SURE instrument should be considered.** This should have a **wider scope** that covers not only employment protection but also the just transition measures and the fight against energy poverty.

## **TOWARD A SURE 2.0**

Having regard of the emergencies and difficulties described above, the ETUC proposes to **refinance and scale up the existing SURE instrument** along the lines drafted in this document. All aspects that are not treated herein should remain unchanged from the current SURE Regulation.

Article 122 of the TFEU includes the conditions for which action can be taken. The ETUC calls for decisions on the appropriate measures to face the economic emergency, acknowledging that **severe difficulties** are arising in the supply of certain products, and notably in the area of energy. The **exceptional circumstances beyond the control of member states** described above suggest that **financial assistance to the Member States** should be activated to give material leeway to the spirit of genuine European solidarity experienced during the pandemic and as enshrined in the EU's fundamental law. Such financial assistance, as foreseen in the current treaties, is necessary to **give stability to the EU economic and monetary situation**. It will aid **economic convergence** and preserve **cohesion**, now that the economic consequences of the war in Ukraine are putting at risk the EU's social cohesion and the unity of its economy.

**Confirming its legal basis in article 122 of the TFEU, SURE 2.0 should pursue the two-fold objective of achieving financial stability and ensuring social justice.** Evidence shows that Member States are differently exposed, hence a call for EU solidarity. Some member states have limited response capacities, and this leads to unjustified gaps amid European workers and households. The ETUC considers that the **system of guarantees released by member states, backing the issuing of EU-bonds** as under the current SURE, should be confirmed and adapted to the extended objectives and scope of the new circumstances. The **reallocation of unspent resources under the RRF**, which amount to more than €200 billion of non-requested loans, could also be used to refinance the SURE mechanism.

While SURE was intended to finance short-time work schemes and similar measures, **SURE 2.0 should evolve into a financial instrument to stabilise government expenditure and provide employment protection, job creation, support to just transition processes, and eradication of poverty.** The size of SURE 2.0 should be proportionate to the impact that the war is having on the EU economy. In the ETUC view SURE 2.0 should be equipped with a **lending capacity of 300 billion euros**, under the same financial scheme adopted for the original SURE. This amount is calculated as the financing capacity that would allow an upscaled SURE to cope with accelerated labour and social transitions; and to offset the governments' expenditure gap stemming from the tightening of fiscal positions caused by economic hardship.

The **SURE 2.0 instrument should be better aligned to the EU objectives in the sustainability and social dimension, as defined by the EPSR Action Plan, including the Headline Targets** on employment, education/training and poverty, which were agreed in Porto. This is even more justified if the EU will gather resources from the financial markets by issuing social bonds.

In that regard, **the European Commission should** issue guidelines that instruct member states to provide all elements needed to **evaluate the impact of measures for which financial assistance is requested**. National submissions under the SURE 2.0 instrument should describe how such measures are going to provide a substantial contribution to the implementation of the principles of the EPSR and to Porto's headline targets. Finally, member states should be asked to **report on how measures financed under the SURE align with the UN 2030 Agenda**.

The solidarity dimension of the SURE 2.0 instrument should take into consideration the following: certain **countries**, as in Central-Eastern Europe, are **more exposed to economic turmoil and have reduced capacity** to design an appropriate policy response; **low-income households** are particularly exposed to energy poverty and

raising food prices; and **all workers regardless their status should receive support**, with a particular focus on those in a vulnerable situation.

### **FACTORS FOR THE SUCCESS OF SURE 2.0**

**A structured consultation with social partners:** Loans under SURE 2.0 should be accessible only after consultation with the national social partners. National submissions requesting access to loans under SURE 2.0 should include a paragraph reporting the result of the consultation with the social partners.

**Dialogue between social partners and governments** can ensure that financial flows activated under SURE 2.0 are aligned to sustainability and social criteria, especially under the EPSR, and that national measures financed under the SURE 2.0 instrument contribute to the achievement of Porto's headline targets.

**Social partners should also be consulted to preserve the integrity of the instrument and ensure that its implementation is fully in line with the rule of law.**

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### **ANNEX**

The financing mechanism of the current SURE expresses tangible solidarity between member states, this should be kept and eventually adapted to the new circumstances. In particular, some innovative options may be further assessed to increase the guarantees behind the issuing of EU social bonds financing the SURE 2.0, namely:

- Renewing the guarantees offered by member states replicating the current financial architecture of the SURE instrument and subscribing new guarantees using the same key of the current SURE Regulation.
- Reallocating all or part of the €225 billion available in the RRF as non-requested loans.
- Mobilising part of the MFF, to back the EU bonds.
- Allocating to the SURE instrument (under the form of guarantee) new and additional tax revenues generated by taxing excessive profits through a coordinated action of member states.
- Mobilising resources available in the European Stability Mechanism (never used) to be transferred to the SURE + absorbing the InvestEU part under the social flagship.
- Finally, a mechanism could be introduced to increase guarantees to member states that actually use the SURE instrument to avoid "moral hazard" behaviours, in a way that countries that do not use the SURE 2.0 instrument will be less exposed in terms of guarantees.