BRUSSELS I 27 JULY 2020

European Leaders Agree EU Recovery Plan & 2021- 2027 Budget

At the Special European Council meeting which took place from 17 – 21 July, EU leaders reached an historic agreement after marathon negotiations on the EU recovery package proposal to "repair and prepare" the European Union following the impact of the coronavirus crisis on the EU economy and to agree on the EU budget for 2021 - 2027.

Leaders agreed to a new recovery instrument, the "Next Generation EU", a one-off recovery measure to be embedded within the EU budget for 2021 – 2027. 750 Billion Euros will be raised by the Next Generation EU recovery instrument, by lifting the ceiling on own borrowing on the open market, with 390 billion to be raised in grants and 360 billion in loans, which will be anchored in "*solid governance*". The Recovery fund is intended to support Member State investments and reforms, incentivise private investment and strengthen EU healthy security and prepare for future crises. The fund will invest in programmes that align with EU policy priorities, in particular the European Green Deal, in circular economy and renewable energy projects, as well as in projects that strengthen the Single Market and the EU's digital and technological presence.

An amount of 1,074 billion euros was agreed by European leaders for the MFF 2021 – 2027 budget, with 30% of the Recovery Fund and the MFF to be invested in programmes fighting climbing change, although President Von der Leyen noted that "regrettable" adjustments had been made by leaders to the proposed MFF and Next Generation EU recovery instrument, *"for example in health, migration, external action and InvestEU; they have not taken up the Solvency Instrument".* Council President Charles Michel said of the adjustments "*Looking at the MFF and the Recovery Fund together and comparing them with the current situation, we can see that in each case additional funding will be mobilised in the various areas such as digital, Horizon Europe and Erasmus. And we also propose to establish a special Brexit reserve, because we are mindful that in any scenario, with or without a deal, we will need to support the countries and sectors most directly affected by the economic consequences of Brexit."*

The EU Parliament held an Extraordinary Plenary on 23 July and passed a resolution deploring the significant cuts made to the grants component of the Recovery Fund and the flagship EU programmes. Parliament also stated it *"strongly regrets that the European Council significantly weakened the efforts of the Commission and Parliament to uphold the rule of law, fundamental rights and democracy in the framework of the MFF and the recovery plan".*

The Parliament has a final say on the agreement, and has stated MEPs are "prepared to withhold their consent" unless an agreement can be reached between Council and Parliament. It is hoped an agreement can be reached by the end of October so as not to impact on EU programmes in 2021.

2. OECD International Digital Tax Progress Update

The OECD held a Tax Talks Webcast on 22 July to discuss progress on the Inclusive Framework project on taxation of the digitalising economy, the OECD Model Rules for Reporting by Platform Operators, the recently released Corporate Tax Statistics report and other recent tax developments.

The OECD G20 Report sets out that progress has been made on developing technical and policy solutions to the working blocks for agreeing tax allocations rights under Pillar 1, notwithstanding the political uncertainty surrounding agreeing a solution for taxation of the digital economy. Additionally, the report details that some countries are of the view that an agreement on global minimum effective taxation under Pillar 2 could already be reached and implemented independently of Pillar 1. The report indicates that efforts will be focused on resolving the divergent views in the coming months, and that *"the technical development should be advanced enough to allow key political decisions to be taken on both pillars in October 2020".*

However, Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, in his presentation during the Tax Talks Webcast stated that although blueprints will be presented to the Inclusive Framework at its Plenary Meeting in October 2020, interested parties needed to be "realistic", saying that *"As much as we welcome the G20 telling us that they hope to have an agreement by year-end, and they aim to have an agreement by year-end, we have to recognize there are a number of pending issues, including how broadly Pillar One will apply."*

Once the blueprints are published in October, a consultation inviting stakeholders to comment on the blueprints will take place.

3. EU Carbon Border Adjustment Mechanism Consultation

Following on from an inception impact assessment published in March as part of its work to progress the EU Green Deal, the EU has now launched a public consultation concerning the Carbon Border Adjustment Mechanism. The Mechanism will aim to prevent carbon leakage caused by offshore production and carbon intensive imports, to ensure import prices reflect their carbon footprint, in order to achieve EU climate goals. In addition, technical consultations with specialised stakeholders and an impact assessment will be carried out by the Commission.

The consultation sets out that a *"Carbon Border Adjustment Mechanism (CBAM) would ensure that the price of imports reflects more accurately their carbon content. This measure will be designed to comply with World Trade Organization rules and other international obligations of the EU. This measure would be an alternative to the current free allocation of allowances or compensation for the increase in electricity costs that address the risk of* *carbon leakage, because of carbon pricing in the EU's Emissions Trading System (ETS)."* The consultation will run until 28 October and input can be provided via the European Commission's Have Your Say webpage.

4. EU Energy Taxation Directive Consultation

The European Commission has launched an online public consultation concerning changes to the Energy Taxation Directive. This follows from an inception impact assessment published earlier in the year which set out that a legislative proposal is planned for June 2021, which will aim to align the *"taxation of energy products and electricity with EU energy and climate policies"* and to update *"the scope and structure of rates as well as …use of optional tax exemptions and reductions by Member States".*

The consultation background document sets out that since the adoption of the Energy Taxation Directive in 2003 energy markets and technologies have experienced significant developments and the EU's international commitments have evolved considerably. It discusses an evaluation published in September 2019, that concluded: *"The wide range of exemptions and reductions de facto, favours the consumption of fossil fuel, the Directive does not adequately promote greenhouse gas emission reductions, energy efficiency, or alternative fuels (hydrogen, synthetic fuels, e-fuels, advanced biofuels, electricity, etc. and the ETD does not achieve anymore its primary objective in relation to the proper functioning of the internal market."* The consultation will run until 14 October and input can be provided via the European Commission's Have Your Say webpage.

5. Country Specific European Semester 2020 Recommendations Adopted

The EU Council on 20 July adopted country specific recommendations for the 2020 European Semester. Recommendations are provided for all Member States as well as the United Kingdom, as per the conditions of the Withdrawal Agreement during the transition period.

The Council states that the recommendations were intended to account for the conditions of the COVID-19 pandemic, and in the short-term to mitigate the consequences of the outbreak, in particular to *"invest in access, effectiveness and resilience of health care; preserve employment and address the social impact of the crisis; focus on research and development; ensure liquidity provisions and the stability of the financial sector; preserve the single market and the circulation of goods and services…In the medium-term, the focus lies on achieving sustainable and inclusive growth while also contributing to the green and digital transition."*

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