COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.11.2008
COM(2008) 800

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL

A European Economic Recovery Plan

EN EN

The time to act is now

The real test for European governments and institutions comes when faced with the most difficult of circumstances. At such times, they need to show imagination; they need to show determination; and they need to show flexibility. They need to show that they are in tune with the needs of families and communities across the European Union, that they are equal to the task of finding the right response to the sudden downturn in the prospects for growth and jobs in Europe.

Europe will above all be judged on results. Since this Commission took office, it has put the spotlight on the European Union's ability to deliver results for its citizens. It has targeted action on areas which will have an impact on Europeans in every corner of the EU. It has championed a partnership approach to work with the key players at every level. It has made clear that the job is not done until the impact is felt on the ground.

The current economic crisis gives another opportunity to show that Europe serves its citizens best when it makes concrete action the touchstone. Europe can make the difference.

In difficult times, the temptation is to feel powerless. But Europe is not powerless. The levers of government, the instruments of the European Union, the influence of intelligent coordination add up to a potent force to arrest the trend towards a deeper recession. A Europe ready to take swift, bold, ambitious and well-targeted action will be a Europe able to put the brakes on the downturn and begin to turn the tide. We sink or swim together.

The particular contribution of the European Union is its ability to help partners work together. Harnessing Member States' and Community action will add up to a powerful lever for change. It will open the door to using the strengths of each part of Europe to best effect. It will allow us to shape the global response to this global crisis.

A month ago, the Commission took the initiative to set out how decisive and coordinated action could respond to the economic crisis. I am pleased to see that as national governments work to address their own situations, they have been inspired by the common principles agreed for European action. Today the Commission strengthens this platform for joint action with a Plan to contain the scale of the downturn and to stimulate demand and confidence, saving hundreds of thousands of jobs and keeping large and small businesses at work while waiting for growth to return.

The ***European Economic Recovery Plan*** *has two key pillars, and one underlying principle:*

- *The first pillar is a major injection of purchasing power into the economy, to boost demand and stimulate confidence. The Commission is proposing that, as a matter of urgency, Member States and the EU agree to an immediate budgetary impulse amounting to €200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact.*

- *The second pillar rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term. The Plan sets out a comprehensive programme to direct action to "smart" investment. Smart investment means investing in the right skills for tomorrow's needs; investing in energy efficiency to create jobs and save energy; investing in clean technologies to boost sectors like construction and automobiles in the low-carbon markets of the future; and investing in infrastructure and inter-connection to promote efficiency and innovation.*

At the same time, the ten Actions for Recovery included in the Plan will help Member States to put the right social and economic levers in place to meet today's challenge: to open up new finance for SMEs, cut administrative burdens and kick-start investment to modernise infrastructure. It will drive a competitive Europe ready for the low-carbon economy.

- *The fundamental principle of this Plan is solidarity and social justice. In times of hardship, our action must be geared to help those most in need. To work to protect jobs through action on social charges. To immediately address the long-term job prospects of those losing their jobs, through the European Globalisation Adjustment Fund and an accelerated European Social Fund. To cut energy costs for the vulnerable through targeted energy efficiency. To address the needs of those who cannot yet use the internet as a tool to connect.*

I am convinced that at times of crisis, opportunities open up to accelerate change and to introduce structural reforms to make us succeed in the globalised economy of the future. This is a great opportunity for Europe.

A comprehensive and ambitious recovery plan is now on the table. The quicker we make it happen, the sooner we will bring the help needed to Europeans today.

José Manuel Durão Barroso

Brussels, 26th November 2008

1. INTRODUCTION

The global financial crisis has hit the EU hard. A squeeze on credit, falls in house prices and tumbling stock markets are all reinforcing a slump in consumer confidence, consumption and investment. Households are under real pressure. Businesses' order books are down. Sectors dependent on consumer credit – like private construction and the automobile industry – have seen their markets sharply deteriorate in many Member States.

The latest economic forecasts painted a bleak picture of close to zero growth and risks of contraction for the EU economy in 2009, with unemployment rising by some 2.7 million in the next two years, on the assumption that no corrective action is taken. In the weeks since the forecasts came out, economic conditions have deteriorated further:

- Financial market conditions remain fragile, and are likely to be tighter for longer than expected;
- Confidence amongst households and firms has fallen much lower than expected;
- The slowdown has spread to emerging economies with negative effects for European exports.

The euro area and several Member States are already in recession. The risk is that this situation will worsen still further: that investment and consumer purchases will be put off, sparking a vicious cycle of falling demand, downsized business plans, reduced innovation, and job cuts. This could push the EU into a deep and longer-lasting recession: the economy contracting further next year, and unemployment could rise by several million people.

Quick and decisive action is needed to stop this downward spiral. Europe must use all the tools at its disposal. This means Member States and the Union working together, coordinating inside Europe and feeding into a larger global response. In tackling the financial crisis, the Union made sure that the EU level and national action worked together. This was successful in bringing stability at a time of immediate danger. Now Member States should again take advantage of the strengths of the EU – effective coordination, credible frameworks offered by the Stability and Growth Pact and the Lisbon Strategy, as well as the benefits of scale offered by the euro and the largest single market in the world. The interplay of national and EU action can help all Member States weather the worst of the global economic storms and emerge stronger from the crisis.

The euro, in particular, has proved to be an invaluable asset for the EU economies and an essential element of stability. Supported by the strong role played by the independent European Central Bank, the euro protects against destabilising exchange rate movements, which would have greatly complicated the national responses to the crisis.

A month ago, the Commission took the initiative to outline its plans for dealing with the financial crisis, addressing the difficulties of the wider economy and making Europe a key player in the global response to the financial crisis[1]. In early November, the EU's Heads of State and Government agreed on the need for a coordinated response and asked the Commission to make proposals for discussion at their December meeting.

[1] Communication of 29 October - COM(2008) 706.

A European Economic Recovery Plan

This **European Economic Recovery Plan** is the Commission's response to the current economic situation. Given the scale of the crisis we are facing, the EU needs a co-ordinated approach, big enough and ambitious enough to restore consumer and business confidence. It needs to bring together all the policy levers available at EU and national level. Most of the economic policy levers, and in particular those which can stimulate consumer demand in the short term, are in the hands of the Member States. Member States have very different starting points in terms of fiscal room for manoeuvre. But that makes effective coordination all the more important.

All Member States will need to take action to deal with the crisis. Properly coordinated, national efforts can target different goals in parallel. They can cushion the blow of recession in the short term. But they can also promote the structural reforms needed to help the EU emerge stronger from the crisis, without undermining longer term fiscal sustainability. For this reason, this Recovery Plan puts particular emphasis on innovation and greening of EU investment. The EU level can act as a catalyst for such "smart action", combining EU policies and funds to help Member States maintain or pull forward investments which will create jobs, boost demand, and strengthen Europe's capacity to benefit from globalisation.

The strategic aims of the Recovery Plan are to:

– Swiftly stimulate demand and boost consumer confidence;

– Lessen the human cost of the economic downturn and its impact on the most vulnerable. Many workers and their families are or will be hit by the crisis. Action can be taken to help stem the loss of jobs; and then to help people return rapidly to the labour market, rather than face long-term unemployment;

– Help Europe to prepare to take advantage when growth returns so that the European economy is in tune with the demands of competitiveness and the needs of the future, as outlined in the Lisbon Strategy for Growth and Jobs. That means pursuing the necessary structural reforms, supporting innovation, and building a knowledge economy;

– Speed up the shift towards a low carbon economy. This will leave Europe well placed to apply its strategy for limiting climate change and promoting energy security: a strategy which will encourage new technologies, create new 'green-collar' jobs and open up new opportunities in fast growing world markets, will keep energy bills for citizens and businesses in check, and will reduce Europe's dependence on foreign energy.

In pursuing these aims, the European Economic Recovery Plan is designed to:

– Exploit synergies and avoid negative spill-over effects through co-ordinated action;

– Draw on all available policy levers, fiscal policies, structural and financial market reforms and external action;

– Ensure full coherence between immediate actions and the EU's medium- to longer term objectives;

– Take full account of the global nature of the problem and shape the EU's contribution to international responses.

This European Economic Recovery Plan proposes a counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the real economy. The aim is to avoid a deep recession. The Plan is anchored in the Stability and Growth Pact and the Lisbon Strategy for Growth and Jobs. It consists of:

- An immediate budgetary impulse amounting to € 200 bn (1.5 % of EU GDP), made up of a budgetary expansion by Member States of € 170 bn (around 1.2% of EU GDP), and EU funding in support of immediate actions of the order of € 30 bn (around 0.3 % of EU GDP);

- And a number of priority actions, grounded in the Lisbon Strategy, and designed at the same time to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth.

2. SUPPORTING THE REAL ECONOMY AND BOOSTING CONFIDENCE

As the economies of all Member States are highly integrated, sharing one single market and many common policies, any response must combine monetary and credit aspects, budgetary policy, and actions in the Lisbon strategy for growth and jobs.

2.1. Monetary and credit conditions.

2.1.1. The role of the European Central Bank and other central banks

In the current juncture, monetary policy has a crucial role to play. In the light of reduced inflationary expectation over the medium-term, the European Central Bank (ECB) for the euro area, along with other EU central banks, has already cut interest rates. The ECB has signalled that there is scope for further reductions. The ECB has already demonstrated its importance in stabilising markets by lending to banks and contributing to liquidity.

2.1.2. The role of banks

At the root of the problems in the real economy lies the instability in the financial markets. A reliable and efficient financial sector is a pre-requisite for a healthy, growing economy. Stabilising the banking system is therefore the first step towards halting the downturn and promoting a swift and sustainable recovery. The EU must maintain this common drive to rebuild stability and confidence in the still-fragile financial sector and create the conditions for a sustained economic recovery. The crisis has shown risks in the current governance of financial markets which have or could become real and systemic in times of serious turbulence. The pace of reform will be maintained in the coming months to restore stability and protect the interests of European citizens and business.

But it is now crucial that banks resume their normal role of providing liquidity and supporting investment in the real economy. Member States should use the major financial support provided to the banking sector to encourage a return to normal lending activities and to ensure that central interest rate cuts are passed on to borrowers. The Commission will continue to monitor the economic and competition impacts of measures taken to support the banking sector.

2.1.3. The role of the European Investment Bank and the European Bank for Reconstruction and Development

The current crisis requires reinforced interventions from the European Investment Bank (EIB) group. The EIB will increase its yearly interventions in the EU by some €15 billion for the next two years. As this increased activity will take the form of loans, equity, guarantees and risk-sharing financing, it will also generate a positive leverage of additional investment from private sources. In total, this package proposed by EIB will help mobilise complementary private resources to support additional investments over the next two years. To enable the EIB to increase its financing activities, Member States should decide before the end of the year to incorporate EIB's reserves to reinforce its capital base in the order of € 60 bn, which will provide a highly visible political signal to the markets and which will significantly increase the Bank's lending capacity. The European Bank for Reconstruction and Development (EBRD) is also expected to add €500 million per year to its present level of financing in the new Member States.

2.2. Budgetary Policy

Restoring confidence will depend on Europe's ability to boost demand by making use of budgetary policy within the flexibility offered by the revised Stability and Growth Pact. In the current circumstances, budgetary policy has an even more important role to play in stabilising economies and sustaining demand.

Only through a significant stimulus package can Europe counter the expected downward trend in demand, with its negative knock-on effects on investments and employment. Therefore, the Commission proposes that Member States agree a co-ordinated budgetary stimulus package which should be timely, targeted and temporary, to be implemented immediately.

This budgetary impulse should be € 200 bn, which represents 1.5% of the Union's GDP, in order to produce a substantive positive and rapid impact on the European economy and on employment, in addition to the role of the automatic stabilisers. Expenditures and/or reductions in taxation included in the budgetary impulse should be consistent with the flexibility offered by the Stability and Growth Pact and reinforce the structural reforms of the Lisbon Strategy. This budgetary stimulus should be temporary. Member States should commit to reverse the budgetary deterioration and return to the aims set out in the medium term objectives.

To maximise its impact, the budgetary stimulus should take account of the starting positions of each Member State. It is clear that not all Member States are in the same position. Those that took advantage of the good times to achieve more sustainable public finance positions and improve their competitive positions have more room for manoeuvre now. For those Member States, in particular outside the euro area, which are facing significant external and and internal imbalances, budgetary policy should essentially aim at correcting such imbalances.

This budgetary stimulus must be well designed and be based on the following principles:

(1) It should be timely, temporary, targeted, and co-ordinated

National budgetary stimulus packages should be:

– *timely* so that they quickly support economic activity during the period of low demand, as delays in implementation could mean that the fiscal impulse only comes when the recovery is underway;

– *temporary* so as to avoid a permanent deterioration in budgetary positions which would undermine sustainability and eventually require financing through sustained future tax increases;

– *targeted* towards the source of the economic challenge (increasing unemployment, credit constrained firms/households, etc. and supporting structural reforms) as this maximises the stabilisation impact of limited budgetary resources;

– *co-ordinated* so that they multiply the positive impact and ensure long term budgetary sustainability.

(2) It should mix revenue and expenditure instruments.

In general, discretionary public spending is considered to have a stronger positive impact on demand in the short-run compared with tax cuts. This is because some consumers may prefer to save rather than spend, unless the tax cuts are limited in time. Taking the different situations of Member States into account the following measures could be considered[2]:

– *Public expenditure* has an impact on demand in the short-term. Measures that can be introduced quickly and targeted at households which are especially hard hit by the slowdown are likely to feed through almost directly to consumption, e.g temporarily increased transfers to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit. This can also be done through frontloading public investment in projects which could benefit SMEs and could support long-term public policy goals such as improving infrastructure endowments or tackling climate change;

– *Guarantees and loan subsidies to compensate for the unusually high current risk premium* can be particularly effective in an environment where credit is generally constrained. They can help bridge a lack of short-term of working capital which is currently a problem for many companies;

– *Well designed financial incentives* for speeding up the adaptation of our economies to long-term challenges such as climate change, including for example incentives for energy efficiency;

---

2 The general recommendations and the specific actions related to the priority areas set out in this document are subject to compliance with internal market and competition rules, notably for State aid.

– *Lower taxes and social contributions:* lower social contributions paid by employers can have a positive impact on job retention and creation while lower taxation of labour income can support purchasing power in particular for low wage earners;

– *Temporary reductions* in the level of the standard rate of VAT can be introduced quickly and might provide a fiscal impulse to support consumption.

(3) It should be conducted within the Stability and Growth Pact

Budgetary policy should be conducted within the Stability and Growth Pact, so as to provide a common and credible framework for policy. The 2005 revision of the Pact allows better account to be taken of cyclical conditions while strengthening medium and long-term fiscal discipline. The resulting framework is more demanding in good times, it affords more flexibility in bad times. Extraordinary circumstances combining a financial crisis and a recession justify a co-ordinated budgetary expansion in the EU. It may lead some Member States to breach the 3% GDP deficit reference value. For Member States considered to be in an excessive deficit, corrective action will have to be taken in time frames consistent with the recovery of the economy. This is fully consistent with the procedures of the Stability and Growth Pact which guarantee that the excessive deficit will be corrected in due time, ensuring long-term sustainability of the budgetary positions.

The Stability and Growth Pact will therefore be applied judiciously ensuring credible medium-term fiscal policy strategies. Member States putting in place counter-cyclical measures should submit an updated Stability or Convergence Programme by the end of December 2008. This update should spell out the measures that will be put in place to reverse the fiscal deterioration and ensure long-term sustainability. The Commission will then assess the budgetary impulse measures and stability and convergence programmes based on updated forecasts and will provide guidance on the appropriate stance, relying on the following objectives:

– ensuring the reversibility of measures increasing deficits in the short term;

– improving budgetary policy-making in the medium-term, through a strengthening of the national budgetary rules and frameworks;

– ensuring long-term sustainability of public finances, in particular through reforms curbing the rise in age-related expenditure.

(4) It should be accompanied by structural reforms that support demand and promote resilience

While the most immediate impact on growth and jobs in the short run needs to come from a monetary and fiscal stimulus, a comprehensive recovery plan also needs to encompass an ambitious **structural reform agenda** tailored to the needs of individual Member States, and designed to equip them to emerge stronger from the crisis. In part, this is because some structural reforms can also contribute to bolstering aggregate demand in the short term. Moreover, structural reforms are necessary to address some of the underlying root causes of the present crisis, as well as to strengthen the economy's adjustment capacity needed for a rapid recovery.

A resilient, flexible economy helps mitigate the adverse impact of an economic crisis. The Lisbon Strategy has already strengthened the European economic fundamentals. Appropriately tailored, Lisbon strategy structural reforms could be an appropriate short-term policy response to the crisis as they strengthen economic resilience and flexibility. Member States should consider the following measures:

– *Supporting consumer purchasing power through improved market functioning:* policies that improve the functioning of key markets can help sustain demand by helping bring down prices, thus supporting the purchasing power of households;

– *Addressing immediate competitiveness problems.* In Member States with inflation and competitiveness problems measures need to be taken urgently that reinforce the link between the wage setting mechanism and productivity developments;

– *Supporting employment and facilitating labour market transitions*: today's prime labour market challenge is to avoid wasteful labour shedding by industries temporarily affected by short-term demand disturbances. To that end, more flexibility in working time arrangements or enhanced employment services could help;

– *Reducing regulatory and administrative burdens on businesses.* Such reforms help increase productivity, and strengthen competitiveness. Measures that can be implemented rapidly include continuing efforts to reduce the time to start up a business.

2.3. Actions in the four priority areas of the Lisbon Strategy

In order to produce maximum benefits and achieve the Recovery Plan's aims of protecting people and preventing the crisis from deflecting attention from the EU's longer-term interests and the need to invest in its future, there should be a close connection between the fiscal stimulus and actions in the four priority areas of the Lisbon Strategy (people, business, infrastructure and energy, research and innovation), as outlined in this section. In order to achieve this, as part of its annual Lisbon package, the Commission will issue individual reports for each Member State on 16 December 2008 which will include proposals for recommendations.

A smart combination of EU policies and funds can act as a catalyst for key investments taking the EU in the direction of future sustainable prosperity. It is equally important to provide for stable foreseeable framework conditions to boost confidence, facilitate investment and to work for least cost solutions to common problems. Some of the actions proposed in this section are designed to frontload EU funding directly to contribute to the fiscal stimulus and assist Member States with the implementation of their policies. Others are intended to improve the framework conditions for future investments, reduce administrative burdens and speed up innovation. Overall, the actions form an integrated package: their budgetary implications should take into account the principles set out in the previous section.

2.3.1. Protecting employment and promoting entrepreneurship

The top priority must be to protect Europe's citizens from the worst effects of the financial crisis. They are the first to be hit whether as workers, households, or as entrepreneurs. In addressing the employment and social impact of the financial crisis, Member States should actively involve the social partners.

a) People

The implementation of active inclusion and integrated flexicurity policies, focussed on activation measures, re-training and skills upgrading, are essential to promote employability, ensure rapid re-integration into the labour market of workers who have been made redundant and avoid long term unemployment. Within this context, adequate social protection that provides incentives to work whilst preserving purchasing power will also be important.

1. Launch a major European employment support initiative

a) The Commission is proposing to simplify criteria for European Social Fund (ESF) support and step up advance payments from early 2009, so that Member States have earlier access to up to € 1.8 bn in order to:

– Within flexicurity strategies, rapidly **reinforce activation schemes**, in particular for the low-skilled, involving personalised counselling, intensive (re-)training and up-skilling of workers, apprenticeships, subsidised employment as well as grants for self-employment, business start-up's and

– Refocus their programmes to **concentrate support on the most vulnerable**, and where necessary opt for full Community financing of projects during this period;

– Improve the monitoring and **matching of skills** development and upgrading with existing and anticipated job vacancies; this will be implemented in close cooperation with social partners, public employment services and universities;

Working with Member States, the Commission proposes to re-programme ESF expenditure to ensure that immediate priorities are met.

b) The Commission will also propose to revise the rules of the **European Globalisation Adjustment Fund** so that it can intervene more rapidly in key sectors, either to co-finance training and job placements for those who are made redundant or to keep in the labour market skilled workers who will be needed once the economy starts to recover. The Commission will review the budgetary means available for the Fund in the light of the implementation of the revised rules.

2. Create demand for labour

– Member States should consider **reducing employers' social charges on lower incomes to promote the employability of lower skilled workers**. Member States should also consider the introduction of innovative solutions (e.g. service cheques for household and child care, temporary hiring subsidies for vulnerable groups), which have already been successfully pioneered in parts of the Union;

– The Council should adopt, before the 2009 Spring European Council, the proposed directive to make permanent **reduced VAT rates for labour-intensive services**.

b) Business

Sufficient and affordable access to finance is a pre-condition for investment, growth and job creation by the private sector. Member States need to use the leverage they have through the provision of major financial support to the banking sector to ensure that banks resume their normal lending activities. To support small businesses and entrepreneurship, the EU and Member States must take urgent steps to substantially reduce administrative burdens for

SMEs and micro-enterprises, in particular by fast-tracking the corresponding Commission's proposals. To this end, the European Small Business Act should also be implemented as soon as possible.

The EU's state aid rules offer Member States a wide range of possibilities for providing financial support to companies, regions and workers/the unemployed and to stimulate demand. At the same time these rules guarantee a level playing field, ensuring that state aids are used to support EU objectives such as R&D, innovation, ICT, transport and energy efficiency, and not to unduly distort competition by favouring particular companies or sectors. In the current exceptional circumstances, access to finance is a major business concern and the Commission will develop temporary guidelines allowing state support for loans (see below).

3. Enhance access to financing for business

- The **EIB has put together a package of € 30 bn for loans to SME's, an increase by** € 10 billion over its usual lending in this sector;
- The EIB will also reinforce by € 1 bn a year its **lending to mid-sized corporations**, a key sector of the EU economy. Furthermore, an additional € 1 billion will be conferred by the EIB to the EIF for a mezzanine finance facility;
- The Commission will put in place a **simplification package**, notably to **speed up its State aid decision-making**. Any state aid should be channelled through horizontal schemes designed to promote the Lisbon objectives, notably research, innovation, training, environmental protection and in particular clean technologies, transport and energy efficiency. The Commission will **temporarily authorise Member States to ease access to finance for companies** through subsidised guarantees and loan subsidies for investments in products going beyond EU environmental standards[3].

4. Reduce administrative burdens and promote entrepreneurship

Building on the Small Business Act, and in order significantly **reduce administrative burdens on business**, promote their cash flow and help more people to become entrepreneurs, the EU and Member States should:

- Ensure that **starting up** a business anywhere in the EU can be done within three days at zero costs and that formalities for the hiring of the first employee can be fulfilled via a single access point;
- Remove the requirement on **micro-enterprises** to prepare annual accounts (the estimated savings for these companies are € 7bn per year) and limit the capital

[3] This will be done by raising the current €1.5 M safe harbour threshold for risk capital to € 2.5M, and by allowing, subject to certain conditions and maximum amounts, (a) to grant aid for guarantees for loans for certain companies having difficulties to obtain loans ; and (b) to grant aid of up to 50% (for SMEs and 25% (for large companies) of the Reference Rate, for loans for investments in the manufacture of products complying earlier with, or going beyond, new Community standards which increase the level of environmental protection and are not yet in force.

requirements of the European private company to one euro;

– Accelerate the adoption of the **European private company** statute proposal so that from early 2009 it can facilitate cross border business activities of SMEs and to allow them to work under a single set of corporate rules across the EU;

– Ensure that public authorities **pay invoices**, including to SMEs, for supplies and services within one month to ease liquidity constraints and accept e-invoicing as equivalent to paper invoicing (this could deliver cost reductions of up to 18 € Bn); any arrears owed by public bodies should also be settled;

– Reduce by up to 75% the fees for **patent applications** and maintenance and halve the costs for an EU trademark.

2.3.2 Continuing to invest in the future

We are witnessing the beginning of a major structural shift towards a low carbon economy. This provides the EU with an opportunity that will create new businesses, new industries and millions of new well-paying jobs. All sectors must participate: for example, the recent decision on the CAP health check commits €3 Bn for climate-friendly investments in rural development. This is where short-term action can bring immediate as well as lasting benefits to the Union. To accelerate investments, the Commission will clarify the legal framework for partnerships between the public and private sector aiming at carrying out major infrastructure and research investments, in order to facilitate this mixed mode of financing.

c) Infrastructure and energy

The key to maximising benefits and minimising costs is to target opportunities to boost energy efficiency, for example, of buildings, lighting, cooling and heating systems, and of other technologies like vehicles and machinery. Major positive effects for households and businesses can be harvested in the short term.

At the same time, Europe needs to accelerate its investments in infrastructure, particularly in the environmentally-friendly transport-modes which are part of the Trans-European Networks (TENs), high-speed ICT networks, energy interconnections, and pan-European research infrastructures. Speeding up infrastructure investments will not only cushion the blow to the construction sector, which is slowing down sharply in most Member States, it will also enhance Europe's longer-term sustainable growth-potential. Particularly in the energy sector a number of high profile trans-European projects would help to increase the EU's energy security and integrate more Member States into the European electricity grid.

5. Step up investments to modernise Europe's infrastructure

– For at least the next two years, the **EU budget** is unlikely to spend the full amount set out in the financial framework. Therefore, for 2009 and 2010, the Commission proposes to mobilise an additional **€ 5 bn for trans-European energy inter-connections and broadband infrastructure projects**. To make this happen, Council and Parliament will need to agree to revise the financial framework, while remaining within the limits of the current budget;

– With a financial envelope of over € 347 bn for 2007-2013, cohesion policy provides considerable support to public investment by Member States and regions. However, there is a risk that pressure on national budgets will slow down the rate of planned investment. To give an immediate boost to the economy**, the implementation of the structural funds should be accelerated.** To this end:

- The Commission will propose to increase its pre-financing of programmes to make up to € 4.5 bn available earlier in 2009;
- Member States should use the available flexibility to frontload the financing of projects by enhancing the part financed by the Community;
- The Commission will propose a number of other measures designed to bring forward the implementation of major investment projects, to facilitate the use of financial engineering funds, to simplify the treatment of advances paid to the beneficiaries and to widen the possibilities for eligible expenditure on a flat rate basis for all the funds.

The Commission underlines the need for early adoption of these proposals.

- By the end of March 2009 the Commission will launch a €500 million call for proposals for **trans-European transport (TEN-T) projects** where this money would lead to construction beginning before the end of 2009. This will bring forward existing funds that would have been reallocated by the mid-term review of the multi-annual TEN-T programme in 2010;
- In parallel, **the EIB will significantly increase its financing** of climate change, energy security and infrastructure investments by up to € 6 bn per year, while also accelerating the implementation of the two innovative financial instruments jointly developed with the Commission, i.e. the Risk Sharing Finance Facility to support R&D and the Loan Guarantee Instrument for TEN-T projects to stimulate greater participation of the private sector;
- **The EBRD will more than double its efforts for energy efficiency, climate change mitigation and financing for municipalities and other infrastructure services**. This could lead through the mobilisation of private sector financing to € 5 bn investments.

6. Improve energy efficiency in buildings

Acting together, Member States and EU Institutions should take urgent measures to improve the energy efficiency of the housing stock and public buildings and promote rapid take up of 'green' products:

- Member States should set demanding targets for ensuring that public buildings and both private and social housing meet the highest European **energy-efficiency** standards and make them subject to energy certification on a regular basis. To facilitate reaching their national targets, Member States should consider introducing a reduction of property tax for energy-performing buildings. The Commission has just tabled proposals[4] for a major upgrading in the energy efficiency of buildings and calls on the Council and Parliament to give priority to their adoption;

[4] COM(2008)755 of 13.11.2008

– In addition, Member States should **re-programme their structural funds** operational programmes' to devote a greater share to energy-efficiency investments, including where they fund social housing. To widen possibilities, the Commission is proposing an amendment to the Structural Funds Regulations to support this move and stresses the need for early adoption of the amendments;

– The Commission will work with the EIB and a number of national development banks to launch a **2020 fund for energy, climate change and infrastructure** to fund equity and quasi-equity projects;

– The Commission calls on Member States and industry urgently to develop **innovative financing models**, for example, where refurbishments are financed through repayments, based on savings made on energy bills, over several years.

7. Promote the rapid take-up of "green products"

– The Commission will propose **reduced VAT rates for green products and services, aimed at improving in particular energy efficiency of buildings**. It encourages Member States to provide further incentives to consumers to stimulate demand for environmentally-friendly products;

– In addition, Member States should rapidly **implement environmental performance requirements** for external power supplies, stand-by and off mode electric power consumption, set top boxes and fluorescent lamps;

– The Commission will urgently draw up measures for **other products which offer very high potential for energy savings** such as televisions, domestic lighting, refrigerators and freezers, washing machines, boilers and air-conditioners.

d) Research and Innovation

The financial crisis and the subsequent squeeze on financial resources, both public and private, may tempt some to delay, or substantially cut, planned R&D and education investments, as has happened in the past when Europe was hit by a downturn. With hindsight, such decisions amounted to a major capital and knowledge destruction with very negative effects for Europe's growth and employment prospects in the medium to longer-term. However, there have also been examples of countries, both inside and outside Europe, which had the foresight to increase R&D and education expenditure in difficult economic times by which they laid the basis for their strong position in innovation.

8. Increase investment in R&D , Innovation and Education

Member States and the private sector should increase planned investments in education and R&D (consistent with **their national R&D targets)** to stimulate growth and productivity. They should also consider ways to **increase private sector R&D investments**, for example, by providing fiscal incentives, grants and/or subsidies; Member States should maintain investments to increase the quality of education.

9. Developing clean technologies for cars and construction.

To **support innovation in manufacturing, in particular in the construction industry and the automobile sector** which have recently seen demand plummet as a result of the crisis and which also face significant challenges in the transition to the green economy, the Commission proposes to launch **3 major partnerships between the public and private sectors**:

– **In the automobile sector, a 'European green cars initiative',** involving research on a broad range of technologies and smart energy infrastructures essential to achieve a breakthrough in the use of renewable and non-polluting energy sources, safety and traffic fluidity. The partnership would be funded by the Community, the EIB, industry and Member States' contributions with a combined envelope of at least € 5 bn. In this context, the EIB would provide cost-based loans to car producers and suppliers to finance innovation, in particular in technologies improving the safety and the environmental performance of cars, e.g. electric vehicles. Demand side measures such as a reduction by Member States of their registration and circulation taxes for lower emission cars, as well as efforts to scrap old cars, should be integrated into the initiative. In addition, the Commission will support the development of a procurement network of regional and local authorities to pool demand for clean buses and other vehicles and speed up the implementation of the CARS21 initiative;

– **In the construction sector, a 'European energy-efficient buildings' initiative**, to promote green technologies and the development of energy-efficient systems and materials in new and renovated buildings with a view to reducing radically their energy consumption and CO_2 emissions[5]. The initiative should have an important regulatory and standardisation component and would involve a procurement network of regional and local authorities. The estimated envelope for this partnership is € 1bn. The initiative would be backed by specific actions proposed under actions 5 and 6 on infrastructure and energy-efficiency;

– **To increase the use of technology in manufacturing, "a factories of the future initiative"**: The objective is to help EU manufacturers across sectors, in particular SMEs, to adapt to global competitive pressures by increasing the technological base of EU manufacturing through the development and integration the enabling technologies of the future, such as engineering technologies for adaptable machines and industrial processes, ICT, and advanced materials. The estimated envelope for this action is € 1.2 bn.

10. High-speed Internet for all

High-speed Internet connections promote rapid technology diffusion, which in turn creates demand for innovative products and services. Equipping Europe with this modern infrastructure is as important as building the railways in the nineteenth century. To boost Europe's lead in fixed and wireless communications and accelerate the development of high value-added services, the Commission and Member States should work with stakeholders to develop a broadband strategy to accelerate the up-grading and extension of networks. The strategy will be supported by public funds in order to provide broadband access to under-served and high cost areas where the market cannot deliver. The aim should be to reach 100% coverage of high speed internet by 2010. In addition, and also with a view to upgrading the performance of existing networks, Member States should promote competitive investments in fibre networks and endorse the Commission's proposals to free up spectrum for wireless broadband. Using the funding mentioned in

[5] Buildings currently account for 40% of energy consumption.

action 5 above, the Commission will channel an additional € 1 bn to these network investments in 2009/10.

3. WORKING TOWARDS GLOBAL SOLUTIONS

The challenges the EU is now facing are part of the global macro economic challenges highlighted by the recent Summit on Financial Markets and the World Economy in Washington. This European Economic Recovery Plan will form part of the EU's contribution to closer international macro economic co-operation, including with emerging countries, designed to restore growth, avoid negative spillovers and support developing countries. The EU has benefited greatly in recent decades from increased cross-border capital and trade flows with developed countries and increasingly also with emerging economies. The financial crisis has shown just how interdependent the world has become. The scale and speed at which a loss of confidence in one part of the world soon affected financial markets and spilt over to real economies worldwide is rightly a matter of concern. In today's world, a shock to one systemically important financial market is a global problem and has to be treated accordingly. So a key part of any co-ordinated EU response to the economic downturn will have to come through greater engagement with our international partners, and with international organisations, working together to tackle challenges at home and abroad, including in developing countries which will be among those hardest hit.

Keeping world trade moving

Europe's recovery depends on our companies' ability to make best use of the possibilities that global markets offer. Europe's return to solid growth will also depend on its capacity to export. Keeping trade links and investment opportunities open is also the best means to limit the global impact of the crisis, since global recovery will depend crucially on the sustainable economic performance of emerging and developing economies.

We must therefore maintain our commitment to open markets across the globe, keeping our own market as open as possible and insisting that third countries do the same, in particular by ensuring compliance with WTO rules. To reach this objective Europe should take renewed action to:

– Reach early agreement on a **global trade deal** in the WTO Doha Round. Following the renewed commitment made at the 15 November Washington Summit, the Commission has immediately stepped up efforts with key WTO partners to reach an agreement on modalities by the end of the year. A successful Round will send a strong short-term signal of confidence in the new global economic order. Over time it will bring consumers and businesses all over the world benefits in terms of lower prices, by cutting remaining high tariffs in key partner markets;

– Continue to support the economic and social consolidation of the candidate countries and the **Western Balkans** in the mutual interest of the EU and the region. To this end the Commission will put in place a € 120 million "Crisis Response Package" leveraging an amount of € 500 million in loans from International Financial Institutions;

- **Create a network of deep and comprehensive free trade agreements** in its neighbourhood as a step towards a more integrated regional market. Working through its neighbourhood policy, the EU can build on the Union for the Mediterranean and its plans for a new Eastern Partnership;
- Step up efforts to secure new and ambitious **Free Trade Agreements** with other trade partners;
- Build a close working relationship with the new US administration, including through the **Transatlantic Economic Council**. More effective regulatory cooperation could also be pursued with other key industrialised countries, such as Canada and Japan;
- Continue **dialogues with key bilateral partners** such as China, India, Brazil and Russia and use them to address public procurement, competition and intellectual property issues.

Tackling Climate change

The crisis is occurring on the eve of a major structural shift towards the low carbon economy. The goal of fighting climate change can be combined with major new economic opportunities to develop new technologies and create jobs and enhance energy security.

Agreement in the December European Council and with the European Parliament on the EU's internal climate change strategy will strengthen the leading role the EU must seek to play in securing an ambitious international agreement on climate change at the UNFCCC conference in Copenhagen at the end of 2009.

Supporting developing countries

The current crisis will further add to existing pressures on developing countries, which are often least well positioned to cope. So it is all the more important that the EU, and others, maintain their commitments to achieving the Millennium Development Goals (MDG). It may also be necessary for developed countries and regions, like the EU, to come up with new, flexible and innovative instruments to help developing countries face the rapid impact of the crisis such as the EU's recent food aid facility.

Continuing to help emerging and developing countries on the path to sustainable growth is particularly relevant in the run up to the International Conference on Financing for Development, which will take place in Doha from 29 November – 2 December. At this meeting, the EU – which in 2007 continued to be the largest donor of Overseas Development Assistance (ODA) - will reaffirm its commitment to arriving at ODA target levels of 0.56% of GNP by 2010 and 0.7% by 2015. It will also invite other donors to continue to work towards these goals.

Supporting sustainable development, *inter alia* through delivering on ODA targets and MDG goals, but also through addressing overall governance challenges, is all the more important in times of economic crisis. Sharing the benefits of sustainable growth, tackling climate change, energy and food security and good governance, are interlinked challenges, where international financial institutions, like other international bodies, also have an important role to play.

4. CONCLUSIONS

It is clear that the EU faces a difficult time in the coming months as the effects of the world and European economic slow down puts pressure on jobs and demand. But, acting together, Member States and European Institutions can take action to restore consumer and business confidence, to restart lending and stimulate investment in our economies, creating jobs and helping the unemployed to find new jobs. **The European Economic Recovery Plan** set out in this Communication is designed to create a basis for rapid agreement between Member States to get Europe's economy moving again.

The European Commission calls on the European Parliament to lend its full support to this European Economic Recovery Plan.

It calls on Heads of State and Government, at their meeting on 11 and 12 December 2008, to:

(1) Endorse this European Economic Recovery Plan;

(2) Request the European Commission and the Council to work together to ensure that combined national and EU level measures amount to at least 1.5% of GDP;

(3) Ensure that updated Stability and Convergence Programmes including the national impulse measures, are assessed in accordance with the procedures laid down in the Stability and Growth Pact, while making use of the flexibility it offers;

(4) Endorse the 10 actions outlined in the European Economic Recovery Plan; urge the Council and Parliament to accelerate any legislative activity needed to implement these measures;

(5) Agree, on the basis of a Commission contribution before the 2009 Spring European Council assessing progress made with the implementation of the Plan, to identify any further measures necessary at EU and Member State level to stimulate the recovery;

(6) Continue to work closely with international partners to implement global solutions to strengthen global governance and promote the economic recovery.